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

*Internal Audit Report 2018-19 (Interim Update)*

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*Prepared by John Watson*

*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, we at Auditing Solutions Limited, were appointed to provide the function to the Council for 2010-2011 and subsequent years.

This report sets out the work undertaken in relation to the 2018-19 financial year, during the course of our two interim visit to the Council, which took place on 4<sup>th</sup> November 2018 and on 19<sup>th</sup> February 2019.

## **Internal Audit Approach**

In undertaking our reviews for the year to date, 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 (AGAR). Our programme of cover has again been designed to afford appropriate assurance that the Council's financial systems remain robust and operate in a manner 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 is also designed to facilitate our completion of the 'Internal Audit Report' in the Council's AGAR, which requires independent assurance over a number of internal control objectives.

## **Overall Conclusion**

We have concluded that, on the basis of the programme of work undertaken to date this year, the Council has again maintained more than adequate and effective internal control arrangements. We are pleased to again acknowledge the quality of records maintained by the Clerk and the Finance Assistant and thank them both for their assistance, which has again ensured the smooth progress of our review process. We particularly commend the Finance Assistant for continuing to keep the Council's affairs in order whilst also dealing with the problems created by the Council's VAT Registration.

This report has been prepared for the sole use of Leigh-on-Sea Town Council. To the fullest extent permitted by law, no responsibility or liability is accepted by Auditing Solutions Ltd to any third party who purports to use or rely on, for any reason whatsoever, this report, its content or conclusions.

## 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: -

- Checked and agreed the opening balance detail for 2018-19 to the closing Trial Balance and certified AGAR for 2017-18;
- Ensured that the cost centre and nominal ledger income and expenditure coding structure remains appropriate for purpose;
- Commenced checking and testing of detail in the cashbooks as produced by the Edge accounting system software, verifying all payment and receipt transactions for the HSBC Bank for the months of May and August 2018 and for the month of December 2018 with the HSBC Current, Payroll and Imprest accounts bank statements;
- Similarly, commenced checking and testing of detail in the cashbooks as produced by the Edge accounting system software, verifying all payment and receipt transactions for the HSBC Bank for the months of May and August 2018 and for the month of December 2018 with the HSBC Savings account bank statements;
- Also checked and agreed transactions on the CCLA Public Sector deposit account from cashbooks to statements for the nine months to 31<sup>st</sup> December 2018;
- Verified that regular, monthly bank reconciliations continue to be undertaken on all bank accounts, noting that appropriate hard copies are retained on file and that members are regularly provided with same. We have checked and agreed the bank reconciliations as at 31<sup>st</sup> May and 30<sup>th</sup> September 2018 and as at 31<sup>st</sup> December 2018 on all five accounts with no matters arising; and,
- Ensured that no long outstanding unrepresented cheques or other anomalous entries exist

#### *Conclusions*

*We are pleased to report that no issues have been identified in this area of our review process warranting formal comment or recommendation. We shall review the closing month's transactions at our final visit ensuring the accurate disclosure of year-end balances in the Statement of Accounts and AGAR.*

### Review of Corporate Governance

Our objective is to ensure that the Council has robust corporate governance documentation and processes in place, and that, as far as we may reasonably be expected to ascertain (as we do not attend Council or Committee meetings) all meetings are conducted in accordance with the adopted Standing Orders and no actions of a potentially unlawful nature have been or are being considered for implementation. We have: -

- Reviewed the minutes of meetings of the Full Council and its Standing Committees (except Planning), where available, to the end of January 2019 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 with no such issues apparent;
- 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 subsequent year in the absence of Council elections in these years. We understand that the next elections are in 2019; and
- Also noted that both Standing Orders and Financial Regulations had been reviewed by the Policy & Resources Committee and subsequently ratified by Council at their meeting on 15<sup>th</sup> May 2018 (minute 11,2 refers).

