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Our Ref: MARK/HAR013

Mrs E Fulham
Hartfield Parish Council
Goods Yard House
Edenbridge Road
Hartfield
TN7 4JG

3rd April 2019

Dear Emma

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

Following completion of our internal audit on the 28th November 2018 and our final audit on the 3rd April 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 underlined 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 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 annual accounts & AGAR
- Review of bank reconciliation
- Review of income
- Review of salaries
- Review of information for external auditor

It is our opinion that the systems and internal procedures at Hartfield Parish Council are very well established, regulated and followed. The clerk is very experienced and ensures the council follows regulations to maintain compliance.

It is clear the council takes 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. I would like to thank the clerk for her hard work during the year.

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 & FINAL AUDIT)

The council continues to use RBS an industry specific accounting package. I have tested the brought forward balances against the prior year AGAR and can confirm these have been brought forward correctly.

The RBS system is used regularly 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. My audit testing showed that supporting documentation could be readily located from records recorded on RBS and vice versa. I make no recommendation to change in this system.

The clerk/RFO regularly produces financial information for the council that includes but is not always limited to, 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.

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 period ended 30th April 2018, the period to November 2018 will be completed in the next week.

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 therefore 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

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

External auditors report was not qualified in 2017/18. This was reported to council in November 2018. Evidence was also noted in the minutes of the internal auditor's report being reviewed and accepted. The notice of conclusion of audit and audited AGAR have been posted to the council website.

Confirm by sample testing that councillors sign statutory office forms

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

Confirm that the Council is compliant with the relevant transparency code.

The Council is not required by law to follow the 2015 Transparency Code, although it is likely the law will change in the near future. The council does already comply with the key elements of the code.

Confirm that the Council is compliant with the GDPR.

The council is aware of regulations and has undergone training. The web site has a privacy notice.

Confirm that the Council meets regularly throughout the year

The council has the following committees:

- Full Council; meets circa monthly
- Finance; meets circa quarterly
- Planning; meets monthly
- Strategy; meets twice annually
- Town Croft Parish Assets; meets circa quarterly

There are also a number of working parties and groups which meets as and when necessary to cover specific tasks each committee has spending powers.

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

The clerk was able to demonstrate that at least 3 clear days' notice is given on both web site and hard copy agendas. In addition to this back up papers are posted to the web site along with the agendas. This is in accordance with regulations.

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

The council routinely posts up its minutes to its web site within 30 days of the meeting, should changes be required as notified at later meetings the minutes are updated.

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

The council, reviewed and adopted Standing orders in May 2018. The standing orders are based on the NALC model

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

The council re-adopted Financial regulations in May 2018. This is in accordance with regulations. The Financial regulations are based on the NALC model and are dated May 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.

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

Financial regulation 2 deals with Accounting and Audit. The clerk/RFO was able to demonstrate the bank reconciliation, bank statement are signed in accordance with regulations and minutes described the activity beyond reasonable doubt. I remind council that the face of the reconciliation and the face of the bank statement must be signed.

Financial regulation 4, 5 & 6 deal with authorisation and making of payments. The clerk was able to demonstrate, that in accordance with regulation, that prior authorisation is obtained from committee/council before the expenditure is incurred. I have selected the September 2018 minutes and traced the authorised payments to the invoices noting council authorisation at each stage. There were no errors and all agreed to the payments list. The council makes payments via cheque, bacs, direct debit & credit card. No cash payments.

The payments list and the minutes show beyond doubt what is being approved, invoices are annotated and checked.

The payment schedule as reported in the minutes is posted to the council website within the supporting papers and minutes to the meeting, this is in accordance with the transparency Act requirements and ensures all payments are made available to the wider public. Where applicable personal information would be redacted.

The council does not use internet banking. The council has issued cheques in the year. The stubs have been initialled twice in accordance with regulations.

Confirm all section 137 expenditure meets the guidelines & does not exceed the annual per elector limit of £7.86 per elector.

The council has no S.137 expenditure.

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

The system noted above details internal review takes place and councillor, committee and council level. I am under no doubt that council properly approves expenditure.

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. I am therefore 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.

Final Audit

All Other Payments £76,345 (2018: £68,544).

I have reviewed the expenditure list year on year and can confirm that payments are broadly similar. I also reviewed the nominal ledger for evidence of netting off and significant journal entries – there were no errors.

