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Our Ref: MARK/CHA004

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

12<sup>th</sup> June 2019

Dear Trevor

**Re: Charlwood Parish Council  
Internal Audit Year Ended 31<sup>st</sup> March 2019**

Following completion of our interim internal audit on the 17<sup>th</sup> October 2018 and our final audit on the 12<sup>th</sup> June 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 year to date. Where appropriate **recommendations for future action are shown in bold text and summarised in the tables at the end of the report.**

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 in 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 Charlwood Parish Council are well established 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 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 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 continues to use excel as a day to day accounting package, the system is used regularly and at least once a month to report and record the financial transactions of the Council. At least three times per annum the cashbooks are reviewed by the chairman and each month the clerk produces a cashbook control, bank rec and income expenditure summary.

The excel spreadsheet is maintained in date and cheque number order with fields populated to show the nature and scope of the transaction, together with financial details. This is a clear and easy to follow system and a review of the cashbook shows that all data fields are being entered and hard copy backup documentation was available. Whilst I make no recommendation to change in this system, **it was noted that tracing the income to hard copy documentation could be improved. I therefore recommend the system for recording and storing documentation in respect of income be improved.**

I tested opening balances as at 1.4.18 and confirmed they could be agreed back to the audited accounts for 2017-18.

The Council is not VAT registered and the last VAT reclaim was for the quarter ended 31<sup>st</sup> March 2018. The council is not behind in making reclaims – although HMRC have yet to refund the council and the internal auditors have offered assistance in progressing the claims.

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 & PAYMENTS (INTERIM & FINAL AUDIT)**

##### **Interim Audit**

At the interim audit date the external auditors report has not been finalised – the council has an interim report which was taken to council in October 2018 and will be put up on the web site in the next couple of days.

I confirmed by sample testing that Councillors have signed “Acceptance of Office” forms and the register of members interests; this is in line with regulations.

Minutes are prepared for all meetings of the Council and its committees i.e.

- Full Council; meets circa 10 times annually
- Services and amenities meets monthly
- Planning & Highways; meets monthly
- Finance; meets quarterly
- Staff Committee – ad hoc

There are also a number of working parties and groups which meet as and when necessary to cover specific tasks only the full Council has spending powers.

Minutes are uploaded to the council website. Whilst we have not tested every single committee and council meeting there was no evidence of non-compliance in giving three clear days’ notice of the meeting, with reference to when

agendas were issued. **However, it was noted that not all meetings minutes were available on-line – I recommend the minutes of the previous meetings back to April 2018 are uploaded as soon as possible.**

Financial regulations and standing orders are based on the NALC model and are dated June 2017. 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. These were taken to council in January 2018. **I recommend these are taken to council again before the year end.**

Financial regulation 2.2 deals with bank reconciliations, the council is performing a regular bank reconciliation for all accounts. **However, it was noted that the reconciliations and statements had not been signed, I recommend this process is tightened by the year end.**

Financial regulation 4 deals with budgetary control and authority to spend. The council has thresholds in place at which authorisations to spend must be obtained. The clerk was able to demonstrate that budget monitoring reporting to members is completed. Reporting is sufficiently detailed for a council of this size and is minuted appropriately. I reviewed the budget outturn report for July 2018 and noted that overall the budget had not been exceeded.

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

It was noted there was no annual list of regular payments in accordance with Financial Regulation 5.6. **I recommend this be draw up before 31<sup>st</sup> March 2019 and annually thereafter.**

Financial regulation 6 deals with making payments. The council makes payments by cheque and direct debit and occasionally by bacs. Cheques must be signed by two councillors. The September 2018 minutes detailed a schedule of payments, which was verified to the excel cashbook, cheque stubs and physical invoices. Cheque book stubs were initialled twice and the invoices appropriately annotated to show review and agreement.

The council does not use internet banking but is considering a move towards this.

