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Our Ref: MARK/POL001

Mrs J Ognjanovic
Polegate Town Council
49 High Street
Polegate
East Sussex
BN26 6AL

7 May 2019

Dear Jo

Re: Polegate Town Council
Internal Audit Year Ended 31st March 2019

Following completion of our final internal audit on 3 May 2019 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 financial year. Recommendations for future action are shown in the table at Appendix A.

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 are considering the authority's approval of the annual governance statement.

Interim Audit – Summary Findings
At the interim 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 Bank Reconciliations
- Compliance with Regulations

It is our opinion that the systems and internal procedures at Polegate Town Council are very well established, regulated and followed. The clerk ensures the council follows best practice regulations and has over time adapted and changed the internal procedures as regulations and technologies have changed to maintain compliance.

It is clear the council takes governance, policies and procedures very seriously and I am pleased to report that overall the systems and procedures you have in place are entirely fit for purpose and indeed are a model of good practice. I would like to thank Jo for her assistance and hard work.

Final Audit – Summary findings

We completed the following work at the final audit.

- Review of annual accounts & annual return
- Review of bank reconciliation
- Testing of income and expenditure, second half of financial year
- Salaries and Wages
- Review of fixed asset register
- Review of information for external auditor.

I have set out the results of my testing against each of the control objectives set out in the internal audit section of the AGAR below.

I am of the opinion that the annual accounts and AGAR are ready to be signed off by council and the external auditor and that the AGAR is a true and fair reflection of the financial transaction of that of the council for the year ended 31st March 2019. Accordingly, I have signed off the AGAR.

A. BOOKS OF ACCOUNT

Interim Audit

The Council uses the RBS electronic system to record the day to day financial transactions of the council. This is a well-established industry specific package and I make no recommendation to change.

I checked that the audited 2017-18 AGAR has been reported to Full Council and an appropriate minute recorded in the minutes of the October 2018 meeting. Internal Audit reports are being properly considered at Council meetings. The Conclusion of Audit Notice was dated 21 September 2018, so 30 September deadline was met. The audited AGAR and conclusion of audit notices have been published on the Council website.

I tested opening balances as at 1.4.18 and confirmed they could be agreed back to the audited accounts for 2017-18. I confirmed that the Council's last VAT return was for the quarter ended 30th September 2018, the council's returns are up to date, and refunds have been received from HMRC. VAT balances on the return were supported by transaction listings from RBS.

I am of the opinion that the council is keeping appropriate books of account.

Final Audit

I agreed the statement of accounts back to AGAR reports produced by the Council's accounting system, RBS. I therefore conclude that all figures on the AGAR have been correctly derived from the Council's accounting system. Arithmetic has been checked and the accounts cast.

I checked comparative figures for the previous financial year disclosed on this year's AGAR back to last year's signed accounts, and can confirm that opening reserves balances, and comparative figures are accurately recorded in this year's annual return. The Council received a clean audit opinion from external audit in 2017-18, so there is nothing requiring consideration in the current financial statements.

I confirmed that VAT is up to date, with the return completed and submitted to HMRC for the period to 31.3.19. Vat claim has been submitted, and VAT reclaimed agreed to a RBS schedule of VAT transactions.

The Council published data required by the 2015 Transparency Code on a transparency tab on the website. I reviewed this information; it appears comprehensive and compliant with the requirements of the Code. At the time of my audit the data was a little out of date - e.g. expenditure data had only been published to December 2018 – this should be brought up to date before the accounts are submitted for audit.

Overall, I have the impression that the accounting systems are well ordered and routinely maintained and as such I make no recommendation to change. I am therefore 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, GOVERNANCE & PAYMENTS

Interim Audit

Standing Orders and Financial Regulations are based on the NALC models. Both documents were reviewed and approved at the May 2018 meeting of Full Council. IA has seen evidence in the signed minutes.

I confirmed by sample testing that Councillors have all signed "Acceptance of Office" forms, in line with regulations.

Each month the clerk prints off and files in hard copy a trial balance, income and expenditure showing budgets, bank reconciliations for all accounts, together with earmarked reserves analysis and other documents as fit. This is a clear and easy to follow system and I make no recommendation to change in this process. I note there were some filing issues around minutes at the time of my audit, but the clerk was subsequently able to resolve these to my satisfaction.

The Council gives authority to spend via the annual budget process and this was minuted and approved in accordance with regulations. I tested a sample of expenditure transactions and for each transaction I was able to confirm:

- Cashbook entry could be agreed back to an invoice from the supplier
- Approval for the payment was recorded in a minute of a council meeting

I was unable to locate approval of a direct debit in council minutes; I have informed the clerk who will report the payment to the next available meeting.

The Council has a robust process for authorising expenditure in place and my testing confirmed financial regulations are being followed.

I note that Polegate TC is compliant with requirements of the Transparency Code. The data transparency section of the website lists information required by the Code, including regular uploads of payments above £500, information on grants paid and budgetary information. I sample checked transactional reporting on the website and confirmed that the Council was up to date in transparency reporting at the end of September.

