

**INTERNAL AUDIT REPORT - Interim
WEM TOWN COUNCIL – 2017/2018**

The internal audit of Wem Town Council is carried out by undertaking the following tests as specified on the Annual Return for Local Councils in England:

- Checking that books of account have been properly kept throughout the year
- Checking a sample of payments to ensure that the Council's financial regulations have been met, payments are supported by invoices, expenditure is approved, and VAT is correctly accounted for
- Reviewing the Council's risk assessment and ensuring that adequate arrangements are in place to manage all identified risks
- Verifying that the annual precept request is the result of a proper budgetary process; that budget progress has been regularly monitored and that the council's reserves are appropriate
- Checking income records to ensure that the correct price has been charged, income has been received, recorded and promptly banked and VAT is correctly accounted for
- Reviewing petty cash records to ensure payments are supported by receipts, expenditure is approved and VAT is correctly accounted for
- Checking that salaries to employees have been paid in accordance with Council approvals and that PAYE and NI requirements have been properly applied
- Checking the accuracy of the asset and investments registers
- Testing the accuracy and timeliness of periodic and year-end bank account reconciliation(s)
- Year end testing on the accuracy and completeness of the financial statements

Conclusion

On the basis of the internal audit work carried out, which was limited to the tests indicated above, in our view the council's system of internal controls is in place, adequate for the purpose intended and effective, subject to the recommendations reported in the action plan overleaf.

We will follow up all recommendations included in the action plan in the next financial year.

JDH Business Services Limited

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ACTION PLAN

	ISSUE	RECOMMENDATION	FOLLOW UP
1	The Town Council minutes are loose-leaf and have been signed by the Chair when approved, however since July, they have not been initialled on each page.	<i>Loose-leaf minutes should be initialled on each page by the Chair when approved by Council. The minutes should be initialled retrospectively.</i>	
2	A review of toilet income records found a difference between the amount recorded in the collection book for the Men’s toilet on 15/11/17 and the amount collected (difference of £53), however the footfall number in the collection book corresponds more with the actual income collected and it appears that the amount in the collection book has been entered in error.	<i>Discrepancies between the amounts stated in the collection book and the amount banked should be investigated when the toilet income spreadsheet is updated.</i>	
3	A review of the burial income system found that although we were able to follow the audit trail, the description used in the RBS ledger entries did not use identifying information such as receipt number or plot number.	<i>The audit trail could be improved by identifying receipt numbers or plot numbers when entering information into the ledger.</i>	
4	Data Protection Law will change significantly on May 25 th 2018 due to the 2016 EU Directive General Data Protection Regulation (GDPR) taking effect. GDPR replaces the 1998 Data Protection Act and it will impose new obligations on Data Controllers and Data Processors and provides enhanced rights for individuals. Compliance with GDPR could have resource implications for local councils.	<i>The impact of GDPR on the council should be identified through review of ICO and NALC guidance and the Data Protection policy, risk assessment and internal controls should be updated accordingly</i>	

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2016/17 audit recommendations			
1	The Town Council minutes are loose-leaf and have been signed by the Chair when approved, however they have not been initialled on each page.	<i>Loose-leaf minutes should be initialled on each page by the Chair when approved by Council</i>	See 2017/18 issue 1
2	The VAT return for the quarter ending 31/3/17 shows a balance due from HMRC of £5447.83. The accounts show a VAT debtor of £5371.51.	<i>The Clerk has informed us that an adjustment will be made to the next quarter VAT return for the amount that has been overclaimed. This will be followed up in 17/18.</i>	To be followed up at year end
2016/17 interim audit recommendations			
1	A review of the insurance identified that the Council are insured for holding up to £250 in the office as they do not have a safe. However, the cash handling and banking procedures detail banking requirements for cash in excess of £250 (and in excess of £1000).	<i>If the council considers that in future the level of £250 will be exceeded, then the level of insurance cover should be reviewed. If the level of insurance cover is to remain at £250, then the cash handling and banking procedures should state that the Council should not store more than £250 in cash in the office.</i>	Cash handling policy amended
2	<u>Online payments</u> Internal controls require two members to check the details from the invoice showing bank number and sort code to the details in online banking and sign the invoice to show they have been checked. All testing was satisfactory except for the following: 29/9/16 BACS9 Street lighting energy, total invoice £3396.30. The invoice was signed by 2 signatories but the bank payment details were initialled as checked by only one signatory.	<i>Internal controls over online payments should be followed for all payments</i>	Implemented

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3	<p><u>Cash Collection internal controls</u></p> <p>Procedures require that income from the toilets must be collected by 2 members of staff and data from machine relating to income held in bag and footfall to be recorded. Both staff members sign book recording income collection information.</p> <p>Audit testing identified that the amount collected for Ladies and Gents (as recorded on the machine) is recorded in a collection book along with the footfall. This is then signed by the two members of staff as evidence that the amount is correctly recorded. Review of the book found that it had been signed for 8/9/16 and 19/9/16 but not for the 28/9/16 and 7/10/16.</p>	<p><i>The cash collection book should be signed by 2 staff members on every occasion it is updated as evidence that the cash collected has been completely and accurately recorded.</i></p>	Implemented
4	<p><u>Financial Regulations – procurement procedures</u></p> <p>Section 11. 1. i.) Should clarify that where the lowest tender is not accepted reason(s) will be provided in the minutes (to evidence transparency of decision making)</p> <p>Currently the Financial Regulations state a formal tender process is required for contracts over £25,000 which is inconsistent with the Standing Orders which state that a formal tender process is required for contracts over £60,000.</p>	<p><i>Financial Regulations should be updated as recommended.</i></p> <p><i>The Financial Regulations and Standing Orders should be reviewed to ensure that they are consistent with each other.</i></p>	Implemented
5	<p>There is currently no document retention policy and</p>	<p><i>The council should establish a document retention policy</i></p>	Implemented

