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

*Internal Audit Report 2013-14 (Interim Update)*

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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 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 interim update visit for 2013-14, which took place on 7<sup>th</sup> April 2014, and supplements that undertaken on 3<sup>rd</sup> December 2013.

Further work will be undertaken at the final visit for the year as considered necessary, including the examination of the Council's Statement of Accounts and completion of the IA Certificate in the year's Annual Return, which is currently planned for 3<sup>rd</sup> June 2014.

## **Internal Audit Approach**

In continuing our review for 2013-14, 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 regular reviews for the year to date that warrant formal recommendation: any minor matters arising having been discussed and agreed with the Clerk during the course of our visits. 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: -

- Ensured that an appropriate nominal ledger coding structure remains in place, previously noting that this had been streamlined in accord with current Committee structures to further assist the budget monitoring and reporting process;
- Checked and agreed transactions on the Current / Community Centre bank accounts, as recorded on the Edge accounting system software, with the entries on the relevant HSBC bank statements for April & September 2013;
- Similarly checked and agreed all transactions on the other 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 2013.

### *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 2014 as part of our final audit review, also ensuring the accurate disclosure of closing balances in the year's 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 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 that members have expressed concerns, such as the future of the Elm Road site building development and certain confidential Personnel matters;

- Noted that the Council properly adopted the General Power of Competence at the Full Council meeting in May 2013; and
- We have previously reported on the completion of revised Standing Orders and Financial Regulations, which were formally adopted in September 2012. We shall consider the outcome of their subsequent review, following revisions to the NALC model documentation and legislation to allow for electronic payments to suppliers, as part of the final audit review work as we understand that the Clerk, in conjunction with members, has now essentially completed this work.

### *Conclusions*

*No further issues of significance have arisen in this area and we are pleased to note the satisfactory conclusion of the previous, confidential staffing matters.*

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

We have selected a sample of supplier payments made during the financial year to 31<sup>st</sup> October 2013, examining all those individually in excess of £1,500 together with a more random sample of every 20<sup>th</sup> payment, irrespective of value. Our test sample comprises approximately 40 payments, totalling just over £37,000 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 correctly.

### *Conclusions*

*We are pleased to report that no issues have been identified among our test sample to date, with all the above criteria duly met: we shall extend cover for the remainder of the year at our final visit.*

*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 2013 year-end reclaim detail at last year's final visit and, subsequently, we note the preparation and submission of the manual recovery claim for the 6 months to*

*September 2013 and that the balances therein were in accord with the underlying Edge accounting detail.*

*We shall extend our testing in this area as considered necessary, including the update of our year-on-year analysis of expenditure incurred, as part of our final audit review in order that detail is available to feed into planning our 2014-15 review.*

## **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 (including a more formal "strategy") being formally adopted by the Full Council at its meeting in March 2013, and have not, as yet, from examination of minutes, identified any subsequent consideration of the Register relating to the current financial year. However, at this update visit, we are verbally advised by the Clerk that the Registers will be considered at the forthcoming Audit & Governance meeting prior to formal approval by Full Council for the purposes of the Annual Return;
- Previously noted from our sample testing of higher value payments that insurance premiums for the current year's policy have been paid over to WPS (brokers for Aviva); and
- At this update visit, obtained and examined a copy of the current year's policy schedules (to 19<sup>th</sup> August 2014), noting that both Employer's and Public Liability stand at £10 million, that Fidelity Guarantee cover stands at £300,000 and that Loss of Revenue has (following the "acquisition" of the Community Centre) been appropriately added and stands at £140,000.

### **Conclusions**

*No issues have been identified warranting formal comment or recommendation at this stage: 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.*

## **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 the completion of deliberations in relation to budgetary requirements with the Precept for 2014-15 being formally approved and adopted at £302,581 (excluding the “support grant” of £27,000) by Full Council at their meeting on 15<sup>th</sup> January 2014;
- 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 2012-13, that several specific Earmarked Reserves were established with the minutes indicating occasional virement and will consider the extent of any adjustments to those balances as part of our final audit review.

### ***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 appropriateness of the levels of retained Earmarked and General Reserve Funds at the final visit.***

## **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 now 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 Fishing Festivals.

As noted in our first interim report, we tested cashbook receipts to relevant bank statements and, consequently at this update visit, we have:

- Noted that the schedule of fees and charges for the allotments and Community Centre were duly considered and approved for 2013-14;
- In addition to the Community Centre processing testing at officers request in April 2013, examined a sample month’s bankings (February 2014) for hall / room bookings by reference to bank statements and the control sheets maintained by the Bookings Officer, noting that these are sound, properly reconciled and quite periodic, generally twice a week;
- Similarly, cross checked other Town Council income receipts from the same sample month’s bank statements to supporting vouchers and other documentation maintained by the Finance Officer to the Edge accounting transactions; and

- Taken a small sample of Community Centre hires from appropriate booking forms for “events” and other correspondence for “block bookers” to ensure that the rates charged were in accord with the published scales of fees and that receipts had been recovered without undue delay.

### *Conclusions*

*No issues have arisen from work completed in this area to date: we shall extend our testing in this area as considered necessary, including the update of our year-on-year analysis of income arising, as part of our final audit review programme.*

## **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 “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 and this remains the case in 2013-14.

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 tested a sample of payment transactions for three sample months (January to March 2014) with all the above criteria met accordingly.

### *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 1<sup>st</sup> April 2013, 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) has been engaged to provide the service;
- 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 October 2013;

- 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 2013, are being applied where applicable;
- 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***

***As recorded in our final report for 2012-13, the Council has one specific investment, namely a holding in the CCLA / Public Sector Deposit Fund. Currently, this holding totals more than £200,000: we have checked and agreed the balance as at 31<sup>st</sup> December 2013 from the Edge cashbook to their third party statement also verifying receipt and appropriate processing of the monthly dividend re-investments therein for the nine months to that date.***

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