



# SDH Accounting

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Dear Sharon,

## **RE : INTERIM REPORT ON INTERNAL AUDIT VISITS 2015-16**

The audit visits in March concentrated on the following areas:

Follow up of previous Internal Audit report and External Report, Payments, Risk Assessment, Receipts, Budget & Precept setting, Payroll, Allowances & Pensions, Bank Reconciliations & Treasury Management.

The summary findings below have been cross referenced back to the earlier report provided during the year and supports the Auditor's conclusion that:

**The standard of administration and system of internal controls relating to the audit areas examined was considered to be of a good standard.**

**Summary of Findings as cross referenced to the headings ofn page 5 of the Annual Return:**

- A. Appropriate accounting records have been properly kept properly throughout the year.  
The audit visits carried out in March support that the Council's accounting system RBS (Omega) has been maintained regularly throughout the year and can be relied upon.

Data input has been carried out by staff with bank reconciliations being the responsibility of the Clerk & RFO; which introduces a segregation of duties which is encouraged within a small office.

- B. The Council's financial regulations have been met, payments were supported by invoices/vouchers, and all expenditure was approved and VAT was appropriately accounted for.  
Based on sample testing carried out on 15 invoice payments; I can report that this internal control objective has been met. Invoices examined bear evidence of having been checked by the RFO and two councillors. Some are cross referenced to orders and Council minutes particularly where the payment is significant or out of the ordinary.

Individual payment transactions are not included within the Council Minutes; however in 2015 a separate listing meeting Transparency legislation was published on the Council's website.

#### Best Value

It was noted that quotes were not sought for anchor bolt testing or the CCTV repair work (both substantial costs) this is contrary to Council policy; however the omission has been explained as special circumstances arose where there was a need to place the orders urgently. Quotes are currently being obtained by the Clerk for the street light maintenance contract which supports best value.

C. The council assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.

An annual review of the Council's significant risks has been carried out and presented to Finance & Resources Committee on 23/2/2016. This included:

- A comprehensive Internal Financial Risk and H & S Evaluation.
- Asset Management Plan 2015-17
- Forward Plan 2015-17
- Action Plan

Council Policies were routinely re-examined and renewed at the Annual Parish Council meeting in May 2015.

The Council has an Audit Plan; which forms part of its on going internal control framework however as the Internal Auditor was not appointed by Council until March 2016 the plan has not been adhered to and time constraints do not allow for examination of areas such as:

- Property Management – Risk Management;
- Markets- Health & Safety;
- Outdoor Amenities - Financial Management;
- Policies....as outlined in the Audit Plan.

**There is a need for the Town Council to monitor its mechanism of internal controls on an ongoing basis to ensure compliance.**

D. The annual precept requirement resulted from an adequate budgetary process; and spend against the budget was found to be monitored by the council.

#### **Budget Monitoring:**

A RBS Budget Monitoring report (dated 14/3/2016) was examined in some detail given the previous internal auditor's concerns. It highlighted the following variances:

CC Heading	Budget		Actual Year to Date		Variance
	Receipts	Payments	Receipts	Payments	
105 Admin	178,109		178,621		512
105 Admin		109,997		106,263	3,734
107 General Power of Competence		2,000		2,550	-550

110 Civic Events		2,450		1,617	833	
111 Public Toilets - Rates		0		749	-749	
112 Public Toilets - Rates		0		1,546	-1,546	
201 Environmental Services-Grant	0		1,720		1,720	
201 Environmental Services		33,096		26,434	6,662	
205 Town Promotion		10,100		4,968	5,132	
301 Corn Exchange	12,500		15,084		2,584	
301 Corn Exchange		20,376		9,234	11,142	
302 Guildhall	10,470		11,107		637	
302 Guildhall		14,328		17,244	-2,916	CTV
<b>GRAND TOTALS- Receipts</b>	215,159		235,030		19,871	CTV, Highways Other receipts
<b>GRAND TOTALS - Payments</b>		214,570	192,920		21,650	

Miss postings within the accounts cloud the clarity of the report; i.e. overspends against budget in one area are compensated by underspends in another e.g. Toilet council rates illustrate this point, as they are unbudgeted for in CC111 and 112 however underspends in Environmental Services CC201 where they are budgeted for nets this out.

Overall given that further expenditure has yet to be processed and input to the accounts; the report supports that overall receipts and payments are within the Council's budget for 2015/16. I would recommend that more care is taken to ensure miss postings errors are minimised. This relates to both the budget and actual entries.

**The accounts are currently overcomplicated and as a result difficult to understand. I would recommend the reduction of budget headings to improve clarity. This will hopefully reduce posting errors too.**

The Council is provided with a monthly budget monitoring report as part of its monthly Finance pack.

**Precept Setting** – The Town Council agreed a precept of £180,307 at its January full council meeting; a 1.57% increase on the previous year.

It is good practice to not only prepare a Budget schedule showing previous year's budgets but also expected receipts and payments in the current year so that the accuracy of budgetary information can be determined i.e. under/over spends and a forecasted closing balance for 2015/16 determined. This was not evident in the schedule presented. Consideration should be given to introducing this in future summaries. (Guidance is given in the Practitioners Guide.)

In conclusion the 2016-17 budget and precept for 2016-17 was appropriately set given the information available to the Council at the time.

