
Leigh-On-Sea Town Council

Internal Audit Report 2011-12 (Final)

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Background and Scope

The Accounts and Audit Regulations introduced from 1st 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 and beyond.

This report sets out those areas examined during the course of our recent final visit for 2011-12, which took place on 12th June 2012, and supplements the interim work undertaken in October 2011.

This report, together with our file of working papers prepared during the year is available, on request, should the external auditors require 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 concluding our review for the current year, we have continued to have 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 significant issues have been identified during the year that warrant any formal recommendation: any minor matters arising having been discussed and agreed with the Clerk during the course of our visits and no issues arise warranting formal recommendation.

We have duly "signed off" the Internal Audit Certificate at Section 4 of the Annual Return, assigning positive assurances in all areas, and left the original documentation with the Clerk for submission to members and, subsequent to approval, onward transmission to the external auditors.

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 undertaken the following checks in this area:

- Ensured that an appropriate nominal ledger coding structure is in place, noting that this has been streamlined in accord with current Committee structures 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 2011 and March 2012);
- Similarly checked and agreed all transactions for the same sample months on the remaining three Reserve, Imprest and Payroll accounts to relevant HSBC bank statements; and
- Verified that regular, monthly bank reconciliations continue to be undertaken on all accounts on a monthly basis, noting that appropriate hard copies are retained on file and have checked and agreed those pertaining as at 30th September 2011 and as at 31st March 2012.

Conclusions

No issues requiring formal recommendation have arisen in this area and there are no long-standing, unrepresented items on the Current account worthy of note.

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 in this area: -

- Examined the minutes of meetings of the Full Council and its Standing Committees (except Planning) for the current financial year, including those in early April 2012 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; and
- We have previously reported on the completion of the revised Standing Orders and Financial Regulations, which were formally adopted in April 2011, and no further comment is considered necessary in this area at present.

Conclusions

No significant issues arise in this area of our review: we shall consider the proposed migration to the nearby Community Centre as part of the next interim visit for 2012-13.

Review of Purchasing and Payment Procedures

We have tested a sample of supplier payments made during the financial year to March 2012, examining all those individually in excess of £1,000 together with a more random sample of every 20th item paid, irrespective of their value. This sample totals £88,400 and represents 66% of all non-pay related items processed for the year. 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.

Additionally, we have checked and agreed the March 2012 quarter VAT submission to the closing debtor disclosure in the Statement of Accounts.

Finally in this area, we have updated our year-on-year analysis of expenditure incurred across the range of Council activities with no unidentified variances to warrant further officer enquiry or explanation.

Conclusions

We are pleased to note that our previous comment in this area relating to official ordering processes has been addressed with more regular documentation being issued by the current Clerk for goods and services where applicable.

In all other respects, the above criteria were being met.

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: -

- Noted that an appropriate review of the risk assessment register for all principal areas of the Council's activities (previously established in the 2009-10 financial year) has been undertaken by the Audit Working Party, its recommendations being formally adopted by the Finance Committee in October 2011; and
- Examined the Council's current (to mid August 2012) insurance policy, noting that members had considered quotations from alternate providers prior to the latest renewal and determined that a switch from Zurich Municipal to Aviva was appropriate: premiums have reduced with the level of cover improved. Both Public and Employer's Liability now stand at £10 million, whilst Fidelity Guarantee cover remains at £300,000: we consider these levels to be more than adequate to meet the needs of the Council at present.

Conclusions

No issues were identified in this area of our review process to warrant formal comment.

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 that budget deliberations have been properly concluded with a precept of £205,990 adopted formally by full Council in December 2011;
- We are pleased to record that members continue to be provided with sound, periodic and comprehensive management accounting information in order to provide an appropriate means for monitoring budgetary performance during the current year; and
- We note from the closing Statement of Accounts for 2011-12 that Total Reserves stood at £161,000 (largely unchanged from the opening balance of £166,000): specific Earmarked items amount to £84,000 with a residual General Fund of £77,000, which equates to between four and five months' expenditure at current levels, which is more than acceptable.

Conclusions

No matters arise to warrant formal comment in this area of the audit process.

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.

Other than to note from minutes that allotment rents have been appropriately reviewed and approved, no detailed testing was undertaken at our interim visit.