### *Conclusions*

*We are pleased to report that no issues have been identified in this area of our review process warranting formal comment or recommendation. We shall continue to monitor the Council's approach to Governance at our final visit.*

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

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Payments are supported by appropriate documentation, either in the form of an original trade invoice or other appropriate form of document confirming the payment as due and/or an acknowledgement of receipt, where no other form of invoice is available;
- Invoices are supported by an official order, where appropriate;
- Alternatively, invoices are supported by quotations and / or a formal tender process, where applicable under the terms of the Council's Financial Regulations;
- Members are provided with, and subsequently authorise, all supplier payments and that appropriate details are recorded in the Council minutes;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct expense codes have been applied to invoices when processed; and
- And VAT has been appropriately identified and coded to the control account for periodic recovery.

We have continued testing in this area, examining a sample of all those payments individually in excess of £2,000, together with a more random sample of approximately every 30<sup>th</sup> cashbook transaction irrespective of value, for the ten months to 31<sup>st</sup> January 2019. Our sample comprised 55 items, totalling £279,717 and representing 80.00% of all

non-salary expenditure to that date. We point out that the high percentage of items tested is due to the expenditure on the Community Centre roof.

We note that the Council holds a debit card which is available for urgent goods, services and internet purchases. We have checked transactions in respect of the debit card as part of the testing process as mentioned above.

We have confirmed that VAT has been appropriately identified and coded to the control account for periodic recovery. We note that the Council has registered for VAT this registration being backdated to 1<sup>st</sup> October 2016. We also note that the Council opted to tax the income from the Community Centre but that, due to a discrepancy in the submission of the appropriate forms to HMR&C, whilst the Council understood that it should charge VAT on hire fees from 18<sup>th</sup> September 2018, the actual date from which it could charge VAT on hire fees was 20<sup>th</sup> November 2018. We understand that an arrangement has been reached with HMR&C regarding the VAT charged for the period 18<sup>th</sup> September 2018 to 20<sup>th</sup> November 2018. We further understand that there may be an issue regarding certain input tax claimed in that period and will review this matter at our final visit.

Finally, we are pleased to note that the Finance Assistant has prepared and submitted to HMR&C the VAT Return for the period to 31<sup>st</sup> December 2018.

### *Conclusions*

*We are pleased to report that no issues have been identified in this area of our review process warranting formal comment or recommendation. We shall extend our test sample for the remainder of the financial year at our final visit, also verifying the accuracy of the VAT Returns submitted by reference to the Edge accounting system.*

## **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 March 2018. We understand that the Register will be reviewed again in March 2019. We remind the Clerk and Members of the Governance and Accountability Manual - Practitioners Guide (2014 edition)" mandatory requirement that risk assessments are reviewed and re-adopted formally by the Council each year;
- Examined the current year's insurance policy schedules to 18<sup>th</sup> August 2019, 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. We note that the Town Hall insurance is provided by Southend Borough Council; and,
- Noted that the Council's skatepark is inspected on a weekly basis by in house staff, records being kept of these inspections and the appropriate action being taken if any

issues arise. We also note that an annual inspection is carried out by a RoSPA accredited independent contractor.

### *Conclusions*

***We are pleased to report that no issues have been identified in this area of our review process warranting formal comment or recommendation. We shall continue to monitor the Council's approach to risk management at future visits and take this opportunity to remind the clerk and Members of the now mandatory requirement (Governance and Accountability Manual – 2014 edition refers) for risk assessments to be subjected to annual review and formal adoption by the full Council.***

## **Budgetary Control and Reserves**

Our objective here is to ensure that the Council has a robust procedure in place for identifying and approving its future budgetary requirements and level of precept to be drawn down from the District Council: also, that an effective reporting and monitoring process is in place. We also aim to ensure that the Council retains appropriate funds in general and earmarked reserves to finance its ongoing spending plans, whilst retaining appropriate sums to cover any unplanned expenditure that might arise.

We are pleased to note at our second visit that a detailed budget exercise was undertaken and approved by Council at its meeting on 22<sup>nd</sup> January 2019 and have further noted that the precept has been agreed by Council at the same meeting at £421,625 (Minute 92 refers).

We are also pleased to note 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 further note that Earmarked Reserves were agreed at the previous year end and that no Earmarked Reserves have been moved to General Reserves in the year to date. We do note however that it is intended to transfer £5,860 from the Allotment Infrastructure Earmarked Reserves to cover the cost of tree works on the allotments (Council minute 11b refers) and it is also intended to transfer £3,064 from the Salaries Earmarked Reserves to cover the extra cost incurred through the National Pay Awards (Council minute 11d refers).

