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Our Ref: MARK/LEW001

Mr S Brigden
Lewes Town Council
Town Hall
High Street
Lewes
East Sussex
BN7 2QS

15th June 2018

Dear Steve

Re: Lewes Town Council
Internal Audit Year Ended 31st March 2018

Following completion of our interim internal audit on the 20th November and our final audit on the 15th June 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 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 salaries
- Review of fixed asset register

It is our opinion that the systems and internal procedures at Lewes 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 Steve and his team for their assistance and hard work.

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 2018. Accordingly, I have signed off the AGAR.

A. BOOKS OF ACCOUNT (INTERIM & FINAL AUDIT)

The Council continues to use Sage an industry standard financial accounting package. The Sage system is used daily 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 hard copy reports are easy to read and logically filed.

The finance officer prints off and files in hard copy, bank reconciliation, cashbook, income and expenditure against budget and other reports as fit. This is a clear and easy to follow system and I make no recommendation to change in this process.

My audit testing showed that supporting documentation could be readily located from records recorded on Sage. 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.

I confirmed that the Council's last VAT reclaim was April 2017 for the year ended 31st March 2017.

The Council is required by law to follow the 2015 Transparency Code, a review of the web site shows that some of the code is being followed, but it is also clear there are some missing. **I have recommended 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 and to this end I have signposted Crowborough Town Council as a good site to review.**

In the light of the new data protection regulations (GDPR); it was noted the Council does not have common email addresses yet – but this is being considered by the clerk.

Final Audit

The Clerk to the Council has overall responsibility for the day-to-day accounts functions. The accounts are balanced and are up to date to the financial year end. Checks of the computerised accounting system confirmed that the cashbook and other accounts arithmetic were correct.

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 & PAYMENTS (INTERIM & FINAL 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 standing orders in March 2015. **These need to be reviewed again.**

Financial regulations are based on an older NALC model and are dated March 2015. 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 need to be reviewed again.**

Financial Regulation 4 deals with accounting and audit. The council has in place an audit panel and has fulfilled obligations in respect of internal audit.

Financial regulation 5 & 6 deal with authorisation and making of payments. Cheques require three signatures. Invoices are authorised and a random sample of payments was selected for September 2017. There were no errors and all agreed to the payments list. The council makes payments via cheque, bacs, direct debit and standing order. No cash payments. My only observation is that Regulation 5 & 6 could be reorganised so that regulation 5 deals with authorisation to make payment checking of invoices and regulation 6 deals with the physical payment. The regulations could also make reference to the payment policy (currently a separate document) . **I recommend that upon next review the 2016 NALC model are considered or used as a basis.**

The council has an on-line system with Natwest this has a natural segregation of duties insofar as the same user cannot both create and authorise the same transaction.

Final Audit

Total Other payments £701,470 (2017: £720,906)

I have reviewed the expenditure list which is broadly similar to the prior year after accounting for one of expenditure items. The reason for the reduction in expenditure being due to fewer grants paid in 2017/18.

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.

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 has a risk assessments and a risk management policy.

I have confirmed that the Council has a valid insurance certificate. The Council reviews its insurance requirements as part of the renewal process. Asset cover appears adequate; **money cover should be reviewed with the insurance company on next review.**

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." There are none.

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)

In accordance with financial regulation 2, I confirmed that the 2018-19 budget and precept setting process was well underway at the time of our interim audit, with initial budget meetings complete. The 2018-19 budget and precept will be approved by the end of January 2018, so all precepting authority deadlines will be met.

The Council was able to demonstrate that budget monitoring reporting to members is comprehensive, and is appropriately minuted. However, at the audit date this had not been completed in full with only one meeting in June 2017. The clerk advises the six month reporting will be brought up to date as soon as possible. I remind council that reporting against budget is a key control, in addition to this standing orders state that quarterly reporting should take place. **I recommend the quarterly reporting is brought up to date in line with the requirements of standing orders and that financial regulations are amended to reflect the same requirement.**

The council has detailed workings on reserves and anticipates general reserve will be circa £50,000 against a precept of £944k this is too low for a council of this size. The council is aware it has low general reserves and has action plans in place to address this but it is also clear the council is reliant on earmarked reserves not being used in order to support the general reserve. **I would recommend council continue to review its earmarked reserves in detail and reassign and reallocate.**

Final Audit

Reserves Carried Forward £761,420 (2017: £732,776)

The council has £638,439 of earmarked reserves and £122,981 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 £472k.

