
Leigh-On-Sea Town Council

Internal Audit Report 2012-13

Review of Leigh Community Centre

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Background

The Council took over management of the Leigh Community Centre (the Centre) in August 2012, following the re-siting of the previous user – Southend Adult Community College (SACC) to a new school development. The Council initially established a Working Party to consider whether or not it should enter negotiations with Southend Borough Council to take over management of the Centre either as full manager; to work in conjunction with a third party or to have no direct involvement with the Centre’s management.

For a variety of reasons, the Council concluded that assuming full management responsibility was the best option that would help ensure the continued provision of a beneficial facility for the residents of the town and its environs and sit comfortably with the Council’s core strategy “to promote the well-being and quality of life of the residents of Leigh-on-Sea”.

In order to gauge opinion, a public consultation exercise was commissioned with a simple three-question survey document distributed to residents seeking their views on the Council’s assumption of full management responsibility of the Centre; whether residents were prepared to help fund development plans for the Centre and / or whether any residents were prepared to support and assist the Council’s plans for the future development of the Centre. Almost 800 residents completed questionnaires with over 80% expressing the desire for the Council to both take over management responsibility and to also help fund the Council’s development proposals: 44% also expressed an interest in joining a “Friends of the Centre” group and help support the Council’s development plans

Scope of Review

In addition to undertaking a routine internal audit review of the financial controls in place at the Centre, the Council has specifically requested that we consider six specific aspects of the Council’s procedures, management and governance arrangements for the Centre, as follows: -

- 1) Advise on the financial procedures that have been applied;
- 2) Advise on the budgetary controls which have been applied;
- 3) Advise on the recording and monitoring of continuous and non-continuous revenue expenditure;
- 4) Advise on any adjustments to the current Financial Regulations in terms of managing the significantly increased level of trading income;
- 5) Advise on the appropriateness of running the Centre on a charitable basis; and
- 6) Advise on the level of reserves required.

In conducting our review, we have discussed policies and procedures affecting the management of the Centre with the Town Clerk and various members of staff and set out in the detailed report following our conclusions on each of the above six aspects.

Overall Conclusion

We are pleased to report that no significant issues have been identified in our review of the operation of the Centre, although we have identified a few areas where we consider that improved governance and financial controls could usefully and should be put in place.

Obviously, the Council's role as manager of the facility is still to a great degree in its infancy with only seven months' "trading" having lapsed since assumption of management responsibility. However, it is evident from the regular trading information produced that the change in management has not adversely affected the level of user bookings and we are pleased to note the ongoing moves to further promote the Centre as a venue for a wide plethora of events, including weddings, receptions, etc.

Consequently, we consider overall that the Centre is being promoted effectively; that appropriate financial and governance controls are generally in place: we also wish to take this opportunity to wish the Council every success in the further development of the venue as a centre attracting a wide variety of local groups and individuals thereby ensuring that the present level of success continues and is further enhanced.

Detailed Report

Application of Financial Procedures

In considering the financial procedures in place, our main concern is to ensure that all bookings are identified; appropriately recorded; managed effectively and that the appropriate fees and charges are levied and recovered in a timely manner.

Consequently, we have discussed the procedures in place for the receipt of bookings with key personnel, noting that the Edge bookings software has been purchased and is being applied to record hirings accordingly. We note that a number of teething problems have been experienced in using the software, which should interface with the Edge accounting software already in use, although at present, the interface is not functioning properly.

The Senior Administrator is liaising closely with the software supplier to address the residual issues and, once satisfactorily resolved, we are confident that the financial and hall management systems will effectively meet the requirements of the Council and ensure full and effective control over bookings, income recovery and recording.

We have examined and considered the content of the documentation in use, including the content of the Booking Forms (noting that a separate form is in use for U3A bookings) and Terms and Conditions of Hire. We have also selected a sample of two days' bookings at the start of February 2013, as recorded in the Edge booking diary, following through to ensure that appropriate invoices have been raised for each booking at the correct hire fee and that payment has been received within a reasonable period of time.

Conclusions and recommendations

We are pleased to record that, apart from the current booking and financial system interface problems, the procedures in place operate effectively with income due being appropriately identified, invoiced and recovered within a reasonable time scale.

