



## MULBERRY & CO

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Our Ref: MARK/SOU003

Mrs S Mills  
South Heighton Parish Council  
10 Bromley Road  
Seaford  
East Sussex  
BN25 3ES

11<sup>th</sup> June 2018

Dear Stephanie

**Re: South Heighton Parish Council**  
**Internal Audit Year Ended 31<sup>st</sup> March 2018**

Following completion of our internal audit on the 11<sup>th</sup> June 2018 we enclose our report for your kind attention and presentation to the council. The audit was conducted in accordance with current practices and guidelines and testing was risk based. Whilst we have not tested all transactions, our samples have where appropriate covered the entire year to date. **Where appropriate recommendations for future action are shown in bold text.**

The Accounts and Audit Regulations 2015 require smaller authorities, each financial year, to conduct a review of the effectiveness of the system of internal control and prepare an annual governance statement in accordance with proper practices in relation to accounts. The internal audit reports should therefore be made available to all members to support and inform them when they considering the authority's approval of the annual governance statement.

### **Audit – Summary Findings**

At the visit we reviewed and performed tests on the following areas:

- Review of the Financial Regulations & Standing orders
- Review of the Risk Assessments
- Review of the Budgeting process
- Proper Bookkeeping – review of the use of the accounts package.
- Review of annual accounts & AGAR
- Review of bank reconciliation
- Review of income
- Review of salaries
- Review of Fixed Assets and Investments register

It was clear from the start of the audit that the accounts as presented for the year ended 31<sup>st</sup> March 2017 were wholly incorrect and deserved of the external audit qualification received. In preparing the accounts this year it has been necessary to re-work the 2017 balances in order to present a balanced and restated comparative position. Where applicable the sections below will also describe the changes made to the 2017 balances.

The new clerk has put in tremendous effort to not only present the current year in an informative and accurate manner but also to reconstruct the 2017 records which were incomplete. In addition to this, the clerk has also made progress in introducing best practice policies and regulations.

The internal audit report for 2017/18 contains a number of no answers (shown in red) these are addressed in each of the sections below. Following the changes made to the accounts, policies and procedures, it is our opinion that the systems and internal procedures at South Highton Parish Council are now regulated and followed, that the clerk ensures the council follows best practice regulations and has adapted and changed the internal procedures to maintain compliance.

I am of the opinion that the AGAR is a true and fair reflection of the financial transaction of that of the council for the year ended 31<sup>st</sup> March 2018 and 31<sup>st</sup> March 2017 as restated. Accordingly, I have signed off the internal audit report.

#### **A. Books of account**

The council continues to use excel for recording the day to day transactions of that of the council. On average there are approximately half dozen transactions per month. It is clear the excel cashbook has been extensively remodelled and testing showed this to balance and cross cast. The layout is logical and easy to read and the populated contents are such that the casual reader can garner an understanding of the nature and type of transactions undertaken.

In addition to this, the spreadsheet contains cross references to bank statements, invoices and minutes sufficient to trace each transaction to underlying documentation.

For recording receipts and payments this is entirely fit for purpose and I see no reason to make any recommendation to change.

I am of the opinion that the control assertion of "Appropriate accounting records have been properly kept throughout the financial year" has been met.

#### **B. Financial regulations & payments**

All Other Payments £8,519 (2017: Restated £10,831 [£13,784]).

It was necessary to restate the 2017 comparative, the balance as previously reported could not be verified to any cashbook, budget or accounts. The 2017 closing reserves balance was verified to the bank reconciliation as reconstructed, together with the knowledge that opening balance, all other income and expense accounts were verifiable, the box 6 figure represented the most accurate balancing figure.

*Confirm that the Parish Council has adopted and recently reviewed Financial Regulations.*

The council reviewed and readopted the NALC Financial Regulations in May 2018. This is in accordance with regulations.

*Check that the council's Financial Regulations are being routinely followed by tracking some sample payments*

I have selected minutes at random and traced the authorised payments to the invoices and cashbook, noting council authorisation at each stage.

