
Leigh-On-Sea Town Council

Internal Audit Report 2015-16 (Final)

Prepared by Nigel Archer

*For and on behalf of
Auditing Solutions Limited*

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 we, at 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 to the Council, which took place on 20th May 2016 and supplements the interim work undertaken on 23rd and 24th November 2015.

Internal Audit Approach

In concluding our review for 2015-16, we have again had 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 review for the year to warrant formal recommendation: any minor matters arising having been discussed and agreed with the Clerk and officers during the course of our visits: consequently, no appended Action Plan is considered necessary.

We have duly "signed off" the Internal Audit Certificate within the Annual Return, assigning positive assurances in all relevant categories and leaving the original documentation with the Acting Clerk for submission to members for approval prior to onward transmission to the external auditors.

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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: -

- Ensured that an appropriate nominal ledger coding structure remains in place, noting that this has again been further updated in accord with current Committee structures to further assist the budget monitoring and reporting process;
- Checked and agreed transactions on the Current, Payroll and Imprest bank accounts, as recorded on the Edge accounting system software, with the entries on the relevant HSBC bank statements for three sample months (May & October 2015 and March 2016);
- Similarly, checked and agreed transactions on the other two HSBC Reserve and CCLA Public Sector deposit accounts for the quarter ended 30th September 2015 and also March 2016; 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 31st October 2015 and at 31st March 2016 on all accounts.

Conclusions

No issues requiring formal recommendation have arisen in this area with no long-standing, unrepresented items of any note.

Review of Corporate Governance

Our objective here 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: -

- Examined the minutes of meetings of the Full Council and its Standing Committees (except Planning) held throughout the current financial year to March 2016 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. No such issues were identified and we note the conclusion of the exercise to re-organise the Council's Committee structures and responsibilities with a streamlined approach to periodic meetings in place for 2015-16 and beyond;
- We have previously noted that the Council properly adopted the General Power of Competence at the Full Council meeting in May 2013: subsequently, we note that this was formally re-adopted in May 2015, as required by extant legislation, following the new Council elections;

- We also previously noted that both Standing Orders and Financial Regulations had been reviewed during 2014-15, both documents being revised in part for legislative changes such as the introduction of filming / recording of meetings and in part for updated NALC recommendations: we now note that both documents were re-affirmed in May 2015, subject to minor typographical revisions to reflect the current Committee / Task & Finish Group structures, and also that FRs were revised and re-adopted in March 2016; and
- Formal tender limits have been established at £30,000, which we previously considered to be sound for a Council of this size. However, there has recently been revisions to Regulations in relation to contracting and tendering, including the need to formally advertise contractual works in excess of £25,000 on the Government's "Contract Finder" website and we are advised that the Clerk is aware of the development and will present appropriate revisions to the Council's extant documentation at such time as the next model Financial Regulations have been issued by NALC. As noted above, this exercise was duly completed at the March 2016 meeting.

Conclusions

No issues requiring formal recommendation have arisen in this area currently.

Review of Purchasing and Payment Procedures

We have selected a sample of supplier payments made during the financial year to 31st March 2016, examining all those individually in excess of £1,500 together with a more random sample of every 25th payment, irrespective of value. Our test sample comprises approximately 70 items in all, totalling £135,700 and representing 56% of all non-pay related expenditure for the year. Our testing strategy aims to ensure compliance with 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 process 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 appropriately.

We are pleased to note that all the above criteria were met in the sample examined.

In relation to VAT, we note that periodic, "on-line" recovery claims continue to be submitted and have checked and agreed that for the six months ending September 2015 to the underlying Scribe detail and subsequent repayment (in November 2015). The March 2016 claim had, due to current staffing levels and annual leave, not yet been finalised at the time of this final visit.

Additionally, we have previously noted that external contract accountants (DCK Beavers Ltd) have undertaken an exercise to confirm the Council's partial exemption position with regard to VAT recoverable on Community Centre expenditure and payments arising in relation to 2015-16 have accordingly been adjusted within Edge to ensure that previous over-recovery levels will not be repeated.

Finally in this area, we have updated our year-on-year analytical review of expenditure incurred across the range of Council activities with no significant, un-identified variances arising to warrant further enquiry or explanation by officers.

Conclusions

No issues requiring formal recommendation have arisen in this area currently.

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 and that a formal "strategy" was adopted by the Full Council at its meeting in March 2013;
- Subsequently noted, as part of last year's final review, that the risk registers were re-adopted by the previous Finance & General Purposes Committee and, by approval of minutes, Full Council in March 2015;
- Noted at this final visit that the Registers were reviewed and re-adopted by Full Council at their meeting in March 2016; and
- Examined the current year's insurance policy schedules (to August 2016), cover continuing to be provided by Aviva, noting that both Employer's and Public Liability remain at £10 million; that Fidelity Guarantee cover has been increased to £450,000 and that Loss of Revenue cover has been increased to £240,000.

Conclusions

No issues requiring formal recommendation have arisen in this area currently.