### *Conclusions*

***We are pleased to report that no issues have been identified in this area of our review process warranting formal comment or recommendation; we consider that appropriate resources are in place to finance the ongoing revenue spending and future development aspirations of the Council.***

## **Review of Income**

In this review area, we aim to ensure that the Council has appropriate procedures in place to ensure that all income due is identified, invoiced (where appropriate), recovered and banked in a timely manner.

In addition to the Precept, the Council's principal source of income is the Town Hall Community Centre, supplemented by allotment rentals, monthly farmers' market pitch fees, community transport ticket sales and activities such as Christmas Lights and other events.

Consequently: -

- We have noted that, at their meeting on 27<sup>th</sup> June 2017, The Environmental and Leisure Committee recommended that an annual percentage increase of 4% be applied year on year as standard until the allotment budget breaks even (minute 11 refers). This was subsequently approved by Council and would take effect from 1<sup>st</sup> October 2018. It was further agreed that only the water charges would need to be reviewed on an annual basis;
- We have further noted that Council agreed at their meeting on 17<sup>th</sup> July 2018 (minute 46 refers) that hire charges in respect of the Town Hall Community Centre are not increased except for 3 categories in 2019/20 and remain the same for 2020/21 but that VAT should be passed on to hirers with immediate effect from becoming VAT registered. We have previously noted in this report the situation regarding VAT;
- We also note that the bookings and receipting processes for the Town Hall Community Centre continues to utilise the bespoke Edge software; we have at our first visit tested a sample of sales ledger invoices for the Town Hall Community Centre bookings by reference to a sample of the bookings diary, being approximately 85 items in the week commencing 3<sup>rd</sup> September 2018, to ensure that each entry had been invoiced, that the fees charged were in accord with the approved scale of fees and that payments had been received in a timely manner; and,
- We have also at our first visit tested a sample of the Finance Officer's banking control sheets in September 2017 to cashbook postings and bank statement entries; we are pleased to note that funds are deposited with the bank in a timely manner.
- We have, at our second visit checked the allotment income for the year commencing 1<sup>st</sup> October 2018 with the record of allotment holders with no issues arising

We are pleased to note that allotment tenancies are reviewed on a regular basis with available allotments being offered to prospective tenants on the waiting list.

### **Conclusions**

*We are pleased to report that no issues have been identified in this area of our review process warranting formal comment or recommendation; time allowing, we shall undertake further testing as considered necessary at our final visit.*

## **Petty Cash Account and Debit Card Usage**

The Council operates a limited petty cash account which is periodically topped up as and when required; at the time of this interim visit just one re-imburement cheque in the amount of £120 had been required in the first six months of the year.

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 for the month of September 2018 and are pleased to report that all expenditure items were properly supported by till receipts or supplier invoices and correctly entered in the ledgers.

### ***Conclusions***

***We are pleased to report that no issues have been identified in this area of our review process warranting formal comment or 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 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 2018-19;
- Noted that a payroll bureau provider, James Todd, was engaged to provide the service in the year under review;
- 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 2018;
- 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 2018, 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 HMR&C and Essex Pension Fund 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 issues have been identified in this area of our review process warranting formal comment or recommendation.***

## **Asset Registers**



The Governance and Accountability Manual requires all Councils to maintain a record of all assets owned.

We have noted that the Clerk continues to maintain an asset register and that this will be updated at the year end.

### *Conclusions*

*We are pleased to report that no matters have been identified in this area of our review process warranting formal comment or recommendation; we shall review this area at our final visit ensuring that the correct figure of Fixed Assets is reported in the AGAR.*

## **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 and, as noted earlier in this report, we have checked and agreed all movement on this account for the nine months to 31<sup>st</sup> December 2018 and also verified the Edge cashbook balance to their statements as at the same date.

We are pleased to note that that, following a recommendation from the Resources and Policy Committee, Council approved an Investment Policy at their meeting on 15<sup>th</sup> May 2018 (minute 11.d refers).

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

### *Conclusions*

*We are pleased to report that no matters have been identified in this area of our review process warranting formal comment or recommendation.*