We have, however, noted a few areas where we consider that the present documentation could be effectively improved and strengthened to protect the Council's position, together with affording greater and more beneficial cross-referencing. The following specific issues have been identified:-

- *We note the Council's acquisition of a PDQ machine so that telephone bookings may be paid by debit and credit cards with a 2% levy added for the latter transaction type. No such transactions had occurred at the time of our review, so we have been unable to validate the effectiveness of control procedures at this stage, but will do so at a future routine audit visit. Notwithstanding that, we consider that the "Terms and Conditions of Hire" should set out the available methods of payment for bookings, including clearly identifying the 2% levy charge for payment by credit card;*

- *In order to provide a clear trail from the booking diary through to invoicing and receipt of payment, provision should be made on the Booking Form for the unique booking reference number created by the software to be recorded on the Booking Form: similarly, the resultant invoice number should also be recorded on the Booking Form;*
- *We appreciate that the Council has only operated the venue for seven months and have suggested to officers that, in order to protect the Council's position, the "Terms and Conditions of Hire" documents in relation to regular hirers should be "renewed" at least annually in order that users do not lose sight of the Council's requirements and restrictions; and*
- *In order to assist in the identification of outstanding debts, although we acknowledge that once fully integrated, the financial software should provide the detail, we have suggested to officers that a corner of the invoice be clipped off once payment has been received thereby providing a quick and simple means of visually identifying any unpaid accounts (this would remove the need for retention of two files, one containing invoices raised and filed alphabetically and one for those paid, which are filed numerically).*

R1. Consideration should be given to the application of the suggested documentation improvements set out above in order to further strengthen controls.

Application of Budgetary Controls

We have, in previous years, considered the effectiveness of the Council's approach to budgetary control and been pleased to record that we considered them effective with the presentation of regular performance reports to members and no significant unexplained or unanticipated variances apparent.

Obviously, at this stage of the Council's management of the Centre, it is very difficult to draw any significant conclusions in relation to the financial position currently or for the future financial performance of the Centre. Income assessments for 2012-13 have had to be "guesstimated" to a great degree, based on previous activity and usage levels, with no guarantee that all previous hirers would continue to use the Centre. Similarly, expenditure for the seven months of operation in 2012-13 has also had to be assessed on the basis of best estimates, also taking account of the significant refurbishment and renovation works already put in hand including conversion of part of the venue to Council offices.

We have examined the latest performance information available (to 19th March 2013) at the date of our review visit and are pleased to acknowledge that the position appears relatively sound. Year-end predictions indicate that income assessments / budget will be exceeded by up to 75%, whilst current expenditure is exceeding the projected level by some 6 to 7%.

Conclusions

As indicated above, it is still too early to fully assess the ongoing financial viability of the Centre, as there are many variables that can impact on both income levels (users possibly seeking and using alternative venues and the ongoing economic difficulties, both of which could significantly reduce the level of usage of the Centre) and expenditure: we note the planned ongoing refurbishment and modernisation of the accommodation at the Centre, which will obviously require appropriate funding, but should also encourage more hirers thereby generating greater income.

Recording and monitoring of continuous and non-continuous revenue expenditure

The Council continues to use Edge software to maintain its financial accounting records. The software provides a sound recording system generating not only financial reports, but also management accounting / budget reports. The software incorporates a detailed chart of accounts providing for the recording of both income and expenditure against specific nominal account codes: this information provides the cornerstone for reporting of performance during the year.

We have examined the processes for incurring and approving expenditure as part of our ongoing programme of audit coverage and, as indicated in our interim report for the current year, consider that they continue to operate effectively with sound officer and member controls in place. The routine budget performance reports available from the accounting software also provide officers and members with an effective management tool and should help identify any potential data entry anomalies or errors or instances where spending is potentially not being controlled effectively and is exceeding planned spending levels or income is not achieving the desired targets.

Included in our routine programme of testing for the financial year, we have examined a sample of high value and other payments selected on a random basis ensuring that, in addition to the above effective controls over the incursion and authorisation of expenditure, it is coded accurately to the appropriate nominal account code. We also examine budget reports at each visit to the Council and seek explanations for any significant variances from budget that may be apparent at that stage.

Conclusions

On the basis of our routine programme of coverage, we are able to confirm that the Council has effective control mechanisms in place to ensure that expenditure on the Centre, as well as general Council expenses, is effectively controlled and reported accurately in the accounting records and to members for their performance monitoring.

Whilst not a significant issue, we note that the clerk has introduced an official ordering system, although it is not applied “across the board” at present: we suggest

that the use of official orders be expanded to cover all expenditure, except where a formal contract is in place.

R2. *The use of official orders should be expanded to cover all routine expenditure except where a formal contract is in place.*

Appropriateness of Current Financial Regulations

The Council has established a sound basis for governance, adopting both Standing Orders (SOs) and Financial Regulations (FRs) in April 2011: the latter were subject to further scrutiny and re-adoption in September 2012 and both are based on the Model Documents produced by NALC tuned to meet the specific requirements of the Council. We have examined the content of these documents and consider that they remain appropriate for the Council's routine revenue and capital spending and income requirements. Obviously, activities and transactions within the Centre should come under the auspices of these documents and be subject to the same regimen of financial controls.

Conclusions and recommendation

We do not consider that any significant variations are required to either SOs or FRs at present; the same basic principles of financial control should be applied irrespective of the levels of income generated. As indicated above, the use of bespoke software to manage bookings, generate invoices and control income, etc affords a potentially effective control mechanism, or will do so once the current gremlins with the interface to the accounting software are resolved.

