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

*Internal Audit Report 2011-12 (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 and beyond.

This report sets out those areas examined during the course of our recent interim visit for 2011-12, which took place on 31<sup>st</sup> October 2011.

Further work will be undertaken at our final visit, extending testing on those areas already examined together with the remainder of the previously agreed programme of work for the year, including 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 commencing 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 at this initial visit for the year that warrant any formal recommendation: any minor matters arising having been discussed and agreed with the Clerk during the course of our visit and no Action Plan is considered necessary at present.

# 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, 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 two sample months (April & September 2011);
- 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 30<sup>th</sup> September 2011.

### *Conclusions*

*No issues requiring formal recommendation have arisen in this area and there are no long-standing, unrepresented items on the Current account at present: 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 early October 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; 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.*

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

We have tested a sample of supplier payments made during the financial year to end September 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 just over £29,000 and represented 52% 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*

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

*As a "non-registered" body with no Vatable supplies, formal quarterly returns are not required to be submitted to HMRC and we have previously verified the March 2011 year-end reclaim detail at our final visit for that year; therefore no further testing undertaken in this area.*

*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 to date: -

- 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 have obtained a copy of that documentation; 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 were saved and levels of cover improved. Both Public and Employer's Liability now stand at £10 million, whilst Fidelity Guarantee cover remains at £300,000 and we consider these levels to be more than adequate to meet the needs of the Council at present.

### *Conclusions*

*No 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.*

## **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 that the budget and precept deliberations for 2012-13 were just underway, therefore no formal conclusions can be drawn at present;
- 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 2010-11, 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 at present.

### *Conclusions*

*No matters arise to warrant 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.*

## **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.

### *Conclusions*

*Other than to note from minutes that allotment rentals had been appropriately reviewed and approved, and copies obtained of those applying in 2011-12, no detailed testing was undertaken in this area at the interim visit. We shall undertake further work as considered necessary and update our 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 and 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 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.

We have previously examined the operation of this petty cash scheme during our audit work last year and did not consider it necessary to repeat that work at this interim stage.

In addition, we note 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, including that for the Palisade fencing works, to ensure payments were supported by appropriate orders and /or supplier invoices.

### *Conclusions*

*There are issues worthy of formal comment in this area at present.*

## 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 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 1<sup>st</sup> April 2011, are being applied;
- Checked and agreed the net payments to staff from copy payslips to the cashbooks; and
- 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.

### *Conclusions*

*We are pleased to note that no significant errors or omissions have been identified in this area of our work. One potential, very minor under-deduction 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.

### ***Conclusions***

***Currently the Council holds no specific investments, Treasury Term deposits, or PWLB loans, any “surplus” funds being held for instant access in the HSBC’s Business Money Manager Account (recently opened to replace the Community Savings Account to meet the bank’s requirements for balances in excess of £100,000).***

***We note that since these steps were taken the bank has erroneously started to pay the Council’s monthly interest net of income tax deducted at source, instead of gross as before. 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 end September would be less than £8) but we would suggest that the Clerk contacts HSBC to ensure this is corrected for the future.***