MULBERRY & CO
Chartered Certified Accountants
Registered Auditors
& Chartered Tax Advisors

9 Pound Lane
Godalming
Surrey, GU7 1BX

t + 44(0)1483 423054
e office@mulberryandco.co.uk
w www.mulberryandco.co.uk

Our Ref: MARK/POL001

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

6 May 2020

Dear Jo

<u>Re: Polegate Town Council</u>
<u>Interim Internal Audit Year Ended 31st March 2020</u>

Following completion of our interim internal audit on the 2 September 2019 and final audit on 6th May 2020 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 and summarised in the table at the end of the report.**

Due to the COVID-19 restrictions in place at the time of the final audit, this was carried out remotely, and I would like to thank Jo for ensuring all of the requested information was sent through in a timely fashion to allow this process to be completed.

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.

Interim Audit – Summary Findings
At the interim visit we reviewed and performed tests on the following areas:

- Review of the Financial Regulations and Standing Orders
- Review of the risk assessments
- Review of the budgeting process
- Proper bookkeeping – review of the use of the accounts package
- 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 is very experienced and ensures the council follows best practice regulations and has overseen changes to 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 fit for purpose. I would like to thank Jo and her team for their assistance and whilst my report contains recommendations to change these are not indicative of any significant failings, but rather are pointers to improving upon an already well-ordered system.

Final Audit – Summary Finding
At the final visit we reviewed and performed tests on the following areas:

- Review of annual accounts and AGAR
- Review of bank reconciliation
- Review of income
- Review of salaries
- Review of information for external auditor

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 transactions of the council for the year ended 31st March 2020. Accordingly, I have signed off the AGAR.

A. BOOKS OF ACCOUNT (INTERIM AND FINAL AUDIT)

Interim Audit
The council continues to use RBS as a day to day accounting package, this is a well-established industry specific package and I make no recommendation to change. The system is used daily to report on and record the financial transactions of the council. There are three users with their own individual logons – the Clerk, Finance Assistant and Admin Committee Clerk.

Each month, an accounting information pack containing trial balance, income and expenditure showing budgets, bank reconciliations for all accounts, earmarked reserves analysis and other documents as required is produced and circulated. Council minutes show evidence of the information being noted and considered by council. This is a clear and easy to follow system and I make no recommendation to change in this process.

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 proper authorisation and evidence via invoices, cheque book stubs and payment lists as reported to Council.

The council is VAT registered and using the RBS system has appropriate software in place for the Making Tax Digital (MTD) change due in October 2019.

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 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 AND PAYMENTS (INTERIM AND FINAL AUDIT)

Interim Audit
Check the publication and minuting of the prior year audited AGAR and notice of conclusion of audit
External auditors report for 2018/19 has just been received by the Clerk and is not qualified. This will be reported to council at the next appropriate meeting. Evidence was also noted in the minutes of the internal auditor's report being reviewed and accepted.

Confirm by sample testing that councillors sign statutory office forms

I confirmed by sample testing that Councillors sign "Acceptance of Office" forms and register of members interests, in line with regulations**,** and that the Mayor has signed an acceptance of Mayor's role form. Hard copy paperwork is logically field and easy to retrieve. Declarations of interest are posted to the council website.

Confirm that the council is compliant with the relevant transparency code

To be tested at final audit.

Confirm that the council is compliant with the GDPR

To be tested at final audit.

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

The Clerk was able to demonstrate that at least 3 clear days' notice is given on both web site and hard copy agendas.

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

Draft and final minutes are uploaded to the council website. Where minutes are in draft format, these are clearly annotated as such.

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

The standing orders are based on the NALC model and were last updated on 20th May 2019.

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

Financial regulations are based on the NALC model and were last updated on 20th May 2019. The Clerk is aware of the recent July 2019 model version and will base any future changes on this version.