The Council continues to use cheques for paying suppliers. I recommend that a move to internet banking should be implemented in the new financial year, at which point Financial Regulations should be reviewed and amended as necessary. I recommend the Council considers a system where the clerk or other office staff set up payments on line with on-line authorisation of payments from bank to be carried out by 2 councillors. I also recommend that the Council contacts banks, in order to check that bank mandates are up to date, as part of this process, the Clerk has already actioned this point, I will review at my year end visit.

I am satisfied the Council is meeting this control objective.

Final Audit

Non pay expenditure in box 6 to the accounts is £187,031 (£171,879 in 2017-18)

I carried out sample testing of further expenditure items from the second half of the financial year. Again, for all transactions tested I was able to confirm the following:

- Cashbook entry could be agreed back to an invoice from the supplier
- Approval for the payment was recorded in a minute of a meeting of the Town Council

- Signature of two members was viewed on each invoice tested and BACS payment summary

I have identified no errors in my testing of expenditure recorded in box 6 to the accounts

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

Interim Audit

The Council is insured with Zurich on a standard local authority package. Assets are listed and appear consistent with the asset register. The insurance is in date, I confirmed the policy has an expiry date of March 2019. Money cover is too low at £250K, Council cash at bank is much higher than this. The insurers should be contacted and cover increased.

The Council has detailed risk assessments in place that cover operational and financial risks. The Clerk is in the process of updating to present in a format consistent with HSE recommendations. I will review this in detail at year end, but I have reminded the Clerk that the risk assessment must be reviewed at a meeting of Full Council before 31 March 2019, and a separate minute recorded.

The Council must review its data back-up arrangements. Data is currently backed up to a NAS drive, with manual back up process to copy data to memory drives held offsite. I recommend that the Council considers a cloud / remote back up process that automatically backs up data offsite. I understand the clerk has contacted an ICT provider to discuss this.

Final Audit

I confirmed that the Council has carried out a comprehensive risk assessment. This was reviewed at the Audit Committee, prior to minuted approval at the 22 January 2019 meeting of the Full Council. The risk assessment was reviewed and found to be comprehensive.

The Council prepared a comprehensive response to my interim audit, which was reviewed at both Audit Committee and Full Council. The review was minuted at the meeting of full council 10 December 2018. I have updated appendix A of this report with details of actions taken by the Council

I am of the opinion that the control objective of "This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.", has been met

D. BUDGET, PRECEPT & RESERVES

Interim Audit

I confirmed with the Clerk that the 2019-20 budget cycle is well under way. The draft budget will be presented at the December meeting of the Council, with precept and final budget approval scheduled for the January meeting of Full Council. All precepting authority deadlines will be met.

Councillors receive monthly reports on budget against actuals. I reviewed the report for the period to end of September 2018 and was able to confirm that the budget is well managed. Overspends have been properly explained and approval for funding sought from Councillors. Budget reports are printed directly from the RBS finance system.

The Council has well developed reserves. At the time of my audit, earmarked reserves stood at £303K, I understand that this balance will reduce in the course of the year as a result of projects currently underway. Year-end general reserves are estimated to be in the region of £120K at year end – this is a little low, best practice suggests reserves should be around 50% of precept.

I will audit the Council's reserves in detail at my year end visit.

Final Audit

I confirmed that the 2019-20 budget was approved at the Full Council meeting of 14 January 2019, and clearly minuted.

Reserves at year end set out in box 7 to the account were £524,845 (2017/18 £466,293). Of this £177K is held in general reserves, which is around 50% of precept, this is appropriate for a council of this size. Ear marked reserves are 347K. The largest reserve is 164K which is to fund street light replacement, other earmarked reserves cover future projects and asset replacement.

I am satisfied that reserves are held for proper purposes, and very well developed.

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 been met.

E. INCOME

Final Audit

Precept per box 2 to the accounts is £326,183 (2017-18 £317,543). I have confirmed precept income to third party notification supplied by the external auditors.

Other income per box 3 to the accounts is £28,692 (2017-18 £39,242). I tested a small sample of other income, amounting to £16.5K to grant notifications from other local authorities. I was able to confirm for all transactions tested that income booked to the general ledger could be agreed to remittance advice notes from other councils

I have identified no errors in my testing of income recorded in box 2 and 3 to the accounts

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

Final Audit

Petty cash on the balance sheet at year end is £200. Cash reconciled to vouchers on a regular basis. I recommend that the count is evidenced by officers completing the count going forward.

I am of the opinion the control objective of "Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.", has been met.

G. PAYROLL

Interim Audit

The Council uses an external firm to calculate and process the monthly payroll. The payroll is emailed to the Clerk who sets payments on line, these are then authorised by Councillors. The signed minutes show that Council approves changes to wages. I will carry out detailed testing of payroll at financial year end.

Final Audit

Staff costs per box 4 of the AGAR £103,718 (2017-18 £83,249)

I tested sample of payroll transactions selected from January 2019 payroll and in all cases I was able to confirm that:

- Rate of pay was correct – agreed to NALC scales
- Pay per general ledger could be agreed back to pay slip

- Payslip had been subject to signed authorisation by the Clerk, who is not involved in payroll calculations, and 2 Councillors
- Payment agreed to payslip, once deductions applied

I have identified no errors in my testing of payroll.