General Reserves in my opinion are too low and for a council of this size anything from £375k to £475k would be not unreasonable consider the other income streams of the council. It is noted the council is precepting to increase the general reserve balance by circa £50k per annum from 2018/19 onwards.

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

Financial regulations state fees must be reviewed annually. Council reviews and minutes. A random selection showed that council is charging the amounts shown on the printed and published lists.

Final Audit

Precept income £944,758 (2017: £860,072)

Other income £258,447 (2017: £248,880)

The precept income was tested to remittance advice notes and bank statements. The local tax support grant element has been correctly recorded in box 3 of the AGAR.

Other income and debtors were tested to remittance advice notes and underlying documentation, 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 £9,567, which is less than 15% year on year. I am of the opinion that income is properly recorded.

The council is registered for VAT. The last VAT reclaim was completed for the quarter ended 31st March 2018, which was received in April 2018.

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 & FINAL AUDIT)

The Council has £225 in petty cash, this was tested at the interim audit and shown to be correct at the year end date there was a balance of £39.62/

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 (FINAL AUDIT)

Salaries £463,035 (2017: £470,326)

Payroll is performed in house using Sage. The signed minutes show that council approves changes to payrolls. The amounts shown on the AGAR, were reconcilable to the payroll records, there were no errors.

Monthly and year-end 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 March 2018 was paid in and cleared in March 2018.

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

All Council employees are paid through the payroll for all Council work undertaken. No employees are paid separately for any other Council work undertaken.

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 summary list of assets in the financial accounts and within its working papers a detailed list of individual assets. It is clear that work is ongoing in this area and that more work is required to compile a detailed working register of assets. **I recommend the work on fixed assets continue because having a register will enable councillors to sign off that they are safeguarding public money etc. Work has been undertaken and this point is now cleared.**

Final Audit

Fixed Assets & Long Term Investments £3,236,060 (2017: £3,236,060)

Total Borrowings £52,363 (2017: £59,810)

Loan Interest/Capital £10,056 (2017: £10,056)

Fixed assets have not changed year on year.

The loan capital and interest payments and loan balance were agreed to statements issued by PWLB debt management. There were no errors.

The Council does not hold any long term investments [i.e. over 1 year], nor any assets.

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 & FINAL AUDIT)

The Council has 2 bank accounts all held with Natwest. I have tested that the bank accounts are being reconciled promptly at the end of each month. I also re-performed the October bank reconciliation. I found no error in the reconciliation.

Final Audit

Bank & Cash Balances £751,633 (2017: £781,728)

At the year-end date the council had a reconciled bank position this was taken to council for approval in April 2018 and signed in accordance with regulations. I have reviewed the reconciliation there were £5,146.34 outstanding payments and £333.60 outstanding lodgements. I also tested the cut off and can confirm the payments and lodgements are shown in the correct year.

None of the accounts are long term investments and as such do not need to be disclosed in box 9 of the AGAR.

It was noted there were two aged outstanding lodgements totalling £50.10 that should be written back in the 2018/19 council year.

The movement year on year in bank and cash balances of £30,065 is less than 15% and as such will not be needed to be reported on the report of significant variances.

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 with box 7 & 8 reconciliation required. A review of the accounts showed this to reconcile.

The AGAR correctly casts and cross casts and the comparatives have been correctly copied over from the 2016/17 AGAR.

The variance analysis is not required because there are no variances greater than 15% and £200.

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. Council will sign the AGAR on the 21st June and put up the notice on the 29th June. Commencement of the notice period will be the 2nd July to the 10th August.

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

The council is sole managing trustee of The Town Brook Charity for the provision and maintenance of the adjacent recreation ground for the benefit of the public generally and especially the inhabitants of the town of Lewes in the county of East Sussex.

Filing is up to date.

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

Kind regards
Yours sincerely

A handwritten signature in cursive script, appearing to read 'M Mulberry', with a long horizontal flourish extending to the right.

Mark Mulberry