Check that the council's Financial Regulations are being routinely followed

Financial Regulation 2 deals with bank reconciliations. The council is performing a monthly bank reconciliation for all accounts and this is minuted in accordance with regulations and properly signed by a councillor, along with the bank statement.

Financial Regulation 4 deals with authority to spend. The council has thresholds in place at which authorisations to spend must be obtained as follows:

- The council for all items over £5,000 unless specifically resolved otherwise;
- A duly delegated committee of the council for items over £5,000; or
- The Clerk, in conjunction with Chairman of Council or Chairman of the appropriate committee, for any items below £5,000 or as otherwise resolved by council.

The Clerk is given a wide range of delegated powers, and these are clearly annotated in either council minutes or other authorisations. A detailed scheme of delegation is currently being developed to further formalise these arrangements. **I would recommend the above thresholds are reviewed to provide a differential between items requiring authorisation by council (point 1) and committee (point 2) which are currently set at the same level.**

Financial Regulation 5 deals with authorisation of payments. The minutes show authorisation of payments lists in accordance with regulations.

Financial Regulation 6 deals with making payments. The Clerk was able to demonstrate that invoices are properly received, appropriately date stamped, assigned to the correct expenditure code, entered onto the RBS accounting system, authorised at the appropriate council meeting and subsequently paid, predominately through the use of cheques which are signed by two councillors. I have no doubt this system is being robustly followed.

Confirm that checks of the accounts are made by a councillor
The system noted above details internal review takes place and these activities are clearly recorded in the minutes. I am under no doubt that council properly approves expenditure.

Final Audit
It was noted that the conclusion of audit and external auditor's report was discussed by council at its meeting on 28th October 2019 and this is recorded in the minutes.

Testing of the Transparency Code was conducted remotely through checking the council website. This shows the information required by the code is easily accessible. I am satisfied that the council is complying with its responsibilities in this area.

Testing of GDPR was conducted remotely through checking the website. The council has a Privacy Policy available at the foot of its home page and has policies for Freedom of Information and Data Protection. I am satisfied that the council is complying with its responsibilities in this area.

I am of the opinion the council is following its own regulations. At interim audit, I am therefore 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 AND INSURANCE (INTERIM AND FINAL AUDIT)

Interim Audit
The council's insurance documentation was reviewed and found that following the final audit last year, the fidelity guarantee limit has been raised from £250,000 to £1 million. This level will ensure that the balances held by the Council are properly covered. Other limits within the insurance for public liability and employee liability are set at standard levels which are appropriate for a council of this size.

The Council has detailed risk assessments in place that cover operational and financial risks and there is evidence of these being regularly reviewed and appropriately minuted.

Final Audit
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 AND RESERVES (INTERIM AND FINAL AUDIT)

Interim Audit
The 2019-20 budget and precept setting process is set to commence during the next round of committee and council meetings. The council has a three-year budget on RBS and will use this as a guide during the budget setting process, making appropriate adjustments as required.

The current year's budget is regularly monitored and appears to be well managed. As at the date of the interim audit, the current year fund stood at circa. £84,000 with the second instalment of the precept still to be received.

The council holds circa. £368,000 in earmarked reserves, although it is anticipated that this will reduce to circa. £80,000 - £100,000 by year end as various projects are completed. The council's general reserve stands at £157,000 which is marginally below the recommended 50% of precept, but of no significant concern.

Final Audit
At the year end, the council held £388,916 in a number of clearly defined earmarked reserves and a further £176,041 in the general reserve. General guidance recommends a level of general reserve of 50% of precept, as adjusted for local conditions. The level of general reserve held is therefore appropriate for a council of this size.

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 (INTERIM AND FINAL AUDIT)

Interim Audit
The first half of the precept was received in April 2019 along with the Council Tax Support Grant. Remittance advices for the amounts were provided and verified via bank statements, and the amounts have been processed to the correct RBS budget codes.

The council received a minimal amount of cash and/or cheques at the council offices, primarily for allotment rents and deposits. Receipts are provided and money is placed in the safe, and subsequently deposited with the bank usually within a week. If larger amounts are received, they are checked by two people and banked more frequently.

