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Our Ref: MARK/

Mr T Haylett
Charlwood Parish Council
Rose Cottage
11 Cotmandene
Dorking
Surrey
RH4 2BL

Date 13 July 2020

Dear Trevor

Re: Charlwood Parish Council
Internal Audit Year Ended 31st March 2020

Following completion of our interim internal audit on the 22nd November 2019 and final audit on 13th July 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 at the end of the report, along with updates on progress from the recommendations from the interim visit.**

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 Trevor for ensuring 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
- Review of salaries
- Review of fixed asset register

It is our opinion that the systems and internal procedures at Charlwood Parish Council require significant improvement before the year end to enable the council to confidently agree the assurances on the Annual Governance Statement, based on the evidence available at the interim audit. Improvements evident at the year-end audit may allow the opinions regarding the control assertions in this report to be appropriately updated, however the council's attention is drawn to the failings identified during the interim audit, and the associated risks as a result of these.

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 information for external auditor

It is clear there has been considerable effort made to address the issues identified at the interim visit, and it is pleasing to see that the council has taken the report seriously. I would like to thank Trevor for his assistance and whilst my report contains recommendations to change these are pointers to making further improvements to the council's financial systems.

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)

Internal audit requirement

Appropriate accounting records have been properly kept throughout the financial year.

Interim Audit

The council continues to use Excel for day to day accounting. The system is used to report on and record the financial transactions of the council. There is a single user who is the Clerk and RFO.

For each council meeting various reports are produced by the Clerk detailing the council's overall financial position, list of payments and receipts and other relevant information. My audit testing showed that supporting documentation could be located from records and I therefore make no recommendation to change in this system.

The council is not VAT registered. VAT reclaims are completed on a six-monthly basis by an external agent, with the last reclaim being completed for the period ending 31 March 2019. The latest claim is due to be completed once the information has been sent to the external agent.

Questioning of the Clerk with regard to year to date income and expenditure performance against budget (see section D for more detail) give the impression that the accounting systems are not well ordered or routinely maintained and **I would recommend measures are taken to make improvements in this area.**

Final Audit

Review of the council minutes on the website shows evidence of discussion of financial matters, and the Clerk provided copies of accounting records including analysis of budget performance. **I recommend the reporting against budget is included regularly as an agenda item to ensure council is kept informed of the financial position.**

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)

Internal audit requirement

This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved, and VAT was appropriately accounted for.

Interim Audit

Check the publication and minuting of the prior year audited AGAR and notice of conclusion of audit

The external auditors report was not qualified in 2018/19. The notice of conclusion of audit and audited AGAR have been posted to the council website and is due to be reported to Council at the next meeting.

Confirm by sample testing that councillors sign statutory office forms

I confirmed by sample testing that councillors have signed "Acceptance of Office" forms and Register of Members' Interests, in line with regulations. However, it was noted that one councillor has still not completed the required forms as at the interim audit date. Councillors have not signed acceptance to receive information by electronic means.

Confirm that the council is compliant with the relevant transparency code

I note that the council is not required by law to follow the 2015 Local Government Transparency Code. All councils are encouraged to follow the code to provide greater transparency for the public and to reduce the potential of Freedom of Information (FOI) requests. A review of the web site shows that none of the recommended information is available and **I would recommend the council takes steps to publish the information required by the code**. Full details of the requirements of the code can be found via this link www.gov.uk/LGTC2015.pdf

Confirm that the council is compliant with the GDPR

The council is aware of GDPR and has undergone training. It was noted the council has introduced common email addresses internally and for councillors. It is recommended because it gives a natural segregation between personal and councillor business, so it is clear beyond doubt in what capacity a councillor is acting, gives control to the council, adds a degree of professionalism and in the event of a FOI request limits access to personal computers. The council chose not to appoint an external Data Protection Officer (DPO) and does not have Data Protection policies and a Privacy Notice on the website. **I recommend the council address the missing policies as a matter of urgency to comply with the GDPR regulations.**

Confirm that the council meets regularly throughout the year

The council has the following committees:

- Full Council - meets monthly except August and December
- Finance – meets twice per year
- Services and Amenities – meets monthly
- Planning and Highways – meets monthly
- Staffing – meets as required

All spending is authorised by full council.

