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

*Internal Audit Report 2019-20 (Interim Update)*

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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, 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 2019-20 financial year, during the course of our two interim visits to the Council, which took place on 27<sup>th</sup> November 2019 and 19<sup>th</sup> February 2020.

## **Internal Audit Approach**

In undertaking our review for the year, 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. As mentioned in our previous report, 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 during our two visits to date this year, the Council has once 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 Assistant Responsible Financial Officer and thank them both for their assistance, which has again ensured the smooth progress of our review process.

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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. The Council operates four bank accounts with HSBC Bank and also holds an account with the Public Sector Deposit Fund. We have: -

- As mentioned in our previous report, checked and agreed the opening balance detail for 2019-20 to the closing Trial Balance and certified AGAR for 2018-19;
- Also 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 July and October 2019 and for the month of February 2020 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 July and October 2019 and for the month of January 2020 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 months of July and October 2019 and for the month of January 2020;
- 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> July, 31<sup>st</sup> October 2019 and 31<sup>st</sup> January 2020 on all five accounts with no matters arising; and,
- Ensured that no long outstanding unrepresented cheques or other anomalous entries exist.

We are pleased to note that regular back-ups of the system are made offsite by the Council's IT provider. We suggest that consideration be given to effecting a "restore" in the near future.

#### *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 at least one further month's transactions at a further visit also 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: -

- Continued our review of the the minutes of meetings of the Full Council and its Standing Committees (except Planning), where available, to the end of January 2020 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 following the Local Authority elections in May 2019 the Council re-adopted the General Power of Competence at their meeting on 14<sup>th</sup> May 2019 (minute 18 refers); and
- Also noted that both Standing Orders and Financial Regulations had been reviewed by the Policy & Resources Committee on 30<sup>th</sup> April 2019 and subsequently ratified by Council at their meeting on 14<sup>th</sup> May 2019 (minute 13.e refers). We remind the Clerk and Members that NALC have recently issued new model Financial Regulations and understand that the Clerk intends to review both Standing Orders and Financial Regulations in May 2020 to ensure that they incorporate any requirements of the newly issued documents.

### *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 future visits.*

## 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, where appropriate, are supported by an official order;
- 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,
- 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 2020. Our sample comprised 61 items, totalling £137,176 and representing 61.2% of all non-salary expenditure to that date with no issues arising.

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 have previously noted that the Council has registered the Town Hall for VAT this registration being backdated to 1<sup>st</sup> October 2016. We are pleased to note that VAT Returns have been submitted for the quarters to 30<sup>th</sup> June, 30<sup>th</sup> September and 31<sup>st</sup> December 2019. We have previously noted however that the accounting software suppliers had not completed their update of the system to comply with the requirements of “making VAT Digital” and had to provide a bridge between their system and HMRC to enable the VAT Return for the quarter to 30<sup>th</sup> September and 31<sup>st</sup> December 2019 to be submitted. We understand that they are continuing to work on updating their system.

### ***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 at our next 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 2019. We understand that the Register will be reviewed again in March 2020. 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 2020, cover being provided by Zurich Insurance, noting that Employer’s and Public Liability cover stands at £10 million and £15 million respectively and that Fidelity Guarantee cover stands at £1 million. Loss of Revenue cover stands at £255,000. We also note that the Town Hall insurance is provided by Southend Borough Council; and,
- Noted that the Council’s skatepark continues to be 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 21<sup>st</sup> January 2020 and have further noted that the precept has been agreed by Council at the same meeting at £447,392.24 (Minute 112 refers).

We are pleased to note again 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 £2,500 has been vired from the Volunteer EMR to the Youth Club budget in the period under review.

### *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. We shall continue our review in this area at our final visit to ensure that closing levels of Reserves are fit for purpose for a Council of this size.*

## **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 18<sup>th</sup> June 2019, the Community and Culture Committee approved allotment fees for the ensuing year (minute 11 refers);
- We have further noted that Council agreed at their meeting on 17<sup>th</sup> July 2018 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 (minute 46 refers);
- We also note that the bookings and receipting processes for the Town Hall Community Centre continues to utilise the bespoke Edge software; we have tested a sample of sales ledger invoices for the Town Hall Community Centre bookings by reference to a sample of the bookings diary for the week commencing 5<sup>th</sup> August 2019, 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;
- We have also tested a sample of the Finance Officer's banking control sheets in September 2019 to cashbook postings and bank statement entries; we are pleased to note that funds are deposited with the bank in a timely manner; and
- We have at our second visit reviewed the allotment income for the allotment year commencing 1<sup>st</sup> October 2019 checking the issue of invoices against monies received and banked for over 20% of the allotment plots with no issues arising.

We have previously noted that the Manchester Drive Allotment Society collect all rents from the allotment holders on that side of their site at Manchester Drive allotments and then send the appropriate funds to the Council after deducting a commission. We understand that this commission is currently £900.00 per annum. Although we have not included this in our periodic reports we have been concerned that there has not been an audit trail for us to follow in respect of this income from a Council Asset.

We have further noted that the contracts in respect of this site are between the allotment holders and the Council and are concerned at the lack of control that the Council have in respect of allotments for which they are legally responsible.

We understand that the Council intend to install the Edge Allotment Software which will be integrated with the Edge Accounting System and this being the case we suggest that this is an appropriate time to bring the allotments at this site back under the control of the Council.

Therefore, we strongly recommend that collection of income in respect of the allotment site currently administered by the Manchester Drive Allotment Society revert to the control of the Council as from 1st October 2020.

### ***Conclusions and Recommendations***

***We recommend that the collection of income in respect of the allotment site currently administered by the Manchester Drive Allotment Society revert to the control of the Council as from 1st October 2020.***

*R1. The collection of income in respect of the allotment site currently administered by the Manchester Drive Allotment Society revert to the control of the Council as from 1st October 2020.*

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

The Council operates a limited petty cash account which is periodically topped up as and when 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, at our first visit, tested a sample of payment transactions for the month of August 2019 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. We shall review this area again at our final visit.***

## **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 2019 - 2020;
- 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 August 2019;
- 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 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 the cashbooks.

### ***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.

We also noted at our first visit that the Facilities Manager was undertaking a review of all Assets held by the Council and it was intended that the findings of this review would be incorporated in the year end Asset Register. We now understand that this review has been completed and the Assistant Responsible Financial Officer is in the process of updating this information.

We understand that, currently, the Council does not have a “de minimus” figure in respect of the value of assets to be added to the Register. We suggest again that Council should give consideration to this and possibly introduce a “de minimus” level of £500

### ***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 movement on this account for the months of July and October 2019 and for the month of January 2020 also verifying 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). We understand that this Investment Policy will be formally reviewed in May 2022. We also understand that the Clerk continues to keep a watching brief on statutory and economic factors and will be preparing an interim report in March 2020. Finally, we understand that the Clerk is investigating the CCLA Property Fund.

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.***

Rec. No.	Recommendation	Response
<b>Review of Income</b>		
R1	The collection of income in respect of the allotment site currently administered by the Manchester Drive Allotment Society revert to the control of the Council as from 1st October 2020.	