Final Audit
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 (INTERIM AUDIT)

The council has a petty cash float of £200. This was reviewed at the interim audit date, and it is clear this is used for small sundries and is not significant or material.

Petty cash is regularly balanced and confirmed to vouchers and receipts.

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 AND FINAL AUDIT)

Interim Audit
The council uses an external firm to calculate and process the monthly payroll. I will carry out detailed testing of payroll at financial year end.

Final Audit
A review of the accounting records made available remotely confirms the total salary costs as accurately recorded on the AGAR. Detailed checking of PAYE and NI deductions was not possible, and this will be checked at the next audit.

I am of the opinion that salaries are correctly stated on the AGAR and that the control objective 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 (INTERIM AND FINAL AUDIT)

Interim Audit

The council has developed a detailed fixed asset register which included asset location and description and assets are correctly stated at historic or proxy cost. A column on the asset register is set up to show insurance value, and it may be of benefit to use this for some of the larger assets which have individual values on the insurance schedule.

The asset register total matches the amount entered on the AGAR last year, and my only suggestion would be to consider a summary page which may be of benefit to both councillors and any members of the public viewing the document.

Final Audit

The asset register was checked, and the total found to match that entered on the AGAR for 2019-20.

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 AND CASH (INTERIM AND FINAL AUDIT)

Interim Audit

At the interim audit date, the council had a reconciled bank position which has been signed in accordance with Financial Regulations. These are reported monthly to the Finance Committee and noted in the minutes. I have reviewed the most recent reconciliation and there were no outstanding payments beyond one month old.

Final Audit

At the year-end audit date, the council had a reconciled bank position across all its accounts. There were 4 unrepresented items totalling £2,913.47 as at 31 March 2020.

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)

The year-end accounts have been correctly prepared on the income and expenditure basis, and the AGAR correctly casts and cross casts.

The explanation of variances has been completed with sufficient detail and explanations provided for variances in excess of 15%. At the time of the year-end audit, the AGAR figures presented for checking were as below:

AGAR Box Number		2018/19	2019/20	Auditor Notes
1	Balances brought forward	466,293	524,845	Correctly carried over from box 7 2018/19
2	Precept or rates and levies	326,183	334,971	Confirmed against precept amount received
3	Total other receipts	28,692	52,629	Confirmed against accounting records
4	Staff costs	103,718	108,851	Confirmed against accounting records
5	Loan interest/capital repayments	5,573	5,573	Confirmed against PWLB records
6	All other payments	187,032	233,064	Confirmed against accounting records

7	Balances carried forward	524,845	564,957	Total correctly equals (1+2+3) – (4+5+6)
8	Total value of cash and short-term investments	508,615	588,774	Confirmed against RBS reconciliation
9	Total fixed assets plus long term investments and assets	977,848	980,103	Total matches asset register
10	Total borrowings	29,994	26,053	Confirmed against PWLB records

I am satisfied that the control objective "Accounting statements prepared during the year were prepared on the correct accounting basis, agreed to the cash book, supported by an adequate audit trail from underlying records" has been met.

K. TRUSTEESHIP (INTERIM AUDIT)

The council has no trusts.

L: EXERCISE OF PUBLIC RIGHTS - INSPECTION OF ACCOUNTS (FINAL AUDIT)

Due to the Covid 19 outbreak, the statutory deadlines have been changed as follows:

The publication date for final, audited, accounts will move from the 30 September to 30 November 2020 for all local authority bodies. To give local authorities more flexibility, the requirement for the public inspection period to include the first 10 working days of July has been removed. Instead, local authorities must commence the public inspection period on or before the first working day of September 2020.

This means that draft accounts must be approved by 31 August 2020 at the latest. However, they may be approved earlier, and we would encourage councils to do so wherever possible, to help manage overall pressure on audit firms towards the end of the year.

