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Our Ref: MARK/SOM001

Mrs C Stephenson
Sompting Parish Council
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Harriet Johnson Centre
Loose Lane
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West Sussex
BN15 0BG

22nd May 2018

Dear Carol

Re: Sompting Parish Council
Internal Audit Year Ended 31st March 2018

Following completion of our interim internal audit on the 17th January 2018 and our final audit on the 22nd May 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.

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 salaries
- Review of fixed asset register

It is our opinion that the systems and internal procedures at Sompting Parish Council are well established, regulated and followed. 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.

Final Audit – Summary Finding

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

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

I am of the opinion that the AGAR is 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 2018. Accordingly, I have signed off the AGAR.

A. BOOKS OF ACCOUNT (INTERIM AUDIT)

The Council continues to use RBS an industry specific accounting package. The RBS system is used fortnightly to report and record the financial transactions of the Council and a review of the cashbook shows that all data fields are being entered. The council prints off on a regular basis bank reconciliations and committee reports to coincide with the scheduled committee meeting. The hard copy reports are easy to read, my audit testing showed that supporting documentation could be located from records recorded on RBS, although the system could do with a review. I make no recommendation to change in this system.

I tested opening balances as at 1.4.17 and confirmed they could be agreed back to the audited accounts for 2016-17. The council reclaims VAT once a year at the year end, with VAT claimed to the end of 31st March 2017 with the refund being received in August 2017.

I note that the Council is not required by law to follow the 2015 Transparency Code, but I have recommended to the Clerk that it would be sensible to carry out a brief audit against the requirements of the Code to ensure that the Council is fully compliant for when the law changes, and to this end I have signposted Crowborough Town Council as a good site to review. **This is being addressed at the year end date.**

B. FINANCIAL REGULATIONS, GOVERNANCE & PAYMENTS (INTERIM & FINAL AUDIT) Interim

Audit

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

Standing orders are based on the NALC model and the council has revised and adopted these in April 2016.

Financial regulations are based on the 2014 NALC model and are dated April 2016. The regulations being based on the NALC model contain provisions for the approval of spending, setting of budgets, reconciliation of the bank and reporting to council.

Financial regulation 2.2 deals with bank reconciliations, whilst the council is performing a regular bank reconciliation and reporting this to council the face of the reconciliation together with the face of the bank statement were not being signed as evidence of review. I recommend council review financial regulation 2.2 with a view to amending future reporting in this area. **This has now been addressed.**

Financial regulation 4 deals with budgetary control and authority to spend. Subject to financial thresholds orders to spend are authorised by the clerk, committee or full council. The clerk reviews the RBS budget prints in advance of orders being made to ensure sufficient funds in place or if a virement is needed. There is no formal order book or order sign off process but this is a small council and whilst there is a risk of an misstated order being placed in the name of the council this would be a rare occurrence.

Financial regulation 5 deals with Bank Arrangements and Authorisation of Payments. In respect of payment authorisations, the council authorises the payments list which details payments. The minutes of the full council or finance committee contain a dated payments list and the corresponding minute does describe the attachment so that it can be identified. In reviewing consecutive payments lists no cut off errors were found.

I would recommend that the minute describe the total being approved to show beyond reasonable doubt the list being approved. **This has now been addressed.**

Financial regulation 6 deals with making payments. The council makes payments on-line, direct debit, standing order, and cheque. The HSBC system is currently a single access system, this is a risk because the same user could both set up and authorise the same transaction. In addition to this there is an inconsistency in the payment system insofar as an online payment can be made by one individual whereas a cheque requires two signatures. The banks do have systems for dual log on and authorisation. I recommend the council put in place a dual log on system as soon as possible. **This is being addressed by council.**

Financial regulation 7 deals with salaries. Salaries are authorised by council in the usual manner and reported as individual line items each month. The payroll is outsourced.

On the whole the council is following its own regulations.

Final Audit

All Other Payments £53,511 (2017: £55,136).

I have reviewed the expenditure list and year on year the expenditure total is broadly similar, although the one off expenditure items made last year have been replaced with new expenditure lines this year. I also reviewed the nominal ledger for evidence of netting off and significant journal entries – there were none

I am of the opinion that expenditure is properly recorded on the AGAR.

C. RISK MANAGEMENT & INSURANCE (INTERIM AUDIT)

The Council undertakes risk assessments that cover operational risks. I recommend a financial risk assessment is drawn up and that council review financial regulation 17 in this regard. **This is being addressed by council.**

I have confirmed that the Council has a valid insurance certificate. The Council reviews its insurance requirements as part of the renewal process. Money and asset cover appear adequate.