Subsequently we note that:

- The Allotment registers continue to be maintained well, Excel spreadsheets forming the basis of the controls of the tenants records, their payment details, etc with no issues worthy of note with regard to outstanding rentals;
- Sample cashbook receipts have been tested to the relevant bank account statements as noted earlier in this report for three sample months;
- The general processes of banking, paying-in slip records and supporting documentation has remained unchanged compared with 2010-11, which we considered to be very sound; and
- We have visually examined all income code nominal ledger transaction reports for the year to ensure that no obvious errors or omissions, particularly with regard to periodic receipts, have arisen and are pleased to note no such issues were identified.

Finally in this area, we have updated our year-on-year analysis of income arising across the range of Council activities with no unidentified variances arising to warrant further enquiry or explanation by officers.

Conclusions

No matters arise to warrant formal comment in this area of the audit process.

Petty Cash Account

A relatively limited petty cash account is operated in the Council's office on a straightforward "top-up as required" basis: we have previously noted from our examination of minutes in 2010-11 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 continue to be 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.

We examined the operation of the petty cash account during our 2010-11 audit review and did not consider it necessary to repeat that work, although we have checked and agreed a brief sample of paid items as part of the “random” element of the supplier payments for the year noted earlier in this report.

In addition, we have previously noted that a new Imprest bank account has been opened to enable occasional charge card payments to be made and have specifically tested examples of transactions incurred to ensure payments were supported by appropriate orders and /or supplier invoices.

Conclusions

There are issues worthy of formal comment in this area.

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 1st April 2011, as regards employee contribution bandings. To meet that objective, we have: -

- Ensured that the Council reviews and approves pay scales for staff annually;
- Noted previously that the payroll bureau provider Acumen had been engaged to provide their services in 2010-11, following the retirement of the previous Clerk, we consider that the work they undertake is of a high standard and cost efficient and this continues to be the case during the current financial year;
- 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 September 2011;
- Ensured that Tax and National Insurance 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 1st April 2011, 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
- Verified as part of this final audit work, that the Council’s P14 / P35 Annual PAYE Return had been submitted to HMRC in a timely manner prior to their deadline of 19th May 2012.

Conclusions

We are pleased to record that no errors or omissions have been identified in this area of our work. One potential, very minor under-deduction of LGPS contributions was raised with the Clerk during the course of the “round up” discussion at the conclusion of our interim visit and we are pleased to note that this was reviewed and appropriately adjusted prior to the year-end closedown.

Asset Registers

The Accounts and Audit Regulations 1996 (as amended periodically) require that all Councils establish and maintain inventories/asset registers of buildings, land, plant and equipment, etc. owned by them.

We are pleased to note that an appropriate register is being maintained, the current Clerk having updated the work of the previously retired officer for appropriate acquisitions and disposals in both 2010-11 and 2011-12.

Conclusions

We have reviewed the content of the asset register and consider that it adequately meets the needs of the Council at present: we are also pleased to note that the recently update Practitioners Guide advice in this area (as alluded to in our final report for 2010-11) has been heeded and we have, consequently, verified the overall value of fixed assets disclosed at Box 9, Section 1 of the Annual Return.

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.

The Council has no loans in place either repayable by or to it.

Conclusions

Currently the Council holds no specific investments, any “surplus” funds being held for instant access in the HSBC’s Business Money Manager Account.

We previously noted that, since this account was opened, the bank has erroneously paid the Council’s monthly interest net of income tax deducted at source, instead of gross. The amounts concerned are completely immaterial at present due to the extremely low rates of return in the current economic climate (20% tax on just £38

to 30th September equates to less than £8) and suggested that that the Clerk contacts HSBC to ensure this is corrected for the future. We are pleased to note from our current cash book testing that no progress appears to have been made with net interest in the quarter to March 2012 amounting to just £27 earned.

We therefore need to repeat our “gentle reminder” that this should be addressed as soon as practicable, whilst acknowledging of course that the amounts involved currently remain immaterial.

Statement of Accounts and Annual Return

We have verified the accuracy of detail in the Annual Statement of Accounts, as produced initially by the Edge accounting software, but also supplemented by more formal supporting Income & Expenditure and Balance Sheet statements prepared by the Clerk, to the underlying records and other documentation provided.

Additionally we have verified the transfer of the summarised results, and prior year’s comparators, to the Annual Return at Section 1.

Conclusions

We are pleased to note that no further issues have been identified in our review and, on the basis of the work completed on the Council’s Accounts and other relevant supporting documentation for the year, we have duly “signed off” the Internal Audit Certificate at Section 4 of the Annual Return assigning positive assurances in each relevant area, leaving the original documentation with the Clerk for submission to members for approval and, subsequently, onward transmission to the external auditors with any further supplementary information they request.