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# **Leigh-On-Sea Town Council**

*Internal Audit Report 2010-11 (Interim)*

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## **Background and Scope**

The Accounts and Audit Regulations introduced from 1<sup>st</sup> April 2001 require all Town and Parish Councils to implement an independent internal audit examination of their Accounts and accounting processes annually. The Council complied accordingly, in terms of independence from the Council decision making process, appointing a local practice to provide the service for the Council. However, subsequent to the retirement of the previous Clerk and the recruitment of the present incumbent, alternate suppliers from the EALC recommended list were asked to submit their expressions of interest and, as a result, Auditing Solutions Limited were appointed for 2010-11.

This is, therefore, our first report for the Council and sets out those areas examined during the course of our recent interim visit for 2010-11, which took place over one and half days on 30<sup>th</sup> and 31<sup>st</sup> March 2011.

Further work will be undertaken at our final visit, extending testing on those areas already examined to cover the remainder of the year, whilst examining in greater depth the Council's Statement of Accounts, Annual Return and supporting documentation. We shall update the content of this report accordingly following that final visit and that report, together with our file of working papers prepared during the year are available, on request, should the external auditors require any further assurances in any specific areas.

Our programme of coverage is designed to afford appropriate assurance that the Council's financial systems are robust and operate in a manner appropriate to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme of cover is also designed to facilitate our certification of the Annual Return that forms the Council's formal Statement of Accounts subject to external audit certification.

## **Internal Audit Approach**

In undertaking our review for the current year, we have had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts, employing a range of selective sampling techniques (or 100% substantive testing if appropriate) across a range of the Council's activities in accord with our previously circulated Internal Programme of Work.

## **Overall Conclusion**

We are pleased to report that no major issues have been identified at this initial visit for the year: any minor matters arising are embodied in the text of the Report and are summarised in the Action Plan appended.

## Detailed Report

### Review of Accounts and Accounting Arrangements

Our objective has been to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. We have, to date, undertaken the following checks in this area:

- Ensured that an appropriate nominal ledger coding structure is in place, although we are verbally advised that the new Clerk is preparing to streamline the existing Chart of Accounts to further assist the budget monitoring and reporting process in 2011-12;
- Checked and agreed transactions on the Current bank account, as recorded on the Edge accounting system software, with the entries on the relevant HSBC bank statements for three sample months (April & September 2010 and February 2011);
- Checked and agreed all transactions (due to the low volume) on the Reserve bank account, as also recorded on the Edge software, with the entries on the HSBC bank statements for the year to mid March 2011;
- Checked and agreed the Current account month-end bank reconciliations as at the end of the three sample months noted above; and
- Checked and agreed the Reserve account month-end bank reconciliations as at 21<sup>st</sup> September and 21<sup>st</sup> March 2011, noting the due clearance of several, previously long standing, uncleared effects;

#### *Conclusions*

*No issues requiring formal recommendation have arisen in this area and we are pleased to note the high standard of record keeping and the retention of regular, hard copy reconciliations. There are no long-standing, unrepresented items on the Current account at present and we shall verify the closing bank reconciliations at 31<sup>st</sup> March 2011 as part of our final audit review.*

### Review of Corporate Governance

Our objective is to ensure that the Council has robust Corporate Governance documentation in place, that Council and Committee meetings are conducted in accordance with the adopted Standing Orders and that no actions of a potentially unlawful nature have been or are being considered for implementation. We have therefore undertaken the following work to date in this area: -

- Examined the minutes of meetings of the Full Council and its Standing Committees (except Planning) for the current financial year to 28<sup>th</sup> February 2011 to ensure that no issues affecting the Council's financial stability either in the short, medium or long term exist, also that no legal issues are in existence whereby the Council may either be considering or have taken decisions that might result in ultra vires expenditure being incurred;

- Noted that an appropriate review of the Effectiveness of Internal Audit had been undertaken and adopted by the Finance & General Purposes Committee at its meeting in October 2010; and
- We also note that the Council's Standing Orders and Financial Regulations have been subject to scrutiny, initially by a specific Working Party who compared and contrasted extant documentation with the revised NALC model documents and suggested detailed revisions. These revisions were agreed at Committee level and all appropriate typographical changes have now been made and the final documents, including revised Terms of Reference for each Committee, have now been circulated to members of the Finance Committee for formal adoption at their meeting in early April 2011.

