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

*Internal Audit Report 2017-18 (Interim)*

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*For and on behalf of  
Auditing Solutions Limited*

## **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 from the outset. Subsequently however, we at Auditing Solutions Limited, were appointed for 2010-11 and beyond.

This report sets out those areas examined during the course of our interim visit to the Council, which took place on 7<sup>th</sup> and 9<sup>th</sup> November 2017, and will be further updated following the final visit to the Council on a date yet to be arranged subsequent to the conclusion of the year-end “close-down” exercise for the year in May / June 2018.

## **Internal Audit Approach**

In commencing our review for 2017-18, 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 date that warrant formal recommendation and the current Clerk and her staff are to be thanked for the quality of work and documentation provided for the purposes of the interim audit.

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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 to date: -

- 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 the sample months of April and September 2017;
- Similarly, checked and agreed transactions on the other HSBC Business Money Manager Reserve account and the CCLA Public Sector deposit account from cashbooks to statements for the full six months (April to September 2017) due to the limited volumes arising; and
- Verified that regular, monthly bank reconciliations continue to be undertaken on all accounts, noting that appropriate hard copies are retained on file and that members are regularly provided with same. We have checked and agreed those as at 30<sup>th</sup> September 2017 on all five accounts with no matters arising.

#### *Conclusions*

*No issues requiring formal recommendation have arisen in this area with no long-standing, unrepresented items of any note. We shall test a further sample of cashbook transactions at our final visit, also ensuring the accurate disclosure of year-end balances in the Accounts and Annual Return.*

### 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 date (end October 2017) 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;

- We have previously noted that the Council properly adopted the General Power of Competence at the Full Council meeting in May 2015: subsequently, we note that re-adoption was not required in May 2016 or 2017 in the absence of Council elections in these years; and
- We also previously noted that both Standing Orders and Financial Regulations had been reviewed and re-affirmed in July 2016: subsequently the latter was also subject to further review and adoption on March 2017 to reflect revised contract regulations and the introduction of a national tender limit of £25,000 and no further work is considered necessary currently.

### *Conclusions*

*No issues requiring formal recommendation have arisen in this area to date.*

## **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 2017, examining all those individually in excess of £2,000 together with a more random sample of every 30<sup>th</sup> payment, irrespective of value. Our test sample comprises 25 payments, totalling just over £40,000 and representing 44% of all non-pay related items processed to that date. 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.

### *Conclusions*

*We are pleased to report that no issues have been identified among our test sample with all the above criteria duly met. Additionally, we note that periodic manual VAT recovery claims continue to be submitted (generally six-monthly) and we have checked and agreed that for September 2017 to the underlying control account balances in Edge with no matters arising.*

## 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 and detailed risk registers were re-adopted by the Full Council at its meetings in May 2017 and March 2017 respectively and have not considered this aspect again at present; and
- Examined the current year's insurance policy schedules (to August 2017), cover continuing to be provided by Aviva, noting that both Employer's and Public Liability remain at £10 million; that Fidelity Guarantee cover remains at £450,000 and that Loss of Revenue cover stands at £250,000.

### Conclusions

*No issues have been identified warranting formal comment or recommendation in this area at present: we shall further consider the risk assessment process at our final visit, also ensuring compliance with the now mandatory requirement for annual review and formal adoption of risk registers, as detailed in the Governance and Accountability Manual.*

## 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 2018-19, with any formal conclusions deferred until January 2018, by which time it is expected that Southend BC will have determined their approach to the "support grant";
- 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 2016-17 that approximately 20 specific Earmarked Reserves remain in place (totalling £156,000) with no evidence from our current minutes review of any significant movement in this area to date.

### Conclusions

*No matters arise currently 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 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 Centre and allotments for 2017-18 having been formally considered by the relevant committee and full Council during the previous municipal year;
- We have, as noted earlier in this report, verified all receipt transactions from Edge ledgers to relevant bank statements for two sample months in the Current account and all interest / dividends on the Reserve and CCLA accounts for the full six months to September 2017;
- 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 in September 2017 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; and
- We have tested a sample of sales ledger invoices for Community Centre bookings by reference to a sample of the bookings diary (approximately 60 items in all tested during the week 4<sup>th</sup> to 10<sup>th</sup> September 2017) 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.

### *Conclusions*

*No issues have arisen from work completed in this area to date to warrant formal recommendation: we shall undertake further testing as considered necessary for the purposes of the Annual Return verification at the final visit.*

## 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 1 reimbursement cheque of £150 had been required in the past three months.

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 (August 2017) with all items 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 £463 in the sample month tested of September 2017) 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 previously amended with effect from 1<sup>st</sup> April 2017 as regards employee contribution bandings. To meet that objective, we have:

- Ensured that the Council reviews and approves pay scales for staff annually and has duly implemented the NJC award for 2016-17 & 2017-18;
- Noted previously that a payroll bureau provider (Acumen) was engaged to provide the service and this remains the case in 2017-18;
- Agreed the amounts paid to employees by reference to the approved pay scales on the NJC annual schedules, examining a sample of all those salary payments made in September 2017;
- Ensured that Tax and National Insurance deductions for all employees have been made applying the appropriate PAYE code and NIC Table;
- Checked that the correct superannuation percentage deductions, as amended from 1<sup>st</sup> April 2017, 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***

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

## **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.

### *Conclusions*

*We have noted previously that an appropriate register is maintained, the current Clerk having updated detail to reflect acquisitions and disposals in 2016-17, and no further testing work has been undertaken in this area to date.*

## **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.

The Council currently has one CCLA Public Sector Deposit Fund account in place (approximately £390,000 in value) and, as noted earlier in this report, we have checked and agreed all dividend receipts / re-investments in the year to 30th September 2017 and verified the Edge cashbook balance to their third party statement as at the same date.

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

### *Conclusions*

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