
Leigh-On-Sea Town Council

Internal Audit Report 2019-20 (Interim)

Prepared by John Watson

*For and on behalf of
Auditing Solutions Limited*

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 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 first interim visit to the Council, which took place on 27th November 2019.

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. 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 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 Finance Assistant 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: -

- Checked and agreed the opening balance detail for 2019-20 to the closing Trial Balance and certified AGAR for 2018-19;
- 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 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 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;
- 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 31st July and 31st October 2019 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 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: -

- Reviewed the minutes of meetings of the Full Council and its Standing Committees (except Planning), where available, to the end of September 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 following the Local Authority elections in May 2019 the Council re-adopted the General Power of Competence at their meeting on 14th May 2019 (minute 18 refers); and
- Also previously 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 15th May 2018 (minute 11.2 refers). We remind the Clerk and Members that NALC have recently issued new model Financial Regulations and suggest that Council review their current Financial Regulations 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 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 commenced 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 30th cashbook transaction irrespective of value, for the six months to 30th September 2019. Our sample comprised 45 items, totalling £67,011 and representing 64.4% 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 1st October 2016. We are pleased to note that VAT Returns have been submitted for the quarters to 30th June and 30th September 2019. We do note 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 HMR&C to enable the VAT Return for the quarter to 30th September 2019 to be submitted. We understand that they are working 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 18th 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 note that, at the time of our visit, Council had not yet commenced its budget and precept calculations for 2020-21. We shall at our next visit review the work undertaken in this regard.

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

Conclusions

The Council had not formally considered its budget and precept requirements for 2019-20 at the time of our interim visit: consequently, we shall consider this area at our next visit to ensure that a proper and appropriate exercise has been undertaken and 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 18th 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 17th 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 5th 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; and,
- 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.

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 undertake further testing as considered necessary at our next 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. Four top up cheques have been issued in the year to date.

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 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.

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 2019-20;
- 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 further note that the Facilities Manager is currently undertaking a review of all Assets held by the Council and it is intended that the findings of this review will be incorporated in the year end Asset Register.

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 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 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 15th 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 keeps 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.