### *Conclusions*

*No significant issues arise in this area at present: we shall consider the financial implications of the ongoing plans for the Old Town Community Group's partnership funding and Heritage Lottery bids at future visits.*

## **Review of Purchasing and Payment Procedures**

We have tested a sample of supplier payments made during the financial year to 22<sup>nd</sup> March 2011, examining all those individually in excess of £1,000 together with a more random sample of every 20<sup>th</sup> item of paid expenditure transactions, irrespective of their value. This sample totalled £67,742, and represents 61% of all non-pay related items processed to that date. We have examined the test sample measuring performance against the following criteria to ensure that each payment is:

- Supported by a trade invoice or other appropriate form of supporting documentation;
- Supported by an official order, where appropriate;
- Supported by proper quotations and / or a formal tender process where applicable under the terms of the Council's Financial Regulations;
- Posted accurately to the Edge software nominal ledger expenditure headings;
- Authorised as seen by members during the course of the cheque approval processes and subsequently summarised for adoption by Full Council; and
- That the calculation and recording of VAT to the VAT control account for subsequent recovery has been actioned correctly.

### *Conclusions and Recommendation*

*As a "non-registered" body with no Vatable supplies, formal quarterly returns are not required to be submitted to HMRC: we note that recovery claims continue to be made bi-annually, with that for the period ending September 2010 issued on 24<sup>th</sup> November 2010: we shall verify the March 2011 year-end reclaim detail at our final visit, also ensuring the residual debt is appropriately accounted for in the Accounts and Annual Return for the year.*

*We are pleased to note the perfectly acceptable form of payments approval “slip” being applied to each invoice and that these are being initialled as evidence of inspection by two relevant members at the time they sign cheques. We note from our test sample that no significant expenditure requiring formal tender processes has occurred this year, also noting from the minutes that quotations are obtained and considered periodically.*

*However, we note that an official ordering process is virtually non-existent with just 8 such documents being issued during the current financial year. We discussed this area with the new Clerk as part of the “round up” at the conclusion of the visit and acknowledge that there are other controls in place, such as the detailed consideration of costs by the Finance Committee, in particular its hands-on Chairman, the regular budget monitoring reports issued at all Committee levels and the relatively low volume of transactions and absence of any significant external service provisions. Whilst not a formal, legal requirement, we consider that best practice would suggest that this area should be expanded and due consideration should be given to implementing an official ordering process in 2011-12 in accord with the revised Financial Regulations and Committee Terms of Reference shortly to be adopted.*

*R1. Further consideration should be given to expansion of the use of official orders in the forthcoming financial year.*

## **Assessment and Management of Risk**

Our aim here is to ensure that the Council has put in place appropriate arrangements to identify all potential areas of risk of both a financial and health and safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks in order to minimise the opportunity for their coming to fruition. We have to date: -

- Noted that an appropriate risk assessment register for all principal areas of the Council’s activities was established in the 2009-10 financial year and have obtained a copy of that documentation. The new Clerk is aware that this should be seen as an area of regular review and update and we consider the extant documentation to meet the needs of the Council at present: however, it should be reconsidered in detail at regular, ideally annual intervals, and be re-adopted by members; and
- Examined the Council’s current (to mid August 2011) insurance policy with Zurich Municipal to ensure that appropriate cover is in place and that members have reviewed its content and determined that cover in each area is appropriate to the Council’s needs. We note that the level of Public Liability cover remains at £5 million and, as discussed with the Clerk during the course of “round-up” at the end of this recent interim visit, suggested that consideration be given to increasing this to £10 million at the next renewal date. There are two principal reasons why we conclude this to be the case; firstly, the society in which we live and work would appear to be increasingly litigious and secondly we have identified from audit work in other parts of the country that District Councils and Unitary Authorities are increasingly requiring this level of cover to be in place at the Town Councils within their boundaries.

