
Leigh-On-Sea Town Council

Internal Audit Report 2012-13 (Final update)

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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 2012-13, which took place on 6th June 2013 and supplements the interim work undertaken in November.

As members will be aware, we also paid an additional visit to the Council in April 2013 specifically to consider the impact of the Community Centre and its operations, since it had now been active for several months compared with the several weeks at the interim stage: a separate report was issued in respect of that work, with no significant issues arising: consequently, we have not considered it necessary to repeat that commentary in this report.

Our programme of coverage continues to be 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 Programme of Work.

Overall Conclusion

We are pleased to report that no significant issues have been identified in our regular reviews this year to warrant formal recommendation: any minor matters arising having been discussed and agreed with the Clerk during the course of our two visits: consequently, no Action Plan is considered necessary and we have duly "signed off" the Internal Audit Certificate at Section 4 of the Annual Return, assigning positive assurances in all areas.

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, therefore, undertaken the following checks in this area:

- Ensured that an appropriate nominal ledger coding structure is in place, previously noting that this had been streamlined in accord with current Committee structures to further assist the budget monitoring and reporting processes;
- 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 2012 and March 2013);
- Similarly checked and agreed all transactions for the same three months on the other remaining three Reserve, Imprest and Payroll accounts to relevant bank statements;
- Similarly checked and agreed all transactions on the more recently opened Community Centre account for September 2012 and March 2013 to relevant bank statements; and
- Verified that regular, monthly bank reconciliations continue to be undertaken on all accounts, noting that appropriate hard copies are retained on file: we have checked and agreed those as at 30th September 2012 and 31st March 2013 with no issues arising.

Conclusions

No formal comment or recommendation is required in this area.

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, as far as we are able to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation. We have, therefore, undertaken the following: -

- Examined the minutes of meetings of the Full Council and its Standing Committees (except Planning) for the current financial year (including early April 2013) to ensure that no issues affecting the Council's financial stability either in the short, medium or long term exist, also that no other issues are in existence whereby the Council may potentially be considering or have taken decisions that might result in ultra vires expenditure being incurred;

- In our interim report, we noted the migration of the Town Council from its previously rented premises at 67 Elm Road to the renovated offices in the nearby Community Centre and that other refurbishment works in other parts of the building were still in progress. We were aware of the concerns of certain members of the Council and, as noted in the introduction to this report, we have (on request) paid a supplementary visit to the Council to consider this area and have issued a separate report with minor observations requiring officers attention only;
- Noted that the Council has properly adopted the revised Members' Code of Conduct, based on the Southend Council's "proforma", which was re-affirmed at the September 2012 meeting;
- Noted that the Council has properly considered and formally recorded the annual Precept for 2013-14 at the January 2013 meeting; and
- We have previously reported on the completion of revised Standing Orders and Financial Regulations, which were formally adopted in April 2011, and note that the latter (FRs) have been subject to further review with wording updated and adopted at the Council's meeting in September 2012. A further review of the former (SOs) appears to have been deferred to the Audit Working Group and no formal 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 extended our testing of a sample of supplier payments made during the financial year to 31st March 2013, examining all those individually in excess of £1,000 together with a more random sample of every 20th payment, irrespective of value. This sample comprised approximately 90 items in all, which totalled just over £100,000 and represented 59% of all non-pay related costs 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 updated our year-on-year analysis of expenditure incurred across the range of Council activities for 2012-13, which will assist to inform us of any potentially significant variances that may require further testing in the future.

Conclusions

There are no formal recommendations arising in this area: all criteria were met, including the submissions of periodic VAT returns, the balance of which for March 2013 was verified to the year-end debtor disclosure in the Statement of Accounts.

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: -

- Previously noted that an appropriate review of the risk assessment register for all principal areas of the Council's activities was undertaken by the Audit Working Party, its recommendations being formally adopted by the Finance Committee in October 2011: we now note that members have formally adopted a comprehensive Risk Management Strategy (F&GP in February 2013 and Full Council in March 2013) and consider this to be more than adequate to meet the needs of the Council in this area at present and will, in due course, replace in full the registers noted above;
- Noted additionally the existence of a number of event specific assessments and other H&S controls that are in place, particularly since the Community Centre has been transferred to the Town Council; and
- Examined the Council's current (to mid August 2013) insurance schedule, noting that cover continues to be provided by Aviva: appropriate amendment has been made to reflect the migration to the Community Centre. Both Public and Employer's Liability cover 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 arise in this area and we are pleased to note the enhanced Risk Management work undertaken in 2012-13.