The de-minimus limit recorded in the Financial Regulations for the competitive purchase of items and services is as listed below. **However, it was noted that there was a typo in paragraph 11b of the financial regulations insofar as the de-minimus limited is described as £1,000 instead of the agreed amount of £25,000 – this needs amending asap.**

- £25,000 + Tender Process (Financial regs state £1,000 in error)
- £5,000 - £25,000 3 quotations are required.
- £1,000 - £5,000 – strive to get 3 estimates
- 0 - £1,000– power to spend

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

I am of the opinion the council is following its own regulations and that any changes to financial regulations are to be considered minor and no indicative of errors in the system.

#### **Final Audit**

All Other Payments £75,881 (2018: £83,363).

I have reviewed the expenditure list which is broadly similar to the prior year after accounting for one of expenditure items. I also reviewed the nominal ledger for evidence of netting off and significant journal entries, the individual entries were in accordance with the heading under which they were posted and corrections/transfers where evident were bonafide. We found no evidence of breaches of financial regulations in the sample testing completed.

Other payments have decreased by £7,482, this is less than 15% and does not need reporting to the external auditor.

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 & FINAL AUDIT)**

#### **Interim Audit**

The council uses a hosted environment for its transactions and as such is backed up automatically. There is only one access via the clerk's PC with user name and password. A process is in place to cover events such as clerk's illness and holiday.

The Council undertakes a full annual risk assessment that covers operational and financial risks, this was taken to council in January 2018, this will be reviewed again in the January 2019 meeting.

The council is insured with Zurich on a standard local authority package. The Council reviews its insurance requirements as part of the renewal process. Money and asset cover appear adequate.

The council does not have a central address system for emails. If councillors use personal emails it can be confusing as to if the councillor is acting in a personal capacity or representing the council, in addition to this, under an FOI request a councillor's personal computers/emails could be called upon for investigation. **I would recommend council consider a central email system**

#### **Final Audit**

We discussed assertion 8 of the AGAR and whether or not this had any impact on the council.

*"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 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 & FINAL AUDIT)**

#### **Interim Audit**

I confirmed that the 2019-20 budget and precept setting process will be completed by January 2019.

The council demonstrated reserves monitoring.

#### **Final Audit**

Reserves Carried Forward £57,953 (2018: £45,980)

The council has £37,900 of earmarked reserves and £20,053 of general reserves. 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 £34k. **I am of the opinion the general reserve is a little low but not unreasonable.**

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 & FINAL AUDIT)**

### **Interim Audit**

The council has various streams of income:

- Precept (circa 90% of all income)
- Football pitches etc
- Community centre.
- Grants (LTCS phased out after 2018/19)
- Interest

The precept was received in April 2017 & September together with grant. The grant has been separately categorised.

The council last reviewed its annual charges in July 2018 and at the audit date there are no aged debts.

### **Final Audit**

Precept income £68,496 (2018: £63,575)

Other income £41,495 (2018: £31,325)

The precept income was tested to third party evidence – there were no errors.

Other income tested to remittance advice notes together with a nominal ledger analysis. There is no evidence of netting off, nor were there significant numbers of journal corrections.

In total, other income has increased by £10,170 this is greater than 15% and will not need reporting to the external auditor. This is in the main due to a £13k refund of VAT. I am of the opinion that income is properly recorded.

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)**

No petty cash

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 & FINAL AUDIT)**

### **Interim Audit**

The council uses an external firm who uses the Iris payroll professional package to calculate the tax and national insurance. 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. I tested the tax deduction for a full time employee – there were no errors. I am of the opinion salaries are correctly calculated and paid.

Monthly PAYE and NI deductions and returns have been submitted online, on time to HMRC. There were no errors recorded or late payments to HMRC during the financial year under review. The PAYE and NI liability for September 2018 was paid in September.

All Council employees are paid through the payroll for all Council work undertaken. No employees are paid separately for any other Council work undertaken. Councillors are not paid allowances.

#### **Final Audit**

Salaries £22,137 (2018: £25,242)

The amounts shown on the AGAR, were reconcilable to the payroll records, there were no errors.

The year on year movement of £3,105 is less than 15% and as such does not need further explanation on the report of significant variances.