- Fidelity Guarantee cover stands at £300,000, which we consider to be more than adequate to meet the “rule of thumb” guidance levels of closing bank balances (currently £180,000) plus half-year’s precept (£100,000).

### ***Conclusions and Recommendations***

***Other than to restate the comments noted above, no significant issues were identified at this interim stage: we shall compare and contrast the detailed levels of asset cover afforded by the insurance policy with the Fixed Asset Register as part of the final audit work at a later date.***

- R2. *Whilst the risk assessments registers are considered acceptable at present, they should be subjected to regular annual review and re-adoption by the Council.*
- R3. *Consideration should be given to increasing the level of Public Liability insurance cover to £10 million prior to the policy renewal date.*

## **Budgetary Control and Reserves**

We aim in this area of our work to ensure that the Council has appropriate procedures in place to determine its future financial requirements leading to the adoption of an approved budget and formal determination of the amount to be precepted on the local Unitary Authority, that effective arrangements are in place to monitor budgetary performance throughout the financial year and that the Council has identified and retains appropriate reserve funds to meet future spending plans. To meet this objective:

- We note from minutes and other documentation provided during the course of our work that the budget and precept deliberations for 2011-12 were concluded satisfactorily with the latter being formally adopted and recorded at £199,615 (no change from 2010-11) at the Full Council meeting in December 2010;
- We are pleased to record that members are provided with sound, periodic (usually monthly) and comprehensive management accounting information in order to provide an appropriate means for monitoring budgetary performance during the current year; and
- We noted from the closing Statement of Accounts for 2009-10 and the recently adopted “budget book” for 2011-12, that several specific Earmarked Reserves have been established previously and that the minutes indicate occasional virement, albeit none of any substantial sums worthy of note.

### ***Conclusions***

***No matters arise warranting formal comment at this stage of the audit process: we shall examine the closing budget outturn for the year and consider the levels of Earmarked Reserves and General Funds at our final visit, noting that the latter stood at £50,000 at the commencement of this financial year and we consider this***

*adequately meets CiPFA guidance of three to six months net revenue expenditure at present.*

## **Review of Income**

In this area of our review work, we aim to ensure that income due to the Council is identified, invoiced (where applicable) and recovered at the appropriate rate and within a reasonable time scale, also that it is banked promptly in accordance with the Council's Financial Regulations. In addition to the precept, the Council's principal sources of income are allotment rentals, monthly farmers' market pitch fees, community transport / event ticket sales and ad-hoc activities such as Xmas Lights and Fishing Festivals. Our testing to date is as follows:

- We note from our review of minutes that members previously reviewed the scale of fees and charges to be applied in 2010-11 and that these have been appropriately reconsidered for 2011-12 agreeing increases in allotment rents whilst other charges remain unchanged;
- We note that the Market trader pitch fees are collected manually by Council officers "on the day" each month and that a suitable register is maintained to record attendance and payment;
- As noted earlier in this report, we have checked and agreed a sample of three months' receipt transactions from the Edge software income report to relevant bank statements;
- We have identified that bankings are undertaken in a timely manner, at least fortnightly, and that the duplicate paying-in slips record a sound analysis to separate detail of cash and cheques; and
- We have identified that the allotment tenants are required to sign and return a copy of their tenancy agreement, which has recently been revised and updated, together with their rent payment slip. The latter form part of the back-up retained in support of each individual banking and we note that, in a similar manner to supplier invoices, an appropriate software input document is attached. We have checked examples of these with no issues arising.