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

The Clerk was unable to demonstrate that at least 3 clear days' notice is given on both web site and hard copy agendas, as agendas are not on the website and no hard copies were available at the interim audit date. It is noted that plans are in place to establish a new website, and further checking of the missing information will be conducted at the year-end audit.

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

Due to the absence of information on the website, this was unable to be verified. Further checks to be made at the year-end audit.

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

The Standing Orders are based on an old NALC model (pre 2018) and therefore contain details which have been superseded by legislative changes. **I would recommend an urgent update to the Standing Orders using the NALC 2018 model version (available on the SSALC website)**. This will be further reviewed at the year-end audit.

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

The Financial Regulations are based on the NALC 2016 model and were last reviewed and adopted by council in November 2018. 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. The Clerk is aware of the July 2019 model version and will use these for any future updates.

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

Financial regulation 2.2 deals with bank reconciliations. **Through sample checking, no bank reconciliation has been completed for the current financial year and this needs to be addressed urgently and presented to the council for noting**. Further checks will be completed at the year-end audit.

Financial Regulation 5 deals with authorisation of payments. Invoices are checked for authenticity by the Clerk and added to the payment list. These are presented at Council meetings along with the cheques for signature. Sample checking of invoices and payment lists confirm correct processes are being followed.

Financial regulation 6 deals with making payments. The council makes payments cheque with some direct debits. Two councillors are required to sign cheques, with four councillors authorised to do so. **Council is reminded that the approval of direct debits must be renewed by council at least every two years.**

Financial regulation 7 deals with approval and authorisation of salaries, the minutes and files show evidence of authorisation of changes and of wages generally.

Confirm all section 137 expenditure meets the guidelines and does not exceed the annual per elector limit of £8.12 per elector

The council has section 137 expenditure within limits.

Confirm that checks of the accounts are made by a councillor.

The system noted above details some internal review takes place, although it is of particular concern that no bank reconciliation has been performed since the start of the financial year.

Final Audit

It was noted that an updated version of the NALC model Standing Orders is now available on the council website, alongside information outlining the remits of each committee.

The Clerk confirmed that all councillors had now completed the statutory forms.

The website now has a Privacy Policy accessible from the home page to comply with GDPR requirements.

A year-end bank reconciliation has been presented for the final audit.

Clearly, work has taken place to address the issues identified at the interim audit and 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 AND INSURANCE (INTERIM AND FINAL AUDIT)

Internal audit requirement

This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.

Interim Audit

At the interim audit date, the Clerk was unable to produce a risk assessment or risk management policy. No insurance schedule was available to examine to check appropriate cover is in place. These areas will be further examined at the year-end audit.

At the interim audit date, 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 not been met.**

Final Audit

The Clerk provided a risk register which was approved by council in January 2020. This covers financial and other risks and is suitable for a council of this size.

The Clerk provided evidence of insurance cover for the financial year, with a policy provided by Zurich. This includes Employers Liability and Public Liability cover of £10 million and a Fidelity Guarantee of £100,000. Based on the closing balances held, **I recommend the council reviews its level of Fidelity Guarantee to ensure it covers the maximum balance held by the council during the year.**

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)

Internal audit requirement

The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.

Interim Audit

The Clerk informed me that the 2020/21 budget and precept setting process has yet to start. The council does not have a business plan or three-year budget plan.

The council holds circa £38,000 in unspecified reserves. General guidance recommends the council’s general reserve should be circa 50% of precept as adjusted for local conditions, and it was unclear what element of the reserves was general and what earmarked reserves may exist.

There was no information available at the interim audit date to measure performance against budget for the current financial year.

At the interim audit date, 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.**

Final Audit

It was noted that the council has an agreed budget for 2020/21 and this has been published on the council’s website along with some explanatory information relating to it.

The council has reserves and the Clerk informed me work continues on how these are assessed and managed. Council is reminded that general guidance recommends the level of general reserve is maintained at 50% of the precept, as adjusted for local conditions.

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)

Internal audit requirement

Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.