I am of the opinion 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

Final Audit

Fixed assets per box 9 to the accounts are £977,848 (2017-18 £973,881). I have been able to confirm the balance in the accounts to the Council's asset register. A schedule of additions and disposals has been prepared and this reconciles to the asset register – I note that bus shelters selected as part of expenditure testing have been added at cost and the old bus shelters written off.

I confirmed by review and enquiry that no fixed asset disposals have occurred in 2018-19 or that any are necessary. I have identified no errors in my testing of fixed assets recorded in box 9 to the accounts.

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

Interim Audit

The bank reconciliations for Council bank accounts are properly prepared and presented to committee for verification and approval on a regular basis The bank reconciliations at July 2018 were reviewed in full. The RBS system prints are neatly and logically presented, there were no errors on any of the reconciliations. I confirmed that the bank reconciliations have been reported properly at Council meetings and that the individual reconciliations have been reviewed by a councillor, and this review evidenced on the reconciliation and bank statement. All unpresented cheques on the reconciliation were in date, and sample checks confirmed large value cheques has subsequently been presented at bank.

I note that the Council holds all monies with Barclays Bank, and is not therefore making best use of cover offered by the Financial Services Compensation Scheme (£85K per financial institution) I recommend that the Council reviews where it holds its cash and considers splitting funds between a number of institutions.

Final Audit

Borrowings – box 10 to the accounts £29,994 (£33,722 2017-18) I have confirmed year end borrowings to third party PWLB balances supplied by the external auditors.

Cash and bank – box 8 to the accounts £508,615 (£461,185 2017-18) I have re-performed the year end bank reconciliation and I was able to agree the bank reconciliation back to bank statements and the RBS cashbook. A schedule of unpresented cheques was in place to support difference between cashbook and bank statement. I checked that the 5 largest unpresented cheques have been cleared at bank in the new financial year, and are therefore genuine. The bank reconciliation had not been reviewed by councillors at the time of my audit, but this was due at the May Council meeting.

Boxes 10 and 8 to the accounts are fairly stated.

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 been met.

J. YEAR END ACCOUNTS

Final Audit

I confirmed that the Council has completed a reconciliation between box 7 and 8 of the accounts and that this is supported by schedules of debtors and creditors. A year on year variance report has been completed as required by the external auditors.

The council has prepared the accounts on the income and expenditure basis, which is correct for this larger council.

The AGAR correctly casts and cross casts and the comparatives have been correctly copied over from the 2017/18 AGAR.

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.

L: EXERCISE OF PUBLIC RIGHTS - INSPECTION OF ACCOUNTS

Final Audit

This new internal control objective is not active for 2018-19 financial year. However, I confirmed with the Clerk that arrangements are in place at this Council to ensure proper exercise of public rights. The accounts are due to be approved at the meeting of 20 May 2019, and inspection periods will be set after this meeting in line with regulations. The Clerk confirmed that external audit's recommended dates will be followed.

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

M Mulberry

Mark Mulberry

Points Forward – Action Plan - Interim Audit

Matter Arising	Recommendation	Council Response
The Council continues to use cheques for paying suppliers.	I recommend that a move to internet banking should be implemented in the new financial year, at which point Financial Regulations should be reviewed and amended as necessary.	Council is moving towards online banking in 2019-20, mandates now in place
Bank signatories	I also recommend that the Council contacts banks as part of this process, in order to get a schedule of all signatories on Council bank accounts, in order to check bank mandates recorded at bank are up to date.	The clerk has actioned this, all bank mandates have been obtained and checked.
Money cover is too low at £250K, Council cash at bank is much higher than this. The insurers should be contacted and cover increased.	The insurers should be contacted and cover increased.	This has been done and cover increased
Data is currently backed up to a NAS drive, with manual back up process to copy data to memory drives held up offsite. I recommend that the Council considers a cloud / remote back up process that automatically backs up data offsite.	The Council must review its data back up arrangements	I understand the clerk has contacted an ICT provider to discuss this. Back up is now cloud based, testing will be carried out annually
I note that the Council holds all monies with Barclays Bank, and is not therefore making best use of cover offered by the Financial Services Compensation Scheme (£85K per financial institution)	I recommend that the Council reviews where it holds its cash and considers splitting funds between a number of institutions.	New bank accounts being set up,. Although this has taken time due to delays at banks

Points Forward – Action Plan - Final Audit

Matter Arising	Recommendation	Council Response
The Council published data required by the 2015 Transparency Code on a transparency tab on the website. I reviewed this information; it appears comprehensive and compliant with the requirements of the Code.	At the time of my audit the data was a little out of date - eg expenditure data had only been published to December 2018 – this should be brought up to date before the accounts are submitted for audit	
Petty cash on the balance sheet at year end is £200. Cash reconciled to vouchers on a regular basis.	I recommend that the count is evidenced by officers completing the count going forward.	