### **Conclusions**

*No significant issues worthy of formal recommendation have arisen in this area of our work at present: we shall undertake further work as considered necessary and establish a year-on-year analysis of income arising across the range of budget headings as part of our final audit work and comment on any significant variances that might be identified.*

## **Petty Cash Account**

A relatively limited petty cash account is operated in the Council's office on a straightforward "top-up as required" basis, as exemplified during the course of our recent visit when a member attended to sign some cheque payments and subsequently walked to the local branch of HSBC to obtain the cash tin re-imburement on behalf of the Finance Officer.

We note from our examination of minutes that a maximum encashment of £200 per week has been authorised by members, although clearly from our visual review of the payments report, the levels of expenditure are materially lower than this limit.

Payment transactions are entered into the Edge Paid Expenditure reports in the same manner as other cheque payments with full details of the payee and goods and VAT is separately recorded for periodic recovery where appropriate.

### *Conclusions*

*At this interim stage we have not undertaken any further detailed testing of supporting till receipts, etc., nor did we undertake any physical verification of the cash holding: this will be addressed at our final visit.*

## **Salaries and Wages**

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HM Revenue and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme, as further amended with effect from 1<sup>st</sup> April 2009, as regards employee contribution bandings. To meet that objective, we have: -

- Ensured that the Council reviews and approves pay scales for staff annually;
- Noted that the payroll bureau provider Acumen has been engaged to provide their services in 2010-11 following the retirement of the previous Clerk. We have encountered this provider at other Councils elsewhere and consider that the work they undertake is of a high standard and cost efficient;
- Agreed the amounts paid to employees by reference to the approved pay scale on the NJC annual schedule of rates payable, where applicable, or to the individuals' letters of annual amendment where not paid on those scales, examining a sample of all those salary payments made in February 2011;
- Ensured that tax and NI deductions for all employees have been made applying the appropriate PAYE code and NI Table;
- Checked that the correct superannuation percentage deductions, as amended from 1<sup>st</sup> April 2009, are being applied;
- Checked and agreed the net payments to staff from copy payslips to the cashbooks;
- Similarly checked and agreed the payments of deductions to HMRC and Essex County Council from copy payroll reports to cashbooks and have, as part of the supplier payments testing noted earlier, summarised the month by month total payments with explanations obtained for any variances arising therein; and
- Noted that overtime payments are not normally made, any extra hours worked being "rewarded" under the Time Off In Lieu scheme.



## *Conclusions*

*We are pleased to note that no significant errors or omissions have been identified in this area of our work. Two potential, very minor under-deductions of LGPS contributions were raised with the Clerk during the course of the “round up” discussion at the conclusion of this visit: he has agreed to review the position and make any necessary adjustments. Due to the relative immateriality of the potential errors, we do not consider it necessary to repeat the detail in this report.*

## **Investments and Loans**

Our objectives here are to ensure that the Council is “investing” surplus funds, be they held temporarily or on a longer term basis in appropriate banking and investment institutions, that an appropriate investment policy is in place, that the Council is obtaining the best rate of return on any such investments made, that interest earned is brought to account correctly and appropriately in the accounting records and that any loan repayments due to or payable by the Council are transacted in accordance with appropriate loan agreements.

*Currently the Council holds no specific investments or Treasury term deposits, any “surplus” funds being held for instant access in the HSBC’s Community Savings account.*

*Similarly, the Council has no loans either payable by, or repayable to, itself.*

# Action Plan

Rec. No.	Recommendation	Response
<b>Review of Purchasing and Payment Procedures</b>		
R1	Further consideration should be given to expansion of the use of official orders in the forthcoming financial year.	
<b>Assessment and Management of Risk</b>		
R2	Whilst the risk assessments registers are considered acceptable at present, they should be subjected to regular annual review and re-adoption by the Council.	
R3	Consideration should be given to increasing the level of Public Liability insurance cover to £10 million prior to the policy renewal date.	