
Leigh-On-Sea Town Council

Internal Audit Report 2014-15 (Final Update)

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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 final update visit to the Council, which took place on 26th and 27th March 2015, and supplements the initial work undertaken by our previous colleague in November 2014. We have agreed with the Town Clerk that any further work to verify the closing Statements of Accounts and Annual Return disclosures will be undertaken “remotely” at our offices, without further charge, following the conclusion of the exercise for the year.

Internal Audit Approach

In continuing our review for 2014-15, 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 that warrant formal recommendation: any minor matters arising having been discussed and agreed with the Clerk during the course of our visits. Consequently, no appended Action Plan is considered necessary.

We have, both on the basis of work undertaken to date and in anticipation of identifying no errors in the year’s financial detail to be reported at Section 1 of the Return duly signed off the Internal Audit Certificate at Section 4 assigning positive assurances in each relevant area.

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 the sample months of July 2014 and February 2015;
- 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 31st July 2014 and 20th February 2015.

Conclusions

No issues requiring formal recommendation have arisen in this area with no long-standing, unrepresented items of any note. We shall ensure the accurate disclosure of year-end balances in the Accounts and Annual Return once the appropriate documentation has been provided for our examination following the year-end closedown.

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. 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;
- We note that both Standing Orders and Financial Regulations have 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 also note that formal tender limits have been established at £30,000, which we consider to be sound for a Council of this size; and
- We are pleased to note that the Clerk, in conjunction with the Governance and Audit Working Party, has developed an appropriate formal template of internal control measures and that the results of such a review for 2014-15 have been duly considered and approved prior to the current year-end closedown.

Conclusions

No further issues of significance have arisen in this area: we shall consider the outcome of the discussions on the future direction of the Centre Café at an interim visit in 2015-16.

Review of Purchasing and Payment Procedures

We have selected a sample of supplier payments made during the financial year to mid-March 2015, examining all those individually in excess of £1,500 together with a more random sample of every 20th payment, irrespective of value. Our test sample comprises approximately 70 payments in all, totalling just under £134,000 and representing 59% 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 with all the above criteria duly met: one minor query regarding the use of the Imprest account was previously raised during our first interim visit and further enquiries at this final visit have confirmed that all was in order, with two separate invoices being paid jointly and the equipment concerned physically identified. Consequently, no further comment is considered necessary.

We note 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 2012-13 and 2014-14 have been duly settled as part of the submission of the bi-annual recovery claim for the year to September 2014. We note that there continues to be no requirement for formal registration.

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 Finance & General Purposes Committee and, by approval of minutes, Full Council in May 2014. We are verbally advised by the Clerk that the registers will be reconsidered at the forthcoming Governance and Audit meeting prior to formal approval by Full Council for the purposes of the Annual Return; and
- Examined the current year's insurance schedules, 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 stands at £140,000.

Conclusions

No issues have been identified warranting formal comment or recommendation in this area.

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 for 2015-16 with the Precept formally approved and adopted at £361,964, excluding the reduced “support grant” of £19,750, by Full Council at their extraordinary meeting on 28th January 2015;
- 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 2013-14 that several specific Earmarked Reserves were established with subsequent minutes indicating occasional virement and will consider the extent of any adjustments to those balances as part of our final “remote” audit review.

Conclusions

No matters arise 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 2015-16 having been formally considered by the re-vamped Community Committee at their meeting in early March 2015;
- We have, as noted earlier in this report, verified all receipts transactions from Edge transaction ledgers to relevant bank statements for two 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; and

- We have tested a sample of sales ledger invoices for Community Centre bookings (randomly all those alphabetically “A” and “V” for February 2015) to ensure that each activity was charged in accord with the relevant scale for the particular time of the day / day of the week.

Conclusions

No issues have arisen from work completed in this area to warrant formal recommendation.

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 2014-15.

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 two sample months (December 2014 and January 2015) 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 1st April 2014, as regards employee contribution bandings, the inclusion of overtime as pensionable pay and actual salary rates forming the basis for banding determination instead of WTEs. 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 and this remains the case in 2014-15;

- 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 July 2014;
- 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 2014, are being applied where applicable;
- Checked and agreed the net payments to staff from copy payslips to the cashbooks;
- 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; and
- Noted from our examination of minutes that the Council has formally adopted an appropriate Discretions Policy in accord with the revised LGPS 2014 regulations.

Conclusions

We are pleased to report that no errors or omissions 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, following the migration to the Community Centre, in both 2012-13 and 2013-14.

We shall, once relevant documentation has been provided, ensure that, in accord with the revised Practitioners' guidance in this area, the asset values have not been subject to either depreciation or "insurance policy inflation" and verify the overall value therein to the disclosure at Box 9, Section 1 of the Annual Return.

Conclusions

We do not anticipate any problems arising in this area during our "remote" review, but should any issues arise, they will be discussed with the clerk and included in any addendum to be issued to this report.

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 2013-14, the Council has one specific investment, namely a holding in the CCLA / Public Sector Deposit Fund. Currently, this holding amounts to just under £300,000: we have checked and agreed the balance as at 31st December 2014 from the Edge cashbook to their third party statement (these are only issued quarterly - hence March 2015 was not available at the time of this update visit), 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.

Statement of Accounts and Annual Return

We shall verify 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 once the year-end closedown has occurred and relevant documentation been provided for our “remote” review, as agreed with the clerk during this update visit. We shall similarly verify the transfer of the summarised results and prior year’s comparators to the Annual Return at Section 1.

Conclusions

We shall report any further conclusion sin this area as an addendum to this report once work we have received and reviewed the relevant documentation to be provided in due course following completion of the year-end closedown process.

Notwithstanding this and based on the satisfactory conclusions drawn from work completed this year, we have signed off the Internal Audit Certificate at Section 4 of the Annual Return assigning positive assurances in each relevant area.