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	schedule of deadlines for retaining difference categories of document	<i>and schedule of deadlines for retaining difference categories of document. A policy and schedule we consider good practice has been emailed to the clerk for guidance.</i>	
6	The Freedom of Information, Complaints and Data Protection policies had not been adopted by Council at the time of the interim audit.	<i>The draft Freedom of Information, Complaints and Data Protection policies should be reviewed and, if considered satisfactory, adopted by Council.</i>	Implemented
7	See 2015/16 audit issue 3.). There is no reserves strategy policy in place.	<i>A town council reserves strategy we consider to be good practice has been emailed to the clerk for guidance</i>	Implemented
2015/16 audit recommendations			
1	The financial regulations state that for contracts over £3000, three quotations are obtained. Testing of a sample of payments found that for two contracts in the year that were above this de-minimus level, three quotations had not been obtained. This was for valid reasons (e.g. urgent repair, only one quotation received), however the reasons were not stated within the minutes.	<i>Explanations as to why quotations had not been obtained should be reported within the minutes to ensure that decision making is transparent.</i>	See also 2016/17 interim audit 4.) above
2	The Council have purchased the following which have not been added to the asset register: CCTV equipment £9766 Fire alarm system £19193	<i>The annual return and asset register should be updated for additions and disposals in year. If the CCTV equipment is to replace the CCTV equipment currently listed in the asset register, this should be removed and listed at the cost of purchase in 15/16.</i>	To be followed up at year end
3	There is no formal reserves policy in place that establishes the level of general reserves the council	<i>It would be good practice for the Council to have a formal reserves policy.</i>	See 2016/17 interim audit issue 7.)

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	<p>should aim to carry forward year on year.</p> <p>There is no statutory requirement for the minimum level of council reserves. However, there is sector guidance that states between 3 months and 1 year of net revenue expenditure (ie excluding precept income) is a satisfactory level – see NALC guidance below:</p> <p>“.....any prudent council will carry forward some Un-earmarked General Revenue Reserves to meet the unexpected and to use for working capital until the Income due from the Billing Authority is received. These final balances are held to some extent by all councils and should fall within a range of 3 to 12 months net revenue expenditure. Thus the total value of Balances and Reserves is set by the individual circumstances, and by a formal decision, of the Council.”</p>		above
Follow up of 2014/15 audit recommendations			
1	<p>Review of the asset register found the following:</p> <ul style="list-style-type: none"> - A bus shelter has been added to the asset register in 2014/15 at a value of £4000. This was not the actual cost to the Council as it was purchased by Shropshire Council and given to the Council. The Practitioners guide states the following: <p style="text-align: center;"><i>In the special case where a local council receives an asset as a gift at zero cost, for example by</i></p> 	<p><i>The bus shelter should be entered in the asset register at the value of £1.</i></p>	Listed in the asset register but valuation of £4000 now removed.

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	<p><i>transfer from a principal authority under a community asset transfer scheme, the asset should be included in the asset register at cost. However, it is strongly recommended to ensure that such assets are always disclosed in Section1, Box 9 of the annual return councils should assign a nominal one pound (£1) value as a proxy for the zero cost.</i></p> <ul style="list-style-type: none"> - Play equipment has been added to the asset register at a value of £18000. It is unclear from the asset register what equipment this relates to as items not added individually. The total invoice from Ray Parry was for £20275 (+VAT). - The asset register groups together assets and doesn't state the individual valuation. Information about the addition of assets is provided in the note to the accounts. 	<p><i>It would be good practice to provide more detail within the asset register. Each asset should be listed individually with asset value, method of valuation, date of acquisition and date of disposal.</i></p>	<p>The asset register has improved and now states the date acquired and the purchase price.</p>
	<p>Guidance note for 2015/16 An area of potential risk for the Council in 2015/16 is ensuring they meet the requirements of The Pensions Regulator with respect to auto enrolment, or they may face fines. Even if staff are not eligible to be auto enrolled into a pension scheme, the Council may still have to complete a declaration of compliance.</p>	<p><i>The Council should review this risk if they have not already done so and ensure they meet any requirements of The Pensions Regulator. See www.thepensionsregulator.gov.uk for further information.</i></p>	<p>Noted</p>

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Follow up of 2013/14 audit recommendations			
1	Disaster recovery and business continuity risks are not identified in the annual risk assessment along with identified mitigating action such as regular offsite secure storage.	<i>The risk assessment should be updated to include disaster recovery and business continuity risk management</i>	Implemented
2	Approval of payments is recorded in the minutes, the payments are listed in the agenda which is signed by the Chair. The cheque number or other payment reference is not listed.	<i>The audit trail could be improved by listing the cheque number in the agenda schedule of payments.</i>	Implemented
3	A review of the petty cash found that VAT had not been reclaimed from VAT receipts.	<i>VAT should be reclaimed from petty cash receipts where appropriate.</i>	Implemented
	Guidance note for 2014/15 Following the repeal of section 150(5) of the Local Government Act 1972 in March 2014, Councils now are not required by law to have cheques or other orders for payment signed by two elected members.	<i>If the Council decide they would like to make any changes to how payments are made it is important that they review the recent guidance issued by SLCC and ensure that any new internal controls meet these requirements. Any changes to internal controls over payments in light of the repeal will be reviewed in future audits.</i>	Noted