Interim Audit

Apart from the precept, the council has various streams of income:

- Pavilion hire
- Sports pitch hire
- Grants

The whole precept has been received properly accounted for.

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)

Internal audit requirement

Petty cash payments were properly supported by receipts; all petty cash expenditure was approved, and VAT appropriately accounted for.

The council has no petty cash.

G. PAYROLL (INTERIM AND FINAL AUDIT)

Internal audit requirement

Salaries to employees and allowances to members were paid in accordance with this authority's approvals, and PAYE and NI requirements were properly applied.

Interim Audit

The council processes payroll externally through a third party. Payments are made in house based on the information provided. There are no councillor allowances. Checks of the payroll calculations will be completed at the year-end audit.

Not all staff members have a signed contract of employment and the Clerk is in the process of dealing with this situation. **It is recommended this exercise is completed urgently to protect the employment rights of the employee and the council as a whole.**

At the interim audit date, 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 not been met.**

Final Audit

Due to the remote nature of the final audit, detailed checking of payroll information was not possible. The amounts on the AGAR were reconcilable to the payroll records.

The Clerk confirmed that all staff members now have signed contracts of employment.

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)

Internal audit requirement

Asset and investments registers were complete and accurate and properly maintained.

Interim Audit

The Clerk was unable to produce an asset register for inspection at the interim audit date.

At the interim audit date, I am of the opinion that the control objective of "Asset and investments registers were complete and accurate and properly maintained" **has not been met.**

Final Audit

The Clerk provided an asset register for inspection at the final audit. The total was checked and found to match that entered on the AGAR for 2019-20.

The council has no PWLB borrowing.

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)

Internal audit requirement

Periodic and year-end bank account reconciliations were properly carried out.

Interim Audit

At the interim audit date, the council had not reconciled its bank position since the start of the financial year.

At the interim audit date, 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.**

Final Audit

At the year-end audit date, the council had a reconciled bank position across its accounts. There were outstanding payments totalling £3,837.65 and outstanding credits totalling £149.50 as of 31 March 2020. Bank balances were verified to the bank statement for the period ending 31 March 2020.

Council is reminded of the importance of regularly completing bank reconciliations to comply with financial regulations and ensure accounting records are accurately maintained.

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)**Internal audit requirement**

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.

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.

Section 1 – Annual Governance Statement

	Annual Governance Statement	<i>‘Yes’ means that this authority</i>	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.	<i>prepared its accounting statements in accordance with the Accounts and Audit Regulations.</i>	YES –accounts follow latest Accounts and Audit Regulations and recommendations.
2	We maintained an adequate system of internal control including measures designed to prevent and detect fraud and corruption and reviewed its effectiveness.	<i>made proper arrangements and accepted responsibility for safeguarding the public money and resources in its charge.</i>	YES – there is regular reporting of financial transactions 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.	<i>has only done what it has the legal power to do and has complied with Proper Practices in doing so.</i>	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.	<i>during the year gave all persons interested the opportunity to inspect and ask questions about this authority’s accounts.</i>	YES – the requirements and timescales for 2018/19 year-end were followed.
5	We carried out an assessment of the risks	<i>considered and documented the</i>	YES – the council has a risk

	facing this authority and took appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required.	<i>financial and other risks it faces and dealt with them properly.</i>	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.	<i>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.</i>	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.	<i>responded to matters brought to its attention by internal and external audit.</i>	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.	<i>disclosed everything it should have about its business activity during the year including events taking place after the year end if relevant.</i>	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.	<i>has met all of its responsibilities where, as a body corporate, it is a sole managing trustee of a local trust or trusts.</i>	N/A – the council has no trusts.