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 (INTERIM & FINAL AUDIT)**

#### **Interim Audit**

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

The Council does not hold any long term investments i.e. over 1 year.

The fixed asset register has been maintained in an Excel spreadsheet and was up to date with all relevant assets as at the interim audit date.

#### **Final Audit**

Fixed Assets and Investments £854,558 (2018: £821,195)

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 & CASH (INTERIM & FINAL AUDIT)**

#### **Interim Audit**

The council has three bank accounts, none of them are long term investments and as such do not need to be disclosed in box 9 of the AGAR.

It is noted that the council has an up to date set of NALC financial regulations and as such evidence needs to be retained in respect of hard copy formal bank and cash book control reconciliations.

**I recommend the reconciliations for June and September 2018 are re-performed and printed in accordance with Financial regulation 2.2 so that this can be signed off at the final audit.**

#### **Final Audit**

Bank & Cash Balances £57,953 (2018: £45,980)

At the year-end date the council had a reconciled bank position. I have reviewed the reconciliation and I also tested the cut off and can confirm the payments and lodgements are shown in the correct year.

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 receipts and payments basis with no requirement for the box 7 & 8 reconciliation.

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

The variance analysis is required because there are variances greater than 15% and £500. This has been prepared on a summary table basis.

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. TRUSTESHIP (INTERIM AUDIT)**

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 RFO that arrangements are in place at this Council to ensure proper exercise of public rights. Relevant dates are set out in the table below.

<b>Inspection - Key date</b>	<b>2018-19 Proposed</b>
<b>Accounts approved at full council</b>	17 <sup>th</sup> June
<b>Date Inspection Notice Issued and how published</b>	21 June
<b>Inspection period begins</b>	24 June
<b>Inspection period ends</b>	02 Aug
<b>Correct length</b>	yes
<b>Common period included?</b>	yes
<b>Summary of rights document on website?</b>	<b>Attached to inspection announcement</b>

I am satisfied the requirements of this control objective were met for 2017-18, and assertion 4 on the annual governance statement can therefore be signed off by the Council. Plans are also in place to allow for inspection periods to be published and set correctly for 2018-19 accounts – the Council is planning to follow dates suggested by external audit.

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

Kind regards  
Yours sincerely



**Mark Mulberry**

### Interim Audit - Points Forward

<b>Audit Point</b>	<b>Audit Findings</b>	<b>Cleared Date</b>
Books of Account	It was noted that tracing the income to hard copy documentation could be improved. I therefore recommend the system for recording and storing documentation in respect of income be improved.	On-going
Governance	It was noted that not all meetings minutes were available on-line – I recommend the minutes of the previous meetings back to April 2018 are uploaded as soon as possible.	On-going
Financial Regs & Standing Orders	These documents need to be seen to be reviewed annually. I recommend these are taken to council again before the year end.	On-going
Bank reconciliations	Financial regulation 2.2. It was noted that the reconciliations and statements had not been signed, I recommend this process is tightened by the year end.	On-going
Payments	Financial Regulation 5.6: It was noted there was no annual list of regular payments. I recommend this be draw up before 31 <sup>st</sup> March 2019 and annually thereafter.	On-going
Payments	Financial Regulation 11b: It was noted that there was a typo in paragraph 11b insofar as the de-minimus limited is described as £1,000 instead of the agreed amount of £25,000 – this needs amending asap.	On-going
Risk Management /Governance	The council does not have a central address for emails. If councillors use personal emails it can be confusing as to if the councillor is acting in a personal capacity or representing the council, in addition to this, under an FOI request a councillor's personal computers/emails could be called upon for investigation. I would recommend council consider a central email system	On-going
Bank reconciliations	I recommend the reconciliations for June and September 2018 are re-performed and printed in accordance with Financial regulation 2.2 so that this can be signed off at the final audit.	Year End reconciliation has been completed.

**Final Audit - Points Forward**

<b>Audit Point</b>	<b>Audit Findings</b>	<b>Council comments</b>
General Reserves	I am of the opinion these are reasonable but a little on the low side.	