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Our Ref: MARK/NOR002

Mrs P Whitehead
North Horsham Parish Council
Roffey Millennium Hall
Crawley Road
Horsham
West Sussex
RH12 4DT

6th December 2017

Dear Pauline

Re: North Horsham Parish Council
Internal Audit Year Ended 31st March 2018

Following completion of our interim internal audit 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 North Horsham Parish 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 Pauline and her team for their assistance and hard work.

A. Books of Account

The Council continues to use RBS an industry specific accounting package. The RBS 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 clerk/RFO 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 RBS. 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 return was for the quarter ended 30th September 2017, the council's returns are up to date.

The Council is required by law to follow the 2015 Transparency Code, a review of the web site shows that the code is being followed, but it was a little tricky to navigate. **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) coming into force in May 2018; the council has begun work on this.

I am of the opinion that the council is keeping appropriate books of account.

B. Financial Regulations, Governance & Payments

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 May 2017.

Financial regulations are based on an older NALC model and are dated May 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.

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.

Financial regulation 3 deals with Annual Estimates (Budget) and Forward Planning council is following regulation; however, **I recommend that the October date is changed to November or December to give breathing space.**

Financial regulation 5 & 6 deal with authorisation and making of payments. The payments list and the minutes show beyond doubt what is being approved, invoices are annotated and checked and an annual list of payments will be drawn up.

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 & credit card. No cash payments.

The council has an on-line system with Lloyds this has a natural segregation of duties insofar as the same user cannot both create and authorise the same transaction. The payments are entered into the bank system and a payments list produced, this is signed as approved for authorisation.

The credit card is the name of the council and cleared each month in the same manner for supplier invoices.

Salaries are paid via Capita – the council pays capita in the same manner as a supplier invoice.

C. Risk Management & Insurance

The council has a risk assessments and a risk management policy in place in accordance with regulations.

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.

D. Budget, Precept & Reserves

In accordance with financial regulation 3, 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. At the 30th November, total income was £431,624 (Annual budget £478,200). Expenditure £288,673 (Annual budget £496,023). Income and expenditure is broadly in line with budget and it is noticed this is a deficit budget which will reduce available general reserves.

The council has detailed workings on reserves, the reserves position at 30th November is £438k of which £220k are earmarked leaving £218k as a general reserve, it is anticipated this will reduce to circa £60k by the year end. At a precept level of circa £300k general reserves would be expected to be £150k as adjusted for local conditