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Our Ref: MARK/LEW001

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

14th June 2019

Dear Steve

Re: Lewes Town Council
Internal Audit Year Ended 31st March 2019

Following completion of our interim internal audit on the 10th October 2018 and our final audit on the 14th 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.**

Recommendations and actions from the interim audit are shown in the table 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 the accounts. The internal audit report(s) 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 flowing 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 well established 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 Steve & his 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 & 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 Sage as a day to day accounting package, this is a tried and tested financial reporting package and is augmented with Excel for reporting to council and I make no recommendation to change.

The council has a dedicated account function which is overseen by the clerk. There is one individual (Finance Administrator) responsible for the entire day to day finance function and entering all the finance details onto the Sage system. It is clear this could be a risk area due to the limited segregation of duties, however there are a number of compensating controls in place to mitigate this – such as monthly bank reconciliations, review of debtors lists and regular reporting to council and the RFO. In addition to this has been no reported issues in the past.

There are two active logons for the Sage system, the clerk and the finance administrator and three users for the on-line banking, each with their own individual logons.

At the end of the month the finance administrator reconciles the bank on the Sage System and reviews the aged debtors report. A hard copy bank reconciliation is produced signed and filed. At the end of the quarter a full nominal ledger is given to the clerk in excel format for production of the management accounts.

The Sage system requires fields to be populated with referencing information as data is input, this is a clear and easy to follow system and a review of the cashbook shows that all data fields are being entered and my audit testing showed that supporting documentation could be easily located from records. I make no recommendation to change in this system.

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 S.126 VAT reclaim was submitted for the period ended 31st March 2018. I am able to confirm the council is not significantly behind with its Vat claims.

I note that the Council is required by law to follow the 2015 Transparency Code in respect of making certain information publically available via the council website. I also note that the council has a new website and is very much in the process of updating the public facing information; however, a review has shown that whilst the majority of the Code is being followed there are some pieces of information missing. I also felt that navigating to the information required a certain degree of background knowledge and as such could be made easier. The main points are

1. The quarterly publication of expenditure over £500 – para 26 to 32 of the code
2. The land register needs to be published – para 35 to 37 of the Code

I would recommend a review of the code with a view to enhancing the public facing information. I would recommend view Crowborough Town Councils Website and specifically the transparency page.
<http://www.crowboroughtowncouncil.gov.uk/council/data-transparency>

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 & PAYMENTS (INTERIM & FINAL AUDIT)

Interim Audit

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

- Full Council; meets 10 times per annum
- Personnel Panel - adhoc
- Audit & Governance Panel – 4 times per annum
- Planning Committee; meets 3 weekly
- Working parties as and when needed

The external auditors report was not qualified in 2017/18 and the notice of conclusion of audit is posted to the website. The signed annual return was taken to council in October 2018 and noted in the minutes.

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 policy working party reviewed them in June 2018 in readiness for full council, some amendments have been made to align with latest NALC recommendations.

Financial regulations are based on an older NALC model and are dated March 2015 and the policy working party reviewed them in June 2018 in readiness for full council, some amendments are in the process of being made to align with latest NALC recommendations; namely Bank reconciliations and electronic banking. 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 council is performing a monthly bank reconciliation for all accounts in accordance with the new regulations being adopted. The activity is properly noted by full Council - as evidenced in the June 2018 minutes.

Financial regulation 3 deals with budgetary control and authority to spend. The council uses a Purchase Order (PO) system, where Po's are raised and matched to the supplier's invoice with authorisations at various stages. The system is designed that it should not be possible for a PO to be issued without the clerk's counter signature. Where no PO is in evidence when an invoice arrives, this is investigated by the clerk and finance administrator.

Purchase Orders are generally used for non-regular expenditure items. A review of the invoices file showed POs to be attached, for items where there was no PO raised there was an audit trail to document the proper purchase.

The council is obliged to purchase on the following basis

- £60,000+ public tender
- £5,000- £60,000 – three quotations
- £2,000 - £5,000 – three estimates
- Up to £2k – strive for value for money.

The clerk was able to demonstrate that budget monitoring reporting to members is completed on a quarterly basis. Reporting is comprehensive and is minuted appropriately. I reviewed the budget outturn report for June 2018 and this had been taken to council for discussion.

Financial Regulation 5 deals with authorisation of physical payments. The minutes show authorisation of payments lists in accordance with regulations. Signatures on cheques or on-line authorisations have been made in accordance with regulations.

Financial regulation 6 deals with making payments. The council makes payments by cheque and direct debit and bacs. Cheques must be signed by three individuals, two councillors and an officer, interbank transfers can be made by the finance administrator. Internet payments are made via the bank website from an upload from the Sage system and the bank is set such that the originator cannot authorise the same transaction, so there is a natural segregation of duties and control in place. Admin changes must be authorised by an officer.

The bacs payments list from sage is uploaded to the bank and then printed from the bank system with a hard copy being retained for councillors to physically sign. I have reviewed a sample of payments and am able to confirm that payments have been made in accordance with regulations.

Pin numbers are kept in the locked safe in accordance with regulations.

Financial regulation 7 deals with approval and authorisation of salaries.

Financial regulation 8 deals with loans and borrowings. The council has one PWLB loan in the name of the council with a total of £52,362 outstanding at the audit date. The council has no investments at the audit date and an investment policy is in place.

Draft and final minutes are uploaded to the council website. Whilst we have not tested all panels, working parties and council meetings there was no evidence of non-compliance in giving three clear days' notice of the meeting. The agendas include the reference documentation and the hard copy has a disclosure advising reference material can be obtained on line or on request. The minutes where applicable show as draft.

Final Audit

All Other Payments £563,956 (2018: £701,470).

I have reviewed the expenditure list which is broadly similar to the prior year after accounting for one off 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.

Creditors were £28,559 of which

- Trade creditors £24,861 - agrees to aged creditors rpt – no aged balances.
- Income in advance £3,698 – this is rents received in advance

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 undertakes a full risk assessment that covers operational and financial risks, this was taken to council in July 2018.

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. It was noted the council has significant insurance cover for a number of asset categories including public liability.

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

The council is just about to commence the budget setting process for the 2018/19 council year. There is no reason to believe these will not be completed on time.

The budgeting process is very robust and detailed and entirely fit for purpose. The council has a forward plan, but this is not financial in nature.

Further work will be carried out at the year-end in this area.

Final Audit

Reserves Carried Forward £994,506 (2018: £761,420)

The council has £808,653 of earmarked reserves and £185,853 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 £518k. I was pleased to see the detailed working and council verification of the reserves working; however, I am of the opinion that general reserves are very low. In addition to this, it is noted that the council has made robust provision within its earmarked reserves for repairs and maintenance of its buildings.

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)
- Room & Hall Hire
- Allotments
- Fishing Permits
- Grants
- Interest

The council does not have any income that would require them to be registered for VAT. The precept was received in April & August 2018.

The council reviews its fees and charges as part of the budget setting process.

Bad & aged debts are monitored on a monthly basis, statements are issued as and when required. At the audit date there was circa £3,500 of net aged debts.

Final Audit

Precept income £1,036,301 (2018: £944,758)

Other income £259,953 (2018: £258,447)

The precept income was tested to third party evidence and is shown in the correct box of the AGAR. There are no errors to report.

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

At the year-end date the council has £49,001 of debtors and £35,983 of VAT outstanding. The VAT refund was received in May. The debtors are further broken down into:

- Stock £4,378 – reasonable compared to prior year – small sundry items
- Debtors £13,910 – agrees to aged report
- Payments in advance £30,713 – insurance for 2019/20 agreed to supplier
- VAT debtor £35,983 – received after date £35,936.96 - £45 on control account

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 small float of £500.

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 Sage payroll. Employees are paid with reference with NJC scales for consistency purposes. This is passed to the Clerk for review and payment is made in normal manner.

No employees are paid for services outside of the payroll. No employees are paid by third parties. Councillors are paid allowances of £331 each if they want it, this has not been changed in recent years.

Final Audit

Salaries £489,156 (2018: £463,035)

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 2019 was paid in March and agrees to payroll records.

The year on year movement of £26,121 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 two fixed asset register documents a summary financial list used for the accounts and a longer detailed list showing all the assets and their respective locations. Assets are stated at historic or proxy cost in the financial statements. However, I am of the opinion that as working documents the registers need further work. **I would recommend that the following as a minimum are added to make a combined register.**

- 1. A cost column on the existing detailed register is populated – this will then provide a list (by asset) to agree to the summary as shown in the financial statements.**
- 2. A column be added to show the insurance value of the asset, this will show if the asset is under or over insured or indeed insured at all, together with showing if assets are being insured that are not on the register.**
- 3. A replacement value estimate. This will give an indication as to the level of expenditure required to replace assets so that a determination can be made as to whether an earmarked reserve would be appropriate.**
- 4. Last physically vouched indicator – this would enable council to demonstrate physically that it is protecting public assets.**

Final Audit

Fixed Assets and Investments £3,236,060 (2018: £3,236,060)

Loan Interest & Capital £10,056 (2018: £10,056)

Total Borrowings £44,577 (2018: £52,363)

The loan interest and capital repayments were agreed to PWLB debt management letters and the closing balance to the end of year statement letter. There were no errors.

The fixed asset register has been maintained in an Excel spreadsheet and agreed to the AGAR. The asset register was up to date with all relevant assets as at the current financial year end.

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 two bank accounts, together with petty cash. None of the accounts are long term investments and as such do not need to be disclosed in box 9 of the AGAR. However, it is noted that some of the bank and cash investments could be invested elsewhere to obtain a greater return.

The August 2018 bank reconciliation was verified in detail which showed £968.345.82 in the current account and £450,000 in the reserve.

Final Audit

Bank & Cash Balances £938,081 (2018: £751,633)

At the year-end date the council had a reconciled bank position which has been signed in accordance with financial regulations. 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.

The movement year on year in bank and cash balances of £186,448 greater than 15% and is due in the main to reduced expenditure.

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 & expenditure basis with the box 7 & 8 reconciliation properly completed.

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.

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 (INTERIM AUDIT)

Town Brook Trust – sole managing trustee. Where necessary separate meetings are held and the clerk monitors this. Accounts and returns are up to date with the charities commission.

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.

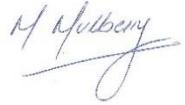
Inspection - Key date	2018-19 Proposed
Accounts approved at full council	20 th June
Date Inspection Notice Issued and how published	21 st June
Inspection period begins	24 June
Inspection period ends	2 Aug
Correct length	yes
Common period included?	yes
Summary of rights document on website?	Attached to inspection announcement

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

A handwritten signature in black ink, appearing to read "Mark Mulberry".

Mark Mulberry

Interim Audit - Points Forward

Audit Point	Audit Findings	Council comments
Transparency	The public facing information could be improved in terms of ease of finding and the detail provided.	A new web site has been created and launched
Bank Balances	The council has high amounts in the bank accounts that could be made to work harder in terms of investment return. Council may want to consider CCLA or Arbuthnot.	This is on-going and will be considered by the new council.
Fixed Assets	Update and merge fixed asset register	This is ongoing and the new register contains updated relevant information