The council authorises all payments, invoices are taken to council for approval and a payments list is authorised by authorised signatories. Cheques are pre written and once the invoices are approved the cheque and cheque book stub are signed. For a council of this size this control is adequate.

The payments are listed in the minutes and as such are posted to the council website, this is in accordance with the Transparency Act requirements and ensures all payments are made available to the wider public. Where applicable personal information would be redacted.

The councils contract tender limits are as follows:

- Above £15k – Formal tender required
- £1k to £15k = 3 quotes required
- £100 to £1k – 3 estimates needed

There is an inconsistency with contract standing orders para 18d that stated £1k for public tender. **I recommend Standing Orders and Financial Regulations are aligned.**

*Confirm all section 137 expenditure meets the guidelines & does not exceed the annual per elector limit of £7.57 per elector.* The council has not had any S.137 expenditure.

*Confirm that checks of the accounts are made by a councillor.* The Council checks all invoices and authorises all payments, new procedures are in place that provide councillors with income and expenditure and budget information, together with bank and reserves position, further checks by councillors will not add further value.

*Confirm that the Parish Council's Standing Orders have been reviewed within the last 12 months*

The council, reviewed and adopted NALC Model standing Orders in May 2018. This is in accordance with regulations.

*Check the draft minutes of the last meeting(s) are on the council's website*

The council routinely posts up its draft minutes to its web site within 30 days of the meeting. **I would recommend a final and signed minutes be posted after they have been ratified at the following meeting and the draft set removed.**

*Check that agendas for meetings are published giving 3 clear days' notice.*

Three clear days' notice of a meeting is given.

*Confirm that the Parish Council is compliant with the Data Protection Act 1998 and that plans are being put in place to comply with GDPR 2018.* The council is aware of the change in regulations **council will need to post a privacy notice and GDPR policy.**

*Check the publication of councillor's contact details etc*

The website has councillor contact details and registers of members interests.

I am of the opinion that the council has robust policies and procedures in place and follows these. I make no recommendation to change.

I am of the opinion that the control assertion "This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for", has been met.

### **C. Risk management & insurance**

The council undertakes event risk assessments as and when required, but there was no evidence of any operational risk assessments nor financial risk assessments being undertaken or documented. **I recommend that council draw up risk assessments and a risk management policy as soon as practicable.**

I have confirmed that the Council has a valid insurance certificate. The Council reviews its insurance requirements as part of the renewal process. Asset & money cover appears adequate. **It was noted that the fixed asset register insurance valuations did not accord with the insurance schedule – this will need updating.**

The council is not able to sign annual governance statement No.5 *“We carried out an assessment of the risks facing this authority and took appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required.”* as yes; yes’ means that this authority, *“considered and documented the financial and other risks it faces and dealt with them properly.”*. The council has not carried out operational or financial risk assessments.

I am of the opinion that the control assertion *“This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.”* has not been met

#### **D. Budget, precept & reserves**

Reserves Carried Forward £17,481 (2017: restated £15,135 [£14,793])

It was necessary to restate the 2017 comparative, the balance as previously reported could not be verified to any cashbook, budget or accounts and indeed the annual return did not cast correctly. The closing reserves balance was verified to the bank reconciliation as reconstructed.

The council has £10,015 of earmarked reserves and £7,466 of general reserves. Rule of thumb calculations would indicate that the general reserve of circa £5k as adjusted for local conditions would be appropriate. I am of the opinion that general reserves are appropriate.

There was no evidence of actual versus budget or reserves information being routinely presented to council. This is not in accordance with regulation. Since the year end date; however, processes have been changed and this information will be taken to council on a monthly/quarterly basis. I have provided the clerk with a reserves working that can be added to the monthly reporting pack.

I am of the opinion that the control objective of *“The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.”*, has not been met.