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 examination of minutes and other documentation at this final visit, the conclusions of the Council’s budget and precept deliberations with an overall funding requirement of £357,841 adopted, to be met largely by the annual Precept (£324,841), but also in part by the “transitional grant” from the Borough Council (£33,000) arising from the national revision to the Council Tax base computations;
- 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;
- We have previously noted from the closing Statement of Accounts for 2011-12, that several specific Earmarked Reserves were established with the current year’s minutes indicating occasional virement and some utilisation in respect of the Community Centre; and
- We note that, as at 31st March 2013, Total Reserves stood at £133,600, a reduction (as expected as a result of the Community Centre transfer) of £27,500. This total comprised specific Earmarked and Capital Project items of £98,000 with a residual General Fund balance of £35,600. Appropriate steps were taken as part of the budget and precept setting exercise to address this area and a return to a healthier position should arise in the future.

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 other sources of income have been limited to allotment rentals, monthly farmers’ market pitch fees, community transport ticket sales and ad-hoc activities such as Xmas Lights and Fishing Festivals. Clearly, future revenue will be boosted by the letting facilities in the refurbished Community Centre and we note the acquisition of bespoke bookings software (from accountancy providers “Edge” to ensure the two processes can be integrated to avoid any unnecessary duplication). Therefore:

- We note that appropriate scales of fees and charges for the Market Stall holders, allotment plots and Community Centre rooms have been considered and adopted by members for 2012-13;

- We have, as noted earlier in this report, checked and agreed all receipt transactions for three sample months to relevant bank statements, including any interest arising where applicable;
- We note that, to date, the allotment rental processes have remained unchanged although examination of minutes indicated that this may change, particularly in relation to the taking of deposits: we shall review this area at a later date; and
- As noted elsewhere, we have separately considered the Community Centre activities and have neither repeated any of that work, or the commentary notes arising therefrom at this final visit.

Finally in this area we have updated our analysis of income arising across the range of Council activities for 2012-13, with no significant, unidentified variances arising to warrant further enquiry or explanation by officers

Conclusions

Other than the minor procedural observations raised in the recent report of our visit to the Community Centre in April 2013, no matters arise in this area at present.

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 that a maximum encashment of £200 per week had been authorised by members, although we have now noted, from examination of the most recent FRs (September 2012), that "the account shall be held by the RFO to meet small bills paid in cash and that the account shall be checked and signed by the Chair or the Vice Chair of F&GPC at least three times per year" with no formal monetary limit expressed.

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 with VAT separately recorded for periodic recovery.

We have, at this current year's final visit, again tested a sample of transactions (March 2013) to ensure they were properly supported by till receipts and that VAT (where applicable) was separately identified. We also note that members continue to independently check this area periodically, whilst a physical count of the cash-in-hand is also regularly undertaken.

In addition, we have previously noted that an 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 no 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 2012, 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 a payroll bureau provider (Acumen) was 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 cost efficient standard;
- 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 2012;
- 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 2012, are being applied;
- Checked and agreed the net payments to staff from copy payslips to the cashbooks;
- Similarly checked and agreed the payment over of deductions to HMRC and Essex County Council from copy payroll reports to cashbooks;
- 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
- Discussed with officers the submission of the Council's P14 / P35 Annual PAYE Return, noting that the bureau provider would receive the formal acknowledgment of submission from HMRC, but having been asked for and duly returned the approval of the tax and national insurance deduction detail and having been issued with the staffs' P60s, no concerns exist with regard to meeting the deadline requirement of 19th May 2013.

Conclusions

There are no issues worthy of formal comment in this area.

Asset Registers

The Accounts and Audit Regulations 1996 (as amended from time to time) 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 registers for appropriate acquisitions and disposals, following the migration to the Community Centre, in 2012-13.

We are also pleased to note that, in accord with the previously revised Practitioners' guidance in this area, the asset values have not been subject to either depreciation or "insurance policy inflation": consequently we have verified the overall value therein to the disclosure at Box 9, Section 1 of the Annual Return.

Conclusions

There are no issues worthy of formal comment in this area.

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.

We note that the Council has invested "surplus" funds into The Public Sector Deposit Fund (two tranches of £55,000 in all) and have checked and agreed the closing balance disclosures in the Statement of Accounts to their third party statement advice notes, together with verification of the limited dividends received and re-invested (just £38 for the year).

The Council has no loans either repayable by, or to, it

Conclusions

We have previously noted that the bank has erroneously started to pay the Council's monthly interest net of income tax deducted at source, as if the account holder was an individual, instead of gross as required for corporate bodies.

It appeared that this remained the case during the opening months of 2012-13 and we repeated our "reminder" that the interest should be paid gross and appropriate action be taken to ensure recovery of the tax deducted to date. Whilst we acknowledged that the amounts concerned are immaterial at present due to the

extremely low rates of return in the current economic climate, we are pleased to note that this was corrected, with the appropriate tax refunded in February 2013.

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.