Section 2 – Accounting Statements

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	45,980	57,953	No figures were presented for 2018/19 comparison, so the accuracy of this figure cannot be verified
2	Precept or rates and levies	68,496	68,790	Confirmed against precept amount received
3	Total other receipts	41,495	44,822	Confirmed against accounting records
4	Staff costs	22,137	28,958	Confirmed against accounting records
5	Loan interest/capital repayments	0	0	Council has no borrowing
6	All other payments	75,881	44,180	Confirmed against accounting records
7	Balances carried forward	57,953	98,427	Total correctly equals (1+2+3) – (4+5+6)
8	Total value of cash and short-term investments	57,953	98,427	No difference to box 7 as receipts and payments
9	Total fixed assets plus long	854,558	826,284	Confirmed against asset register

	term investments and assets			
10	Total borrowings	0	0	Council has no borrowing
11	Disclosure note re Trust Funds (including charitable)	YES	NO √	Council has no trusts

The year-end accounts have been correctly prepared on the receipts and payments basis with no need for the box 7 & 8 reconciliation.

The AGAR correctly casts and cross casts and the comparatives have been correctly copied over from the previous year's AGAR.

The explanation of variances has been completed with sufficient detail and explanations provided for variances in excess of 15% for boxes 4 and 6.

K. LIMITED ASSURANCE REVIEW (FINAL AUDIT)

Internal audit requirement

If the authority certified itself as exempt from a limited assurance review in the previous year, it met the exemption criteria and correctly declared itself exempt.

Not applicable as the council did not certify itself exempt from a limited assurance review in 2018/19.

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

Internal audit requirement

The authority has demonstrated that during the previous year it correctly provided for the exercise of public rights as required by the Accounts and Audit Regulations.

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 came into force on 30 April 2020.

The relevant dates as set by Charlwood Parish Council are set out in the table below.

Inspection - Key date	2018/19 Actual	2019-20 Proposed
Date Inspection Notice Issued	21 June 2019	TBA
Inspection period begins	24 June 2019	TBA
Inspection period ends	2 August 2019	TBA

Correct length	Yes	
Common period included?	Yes	N/A
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 dates for 2019/20 due to the Covid-19 outbreak and has plans in place to meet the deadlines.

M. TRUSTEESHIP (INTERIM AUDIT)

Internal audit requirement

Trust funds (including charitable) – the council has met its responsibilities as a trustee.

The council has no trusts.

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

Kind regards

Yours sincerely

A Beams

Andy Beams

Interim Audit – Recommendations

<u>Audit point</u>	<u>Recommendation</u>	<u>Council comments</u>
BOOKS OF ACCOUNTS	I recommend measures are taken to make improvements in assessing income and expenditure compared to budget	Review of the council minutes on the website shows evidence of discussion of financial matters, and the Clerk provided copies of accounting records including analysis of budget performance
FINANCIAL REGULATIONS, GOVERNANCE AND PAYMENTS – Statutory Office forms	One Councillor had not completed the statutory forms at the interim audit date	The Clerk confirmed the forms are now complete
FINANCIAL REGULATIONS, GOVERNANCE AND PAYMENTS – GDPR	The council must address the missing policies and publish on the website to comply with GDPR	The website now has a Privacy Policy accessible from the home page to comply with GDPR requirements
FINANCIAL REGULATIONS, GOVERNANCE AND PAYMENTS – Standing Orders	I recommend an urgent update to the Standing Orders using the NALC 2018 model version as existing version contain incorrect details	It was noted that an updated version of the NALC model Standing Orders is now available on the council website, alongside information outlining the remits of each committee

RISK MANAGEMENT AND INSURANCE	The Clerk was unable to produce a risk assessment or risk management policy	Risk register provided for final audit
RISK MANAGEMENT AND INSURANCE	No insurance schedule was available for examination	Insurance policy provided for final audit
PAYROLL	Not all staff members have signed contracts of employment	The Clerk confirmed all staff members now have signed contracts of employment
ASSETS AND INVESTMENTS	The Clerk was unable to produce an asset register for inspection	Asset register provided for review at final audit
BANK AND CASH	No bank reconciliation has been completed for the current financial year	A year-end bank reconciliation was presented as part of the final audit process

Final Audit – Recommendations

<u>Audit point</u>	<u>Recommendation</u>	<u>Council comments</u>
BOOKS OF ACCOUNTS	I recommend the reporting against budget is included regularly as an agenda item to ensure council is kept informed of the financial position.	
<u>RISK MANAGEMENT AND INSURANCE</u>	I recommend the council reviews its level of Fidelity Guarantee to ensure it covers the maximum balance held by the council during the year.	