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

C. RISK MANAGEMENT & INSURANCE (INTERIM AUDIT)

The council has a detailed risk assessment document which was reviewed at every finance meeting. The document is very comprehensive and covers not only trips and hazards, but also financial and management risks. This document is entirely fit for purpose and I make no recommendation to change.

All council data is now stored on the cloud and regular backups are taken to an external drive stored in the clerk's office.

I have confirmed that the Council has a valid insurance certificate. The Council reviews its insurance requirements as part of the renewal process. Asset & money cover appears adequate.

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 has both general and earmarked reserves, a rule of thumb calculation indicates that general reserves of 50% of precept being circa £35k as adjusted for local conditions would be reasonable for a council of this size.

The combined bank position at 31st October 2018 was £76,678.84 of which earmarked reserves are £36k, whilst the general reserve is low there are a number of generalised earmarked reserves to cover one off expenditure.

The Council was able to demonstrate that budget monitoring reporting to members is comprehensive, and is appropriately minuted.

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

Final Audit

Reserves Carried Forward £42,203 (2018: £46,741)

The council has £36,089 in earmarked reserves and £6,114 in general reserves. The council has 11 earmarked reserves the largest being £8k for the contingency. **There are a number of generalised earmarked reserves that could be reallocated back to general and I would recommend council consider this.**

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 £40k. **I am of the opinion that the general reserves are still too low.**

I am of the opinion that reserves are properly shown on the AGAR.

E. INCOME (INTERIM & FINAL AUDIT)

The precept was tested to third party remittance advice note and the bank statement, there were no errors. Other income comprises, VAT refunds, grants, donations and flat income. The flat income of £16,650 was verifiable via the tenancy agreement and amounts shown on the bank statements.

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

Final Audit

Precept income £81,847 (2018: £76,137)

Other income £41,984 (2018: £37,559)

The income was tested to bank statements and remittance advice notes where applicable. In addition each income code was reviewed for evidence of netting off – there were no errors. I am of the opinion that income is properly shown on the AGAR.

F. PETTY CASH

No petty cash

G. PAYROLL (INTERIM & FINAL AUDIT)

Interim Audit

The council has one employee; payroll is run in house using the HMRC Basic Paye tools. Payments of salaries are authorised by council along with usual payments.

The clerk does have a signed contract of employment and is paid according to national scales. Changes to pay rates and hours have been minuted in accordance with regulation.

Monthly PAYE and NI deductions and returns have been submitted online and 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 October 2018 was paid on time.

By showing the insurance value next to the original cost – it is easy for a council to ascertain at a glance if an asset is insured or not or to show under or over insured assets.

The use of the replacement value column allows the council to plan for replacement either by way of insurance claim or via designated funds. Remember insurance value is not always the same as replacement value.

The location must be detailed enough to allow the reader to physically find the asset.

The condition of the asset will tie in with useful life and will allow the council to plan for replacement.

Final Audit

Fixed Assets and Investments £828,756 (2018: £828,756).

There have been no changes year on year – it is noted that the council has a new system in place for recording assets.

The fixed asset register agreed to the AGAR.

I. BANK & CASH (INTERIM & FINAL AUDIT)

The council has a reconciled bank position. I have checked the reconciliations as at 31st October, other than interest on the Business Savings Account which needs to be posted there were no errors or discrepancies.

The repayments of capital and interest were agreed to third party remittance and the balance of the loan outstanding was agreed to the statement. There were no errors.

Final Audit

Bank & Cash Balances £42,203 (2018: £46,741)

Loan Interest £25,357 (2018: £25,987)

Capital £240,833 (2018: £254,999)

The combined bank reconciliation was verified to bank statements. The loan repayments and closing balance were verified to bank statements and PWLB statements – there were no errors.

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

J. YEAR END ACCOUNTS (FINAL AUDIT)

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

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

The variance analysis is not required because there are no variances of 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.

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

K. TRUSTESHIP

No trusts.

Should you have any queries please do not hesitate to contact me, finally I enclose a fee note for your kind attention.

Kind regards
Yours sincerely

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

Mark Mulberry

Interim Audit - Points Forward

Audit Point	Audit Findings	Council comments
Fixed asset register	This needs fully updating	completed
Bank reconciliation	I remind council that the face of the reconciliation and the face of the bank statement must be signed.	completed

Final Audit - Points Forward

Audit Point	Audit Findings	Council comments
Reserves	There are a number of generalised earmarked reserves that could be reallocated back to general and I would recommend council consider this.	