D. BUDGET, PRECEPT & RESERVES (INTERIM & FINAL AUDIT) Interim Audit

I confirmed that the 2018-19 budget and precept setting process was complete at the time of our interim audit. The 2018-19 budget and precept have been approved so all precepting authority deadlines will be met. The precept has been maintained at £82,700.

As at December 2017 total reportable income was £101,718 (Annual Budget £98,265) and expenditure £75,443 (annual budget £126,026). Income is in line with budget expectation and it is noted the council will on the face of it be under budget. On the basis that precept has been maintained into 2018/19 it is not unexpected that expenditure is low and will continue to be so.

At the end of December 2017 the council had £154,400 in combined bank balances, by the end of the year this will reduce to circa £133k of which £38k is earmarked leaving a projected general fund balance of circa £95K. As council is aware, it does not have the power to accumulate general reserves, rule of thumb calculations suggest that 50% of precept being £44k, as adjusted for local conditions would be acceptable as a general reserve balance. **I recommend that council review its earmarked reserves position with a view to future spend. This point is ongoing at the year end**

The Council was able to demonstrate that budget monitoring reporting to members is completed on a regular basis. I reviewed the budget outturn report for October 2017 and noted that all expenditure had been booked against

approved budget heads and that overall the budget had not been exceeded. I would recommend that the minutes are a little more comprehensive in terms of reporting actual versus budget. **This point has been addressed by the clerk.**

Final Audit

Reserves Carried Forward £136,937 (2017: £128,172)

In respect of general reserves, rule of thumb calculations would suggest that 50% of precept as adjusted for local conditions would be reasonable being circa £42k. The council has £79,147 of general reserves and £57,790 of earmarked reserves.

I am of the opinion that the general reserve are still very high. I would consider earmarked reserve for HJC building.

E. INCOME (INTERIM & FINAL AUDIT) Interim

Audit

Both tranches of precept have been received. This accounts for about 80 to 85% of the council's total income. The council also has hall hire, and festival income. The annual charges were last agreed by council in September 2017. Invoices were agreed to the charge sheet. There were no errors.

Final Audit

Precept income £82,700 (2017: £82,700)

Other income £22,230 (2017: £17,824)

The precept income was tested to bank statements, these were properly received and banked. There are no errors to report.

Other income comprises, interest, festival income, hall hire and a VAT refund. I have reviewed the nominal ledger for all income accounts – there was no evidence of netting off and income recorded could be vouched to the bank statement. There were no errors.

In total, other income has increased by £4,406 this is due in the main to greater level of festival income this year.

I am of the opinion that income is properly recorded.

F. PETTY CASH (FINAL AUDIT)

The Council does not use petty cash.

G. PAYROLL (INTERIM & FINAL AUDIT) Interim Audit

The council has four part time employees. The council has fulfilled its obligations in respect of auto-enrolment and uses LGPS.

Employees are paid with reference with NJC scales for consistency purposes. The signed minutes show that council approves changes to wages.

Final Audit

Salaries £42,654 (2017: £34,549)

The payroll is outsourced to an external firm. The amounts shown on the AGAR, were reconcilable to the payroll records, there were no errors. The reason for the increases is due to the caretaker being employed for a full year this year, together with a new position for a cleaner and a new clerk.

I am of the opinion that salaries are correctly stated on the AGAR.

H. ASSETS AND INVESTMENTS (INTERIM & FINAL AUDIT) Interim Audit

The Council has a detailed fixed asset register in place. Assets are correctly stated at historic or proxy cost.

Final Audit

Fixed Assets and Investments £95,733 (2017: £95,773)

The fixed asset register agreed to the AGAR.

I. BANK RECONCILIATIONS (INTERIM & FINAL AUDIT) Interim Audit

The Council has three bank accounts held with HSBC. I re-performed the November bank reconciliation for the current account. I found no error in the reconciliation.

Final Audit

Bank & Cash Balances £136,937 (2017: £128,172)

At the year-end date the council had a reconciled bank position which was approved and signed by council in April 2018. I have reviewed the reconciliation there were £1,078 of outstanding payments, none of which are aged and all were proved to after date bank statements.

I am of the opinion that bank and cash balances are properly shown on the AGAR.

J. YEAR END ACCOUNTS

The year-end accounts have been correctly prepared on the receipts and payments basis with no requirement for 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 for boxes 3 & 4 as there are variances of greater than 15% and £500.

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 electors rights.

I am of the opinion the AGAR will be ready for submission to the external auditor.

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