It is also unlikely that many hirers will settle their accounts in the form of cash, with cheque and the PDQ system being the most likely means of income recovery, both of which should be easily controlled.

However, we suggest that the Income Section in the FRs could and should be expanded to incorporate reference to the use of a PDQ machine and the surcharge being levied on Credit Card income. We would also suggest that a detailed procedure for use of the machine should be developed to supplement the FRs and act as an aide memoire to officers using the PDQ machine.

We note that the Centre's cafe is currently sublet and consequently its operation is not subject to the Council's financial control regime: We also note the current negotiations on renewal of the lease and would place a marker down that, in the event that the negotiations should falter and the Council assume responsibility for running the cafe, then further consideration will need to be given to the expansion of the FRs to cover that situation, especially with regard to stock control, etc.

R3. *As indicated above, the Financial Regulations could and should be expanded to include reference to the controls in place over use of the PDQ machine for receiving income by way of Debit and Credit Card: supplementary detailed*

procedural guidance on the machine's use should also be prepared and be distributed to officers involved in receiving income through that medium.

Transfer to Charitable Status

We note that members have given some consideration to seeking to change the management format of the Centre to charitable status. There are obviously a number of advantages to such a move, the prime one being the greater potential to obtain funding by way of grants. However, our experience at other councils who either already operate charitable trusts or are considering establishing same, indicates that there are several potential obstacles and difficulties that may arise.

Firstly, looking at the local perspective, as the Council currently has only a relatively short-term lease on the Centre, it would not seem logical or wise to embark on a great deal of effort in seeking to establish a charitable trust until the future management position has been formally secured.

Secondly, many councils have experienced great difficulties in finding either Councillors or members of the public who are prepared to act as trustees in view of the rigorous legislation and potential personal liability that may fall on them in the event of any difficulties arising.

Conclusions

It is obviously not for us to determine Council policy or decisions in this respect, but we would suggest that, before embarking on the road to establish a charitable trust, members satisfy themselves as to the longer term future of the Centre and the Council's continuing involvement with it and security of tenure for office accommodation.

Retained Reserves

In an ideal world, all councils should establish a reserves policy governing not only the level of General reserve funds retained to meet ongoing revenue spending, but also the need to retain or set up specific reserves for their spending plans, including areas such as equipment replacement, election costs and to also provide funds for any development aspirations they may have. In order to avoid any significant peaks and / or troughs in the annual spending levels, best practice suggests that funds should be "set-aside" annually from the general funding / precept moneys into reserves in order to spread the load and build up reserves accordingly without the need for any sudden increase in precept in any one year.

With regard to Leigh on Sea, the Centre is obviously a prime case where, had the potential take-over of the premises been known about a few years ago, a reserve fund could have been established with regular transfers from the general reserve. From discussions with the clerk it is apparent that the Council has significant plans for

further development of the Centre, which will, undoubtedly, eat into the general reserves held currently unless external grant or other funding can be acquired in the near future.

As a general rule, CiPFA, the local government accounting body recommends that the General Reserve fund balance should be retained at a level commensurate with between three and six months' revenue spending: this would obviously need to include the day-to-day running costs of the Centre, but not redevelopment expenditure. In line with the above, it also makes sense for the Council to establish specific earmarked reserves for both equipment replacement and future planned developments at the venue.

Conclusions and recommendation

In order to ensure compliance with best practice, we would suggest that the Council complies with the CiPFA guidance as regards the level of General reserve to be retained and establishes additional specific earmarked reserves to finance both future developments at the Centre and for equipment replacements: we are aware of the existence of earmarked reserves as identified in the 2011-12 Statement of Accounts and that the General Reserve balance as at 31st March 2012 equated to some four months; revenue spending at 2011-12 levels: however, the additional revenue costs arising from the Centre will need to be taken into account in establishing the ideal level of General Reserve Fund balance to be retained in future.

R4. The Council should consider the establishment of a Reserves Policy covering both the level of General Fund Reserve balance (taking account of the CiPFA guidance) to be retained and also any specific Earmarked Reserves that members may consider are necessary.

Rec. No.	Recommendation	Response
Review of Accounting Arrangements and Bank Reconciliations		
R1	Consideration should be given to the application of the suggested documentation improvements set out above in order to further strengthen controls.	
Recording and monitoring of continuous and non-continuous revenue expenditure		
R2	The use of official orders should be expanded to cover all routine expenditure except where a formal contract is in place.	
Appropriateness of Current Financial Regulations		
R3	As indicated above, the Financial Regulations could and should be expanded to include reference to the controls in place over use of the PDQ machine for receiving income by way of Debit and Credit Card: supplementary detailed procedural guidance on the machine's use should also be prepared and be distributed to officers involved in receiving income through that medium.	
Retained Reserves		
R4	The Council should consider the establishment of a Reserves Policy covering both the level of General Fund Reserve balance (taking account of the CiPFA guidance) to be retained and also any specific Earmarked Reserves that members may consider are necessary.	