Authorities must publish the dates of their public inspection period, and given the removal of the common inspection period and extension of the overall deadlines for this year, it is recommended that all authorities provide public notice on their websites when the public inspection period would usually commence, explaining why they are departing from normal practice for 2019/20 accounts.

The regulations implementing these measures were laid on 7 April and are due to come into force on 30 April 2020.

The relevant dates as set by Polegate Town Council are set out in the table below.

Inspection - Key date	2018/19 Actual	2019-20 Proposed
Accounts approved at full council	20 May 2019	To be confirmed
Date Inspection Notice Issued	21 May 2019	To be confirmed
Inspection period begins	17 June 2019	To be confirmed
Inspection period ends	26 July 2019	To be confirmed
Correct length	Yes	

Common period included?	Yes	
Summary of rights document on website?	Yes	

I am satisfied the requirements of this control objective were met for 2018-19, and assertion 4 on the annual governance statement can therefore be signed off by the council. The Clerk is aware of the amended regulations for this year's submission and will ensure the council meets the deadline.

The council, at its meeting to sign off the year-end accounts, must discuss the Annual Governance Statement and record this activity in the minutes of the meeting. Based on the internal audit finding, I recommend using the table below as the basis for that discussion.

	Annual Governance Statement	*'Yes' means that this authority*	Suggested response based on evidence
1	We have put in place arrangements for effective financial management during the year, and for the preparation of the accounting statements.	*prepared its accounting statements in accordance with the Accounts and Audit Regulations.*	**YES** –accounts follow latest Accounts and Audit Regulations and practitioners guide recommendations.
2	We maintained an adequate system of internal control including measures designed to prevent and detect fraud and corruption and reviewed its effectiveness.	*made proper arrangements and accepted responsibility for safeguarding the public money and resources in its charge.*	**YES** – there is regular reporting of financial transactions and accounting summaries, offering the opportunity for scrutiny.
3	We took all reasonable steps to assure ourselves that there are no matters of actual or potential non-compliance with laws, regulations and Proper Practices that could have a significant financial effect on the ability of this authority to conduct its business or manage its finances.	*has only done what it has the legal power to do and has complied with Proper Practices in doing so.*	**YES** – the Clerk is experienced and advises the council in respect of its legal powers.
4	We provided proper opportunity during the year for the exercise of electors' rights in accordance with the requirements of the Accounts and Audit Regulations.	*during the year gave all persons interested the opportunity to inspect and ask questions about this authority's accounts.*	**YES** – the requirements and timescales for 2018/19 year-end were followed.
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.	*considered and documented the financial and other risks it faces and dealt with them properly.*	**YES** – the council has a risk management scheme and appropriate external insurance.

6	We maintained throughout the year an adequate and effective system of internal audit of the accounting records and control systems.	*arranged for a competent person, independent of the financial controls and procedures, to give an objective view on whether internal controls meet the needs of this smaller authority.*	**YES** – the council has appointed an independent and competent internal auditor
7	We took appropriate action on all matters raised in reports from internal and external audit.	*responded to matters brought to its attention by internal and external audit.*	**YES** – where matters are raised, action taken by council is recorded in the minutes.
8	We considered whether any litigation, liabilities or commitments, events or transactions, occurring either during or after the year-end, have a financial impact on this authority and. Where appropriate, have included them in the accounting statements.	*disclosed everything it should have about its business activity during the year including events taking place after the year end if relevant.*	**YES** – no matters were raised during the internal audit visits.
9	Trust funds including charitable – In our capacity as the sole managing trustee we discharged our accountability responsibilities for the fund(s)/asset(s), including financial reporting and, if required, independent examination or audit.	*has met all of its responsibilities where, as a body corporate, it is a sole managing trustee of a local trust or trusts.*	**N/A** – the council has no trusts.

Should you have any queries please do not hesitate to contact me.

Kind regards

Yours sincerely

A Beams

<u>**Andy Beams**</u>