### **Long Term Strategic Budget**

Given the size of the Council and its plans for the future there is a need to introduce a longer term budget forecast (2-3 years). Such Strategic budgets are also intended to reflect the long term plans of the Council which have been itemised in the Council's Forward Plan 2015-2017 and Asset Management Plan 2015-17.

**It is imperative that the Council introduces a long term financial forecast (3 years) which is linked to the long term revenue and capital plans for the Council and its community. The business plan will steer the Council and provide continuity in delivering community services.**

- E Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.

Based on sample testing carried out relating to 15 individual receipts comprising of burial fees, stall income and Guildhall receipts I can report that this internal control objective has been met.

The audit trail enabled me to trace receipts from the bank statement to source records and vice versa. **However the continued use of a wooden donations box at the Guildhall which can only be opened with a screw driver, is somewhat archaic a H & S risk and requires resolving.** A till is now employed and stock takes carried out of merchandise; which are Council assets in terms of stock.

- F Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.  
*As yet not examined.*

- G Salaries to employees and allowances to members were paid in accordance with council approvals, and PAYE and NI requirements were properly applied.
- i. A sample (12) of individual monthly payments made to staff were examined and found to be accurate. It was noted that the consolidated payroll award was processed in May 2015, (a little late), monthly payroll and the award was recalculated and agreed for 3 members of staff.
  - ii. RTI Year end cumulative reports were examined for staff members and found to be reasonable 4 members of staff cumulative gross pay, tax balances were agreed to payslips produced and on which authorisation for payment by the Council is based. The RFO checks all pay slips prior to them being presented to Council. Good internal controls are set up given the limitations of a small office, however out sourcing Payroll Processing could lead to improved controls in that no member of staff would process their own pay. At the time of the audit visit RTI had not been migrated to 2016/17.
  - iii. Payroll is paid by bank transfer each month usually following Council authorisation, two members of the Council are responsible for actually

authorising the payments which are set up on the bank account by the assistant to the Clerk. **More councillors need to have this bank authority.**

- iv. As payroll represents a significant percentage of total costs, the audit was devoted to assessing any system weaknesses given that issues have arisen in Pension contribution shortfalls in 2014/15. The system in operation appears sound, however there is a tendency to complete a lot of independent spreadsheets. **There is a need to ensure RTI reports are used in preference to these or that the spreadsheets are checked back to the RTI report. RTI software is at full capacity given the number of staff on payroll.**
- v. Council has at its January meeting authorised increases to hourly pay rates to ensure legislation is adhered to regarding new minimum pay rates. Two members of staffs pay for 2016/17 have yet to be approved. (Clerk & Assistant to the Clerk)
- vi. **Mayor's Allowance and Mayor's Charity**  
During the year the Mayor's allowance has been paid in 3 instalments (Total £900); however this has not been processed via RTI Payroll and no written statement has been received which confirms that the Mayor will be declaring the income to HMRC. As a result the Council may be liable for any tax due. (Please also note no receipts covering this expenditure have been provided by the Mayor.)

During the year income relating to this Charity has been accounted for within the Town Council's account and bank account; which is incorrect.

**It is recommended that:**

- a. **Consideration be given to processing the Mayor's allowance via the Payroll in future OR**
  - b. **Written confirmation is sought from the Mayor that they will declare the income via their annual self-assessment return to HMRC.**
  - c. **A separate bank account is set up for the Mayor's Charity, as this is an activity which is quite separate from that of the Town Council.**
- vii. A letter dated 4/3/2016 from HMRC states that an overpayment had arisen £1,371.33, this is believed to relate to wrong counterfoils having been used when making payments during the year. For instance £1,506.57 was made on 1/4/15 which relates to the previous year 2014/15 but made on a 2015/16 counterfoil. The assistant to the Clerk has written to HMRC about the matter and itemised all payments relating to HMRC to date for 2015/16.

**Care must be taken that the correct PAYE banking counterfoil is used in the future and that this matter is resolved.**

- vii. Shropshire County Pension Fund monthly returns have been processed whilst work is currently being carried out on the year end returns required by SCPF (Lgs121a and Lgs121b). The RFO is in the process of completing auto enrolment of Pensions; as the Council's staging date was January 2016. This is commended.

H Asset and investments registers were complete and accurate and properly maintained.

These have yet to be examined by the auditor.

I Periodic bank reconciliations were properly carried out.

A sample of monthly bank reconciliations have been examined and in one instance re-performed during the audit. Although minuted that councillors examine the bank reconciliation it would be prudent for one of the councillors to evidence the check performed on both the bank statement and bank reconciliation.

Treasury Management - An examination of bank account balances supported that there is a danger of the Council exceeding its FRCS limit. This can be avoided and possibly a better rate of interest secured by opening a separate deposit account.

J MINUTES & AGENDAS – A sample of minutes and agendas were examined and found to comply with Standing Orders and signed as accurate.

K Trust Funds for which the Council acts as trustee – The Clerk gave assurances that these accounts had yet to be brought up to date on the Charity Commissions website. I believe their year ends are 31/12/2015.

L VAT Reclaims – Not examined during the audit.

As part of the audit the Council's website was examined and found to up to date and in line with the Transparency Code requirements.

Should the Council wish I will revisit to complete the audit, by arrangement with the Clerk.

I would like to thank Sharon and her staff for the assistance given during the audit visits. Should you or Council members have any queries concerning this audit report please do not hesitate to get in touch.

Regards,

*Sue Hackett*

SDH Accounting Services