#### **E. Income**

Precept income £11,010 (2017: £10,080)

Other income £4,370 (2017: £6,757)

The precept income was tested to bank statements; the local tax support grant has been correctly shown in box 3. Other income comprises, grants, & VAT refund. I have reviewed the cashbook and was able to agree receipts to the bank statements, there were no errors.

The council is not VAT registered and has no requirement to do so either.

I am of the opinion that the control objective of *“Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.”*, has been met

#### **F. Petty cash**

No petty cash

#### **G. Payroll**

Staff Costs £4,515 (2017: £2,950)

The council has one employee. The payroll is reconcilable to the AGAR. Payroll is calculated internally using basic PAYE Tools from HMRC. Net wages and PAYE are approved by council in the normal method. There are no

councillor allowances. It was brought to our attention that PAYE and NI payments were not paid on time for a period during the year which had accumulated penalties. This has been rectified by the new clerk and payments are now made on time.

The clerk has a signed contract of employment. Payroll rates were agreed to NALC scales.

I am of the opinion that salaries are correctly stated on the AGAR and that the control object of "Salaries to employees and allowances to members were paid in accordance with this authority's approvals, and PAYE and NI requirements were properly applied.", has been met.

#### **H. Assets and investments**

Fixed Assets and Investments £71,263 (2017: Restated £38,440 [£71,263])

It was necessary to restate the fixed assets because the amount shown on the annual return was not in agreement with the fixed asset register and it was clear from a review of assets insured by the council that the council does not have £71k of fixed assets.

The Council does not hold any long term investments i.e. over 1 year. Any addition to the asset register is normally with a cost value greater than £200. The fixed asset register has been maintained in an Excel spreadsheet and agreed to the AGAR. The asset register was up to date with all relevant assets as at the current financial year end.

I am of the opinion that the control objective of "Asset and investments registers were complete and accurate and properly maintained.", has been met.

#### **I. Bank reconciliations**

Bank & Cash Balances £17,481 (2017: Restated £15,135 [£14,793])

It was necessary to restate the 2017 bank closing and reserves position, because the 2017 annual return did not add up correctly and the amount shown did not agree to the bank. The closing position was reworked and agrees to the bank statements.

At the year-end date the council had a reconciled bank position. I have reviewed the reconciliation; the council has three bank accounts and £392 of outstanding payments these were tested to after date bank statements. There were no errors.

None of the accounts are long term investment accounts and as such do not need to be recorded in box 9 of the AGAR.

**It was noted that during the year the council has not followed financial regulations in respect of signing the bank reconciliation and reporting this activity to council. Financial Regulation 2.2 states that at least quarterly the face of the reconciliation and the face of the bank statement must be signed and the activity reported in the minutes. I would suggest wording as follows.**

*Councillor .... Signed the face of the reconciliation and bank statements dated dd/mm/yy showing a combined total of £.....*

**I am of the opinion that bank and cash balances are properly shown on the AGAR and that the control objective of "Periodic and year-end bank account reconciliations were properly carried out.", has not been met.**

## **J. YEAR END ACCOUNTS**

The year-end accounts have been correctly prepared on the receipts and payments basis, with no requirement of a box 7 & 8 reconciliation.

The AGAR correctly casts and cross casts and the comparatives have been correctly copied over from the 2016/17 AGAR. The variance analysis is required and has been completed in sufficient detail to understand the reasons for the year on year change.

The council has made provision within its schedule of meetings to sign off the annual governance statement and accounts in time to display the notice of elector's rights using the following dates: -

- Sign off 19<sup>th</sup> June meeting
- Notice 22<sup>nd</sup> June
- Commence 25<sup>th</sup> June
- Finish 3<sup>rd</sup> August

I am of the opinion the AGAR will be ready for submission to the external auditor within statutory time scales and that the control objective of "Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, supported by an adequate audit trail from underlying records and where appropriate debtors and creditors were properly recorded.", has been met.

## **K. Trusteeship**

No trusts.

Should you have any queries please do not hesitate to contact me, finally I enclose a fee note for your kind attention.

Kind regards

Yours sincerely



**Mark Mulberry**