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 early deliberations have been undertaken in relation to Revenue budgets for 2016-17, with any formal conclusions deferred until January 2016, by which time it is expected that Southend BC will have determined their approach to the “support grant”. Subsequently, at this final visit, we note the conclusion of these deliberations at the Extra Council meeting in February 2016 with the Precept formally adopted and recorded at £391,550, excluding the support grant of £14,220;
- 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 noted in the Statement of Accounts for 2014-15 that several specific Earmarked Reserves were established with subsequent minutes indicating occasional virement. At this final visit, we note that Total Reserves as at 31st March 2016 stood at £355,000 and comprised Capital Receipts (£152,000), specific Earmarked items (£90,000) and the residual General Fund (£113,000): the latter represents three months expenditure at current levels and is considered adequate to meet the needs of the Council at present.

Conclusions

No issues requiring formal recommendation have arisen in this area currently.

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 ensuring that it is banked promptly in accordance with the Council’s Financial Regulations. In addition to the precept, the Council’s principal source of income is clearly the Community Centre, supplemented by allotment rentals, monthly farmers’ market pitch fees, community transport ticket sales and ad-hoc activities such as Xmas Lights and other events. Consequently:-

- We note that the schedules of Council’s fees and charges continue to be reviewed and adopted annually, those for the Allotments and Centre for 2015-16 having been formally considered by the re-vamped Community Facilities Committee at their meeting in February 2015;
- We have, as noted earlier in this report, verified all receipt transactions from Edge ledgers to relevant bank statements for three sample months;
- We note that the bookings and receipting processes for the Community Centre, utilising bespoke Edge software for this purpose, remain largely unchanged compared with the detail previously tested and agreed during 2013-14. We are also pleased to note the levels of segregation in place despite the limited numbers of administrative personnel;
- We have again tested examples of the Finance Officer’s banking control sheets to cashbook postings and bank statement entries, noting the timely and accurate manner (at least twice weekly) in which funds are deposited with the bank;

- We have tested a sample of sales ledger invoices for Community Centre bookings by reference to a sample of the bookings diary (1st to 8th September 2015) to ensure that every entry had been invoiced, that the fees charged were in accord with the times of day and length of each activity and that payments had been received in a timely manner;
- We note that the annual allotment rental renewals took place in October 2015 and examination of current year's minutes confirmed that no matters arose with regard to non-payments and no waiting is in place at present due to a number of vacant plots; and
- We note that a review of long-standing aged debtors has resulted in some formal write offs being approved by members but, at less than £200, these are not considered material.

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

Conclusions

No issues requiring formal recommendation have arisen in this area currently.

Petty Cash Account and Debit Card Usage

A relatively limited petty cash account is operated in the Council's office on a straightforward "top-up as required" basis: at the time of this interim visit just 4 reimbursement cheques of £100 each had been required.

Payment transactions are entered into the Edge Expenditure reports in the same manner as other supplier cheque and direct debit payments with full details of the payee and goods with VAT separately recorded for periodic recovery where applicable.

We have tested a sample of payment transactions (September 2015) with all properly supported by till receipts / supplier invoices and correctly entered in the ledgers.

In addition, an HSBC Imprest bank account is in use with a debit card available for urgent goods / services and internet purchases to obtain best value pricing. Again this is utilised in a very limited manner (just 8 transactions totalling £232 in the sample month tested of October 2015) with all payments appropriately supported by supplier invoices and correctly entered in the ledgers.

Conclusions

There are no issues arising in this area to warrant any formal recommendation.

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 2015 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 the service and this remains the case in 2015-16;
- Agreed the amounts paid to employees by reference to the approved pay scale on the NJC annual schedule of rates payable, or those approved "in house" where applicable, examining a sample of all those salary payments made in October 2015;
- 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 2015, are being applied where applicable;
- Checked and agreed the net payments to staff from copy payslips to the Bacs summary reports and resultant cashbook entries; 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 of significance to warrant formal recommendation have been identified in this area of our review process.

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 have noted previously that an appropriate register is maintained, the Clerk having updated detail to reflect acquisitions and disposals in 2014-15, and this continued to be the case for 2015-16.

We have checked and agreed the values recorded in the registers, correctly at cost with acquisitions / disposals in the year only without any "insurance inflation" in accord with current regulations, to the overall balances disclosed at Box 9, Section 2 of the Annual Return.

Conclusions

There are no issues arising in this area to warrant any formal recommendation.

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.

As noted earlier in this report, the Council holds no specific “investments”, any savings funds being held in HSBC and Public Sector instant access bank accounts detail of which we have checked and agreed as detailed earlier in this report.

The Council has, in the previous financial year, made a small loan (£1,700) to the Community Interest Company formed to manage the Centre’s Café and we are pleased to note this had been repaid in full prior to the recent changes in the management of the Company.

Conclusions

There are no issues arising in this area to warrant any formal recommendation.

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 and Finance Officer, 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 2.

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 within the Annual Return assigning positive assurances in each relevant category.