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

*Internal Audit Report 2012-13 (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 2012-13, which took place on 6<sup>th</sup> November 2012.

Further work will be undertaken at subsequent visits as considered necessary, 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 also, in conjunction with the Clerk, update the content of this report following due consideration of the additional work requested at the time of this interim visit: detail of the potential time required, and possible dates if necessary will be subject to separate correspondence.

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 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 Programme of Work.

## **Overall Conclusion**

We are pleased to report that no significant issues have been identified in our regular reviews 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: consequently, 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, 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 April & September 2012;
- Similarly checked and agreed all transactions for the same two months on the new Community Centre and the other 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, noting that appropriate hard copies are retained on file: we have checked and agreed those as at 30<sup>th</sup> September 2012.

### *Conclusions*

*No issues requiring formal recommendation have arisen in this area to date with no long-standing, unrepresented items on the Current account: we shall verify the closing bank reconciliations at 31<sup>st</sup> March 2012 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, 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 undertaken the following work to date: -

- Examined the minutes of meetings of the Full Council and its Standing Committees (except Planning) for the current financial year to early October 2012 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. We note 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 are still in progress. We are aware of some concerns of certain members of the Council and, as

noted in the introduction to this report, we shall consider the scope of any additional works as requested as part of separate correspondence in the near future;

- 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; 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 and wording updated as 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 at present: we shall undertake further work at future visits, also extending the examination of minutes for the full financial year.***

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

We have selected a sample of supplier payments made during the financial year to 30<sup>th</sup> September 2012, examining all those individually in excess of £1,000 together with a more random sample of every 20<sup>th</sup> payment, irrespective of value. This sample comprises approximately 35 payments in all, totalling £47,500 and representing 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***

***As a "non-registered" body with no Vatable supplies, formal quarterly returns are not required to be submitted to HMRC: we have previously verified the March 2012***

*year-end reclaim detail at last year's final visit; therefore no further testing has been undertaken in this area to date.*

## **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, and have not noted any subsequent consideration of the Register relating to the current financial year; 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 stands 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 at this interim stage, although we would remind the clerk and members of the need to review and re-adopt the Financial Risk Register annually: 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 2013-14 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 2011-12, that several specific Earmarked Reserves were established with the minutes indicating occasional virement and some utilisation in respect of the Community Centre. Any further considerations in this area will be afforded as part of the potential additional work to be undertaken as requested.

### *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 future audit visits accordingly.*

## **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 have been allotment rentals, monthly farmers' market pitch fees, community transport ticket sales and ad-hoc activities such as Xmas Lights and Fishing Festivals. Clearly, future revenues will be boosted by the letting facilities to be made available 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).

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.

### *Conclusions*

*Other than the sample testing of cashbook receipts to relevant bank statements noted earlier in this report, no time remained for any detailed testing in this area at this interim visit. Consequently, we shall revisit this area at a future visit and report any conclusions accordingly.*

## **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 previously examined the operation of this petty cash scheme during last year's review process year and have not considered it necessary to repeat that work at this interim stage.

### ***Conclusions***

***There are no 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 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 1<sup>st</sup> April 2012, are being applied;
- Checked and agreed the net payments to staff from copy payslips to the cashbooks; and
- Similarly checked and agreed the payment over 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 report that no errors or omissions have been identified to date in this area of our review process.*

## **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 Savings Account.*

*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 appears that this remains the case during the opening months of 2012-13.*

*We therefore need to repeat our previous “gentle reminder” that the interest should be paid gross and appropriate action be taken to ensure recovery of the tax deducted to date, whilst we acknowledge that the amounts concerned are immaterial at present due to the extremely low rates of return in the current economic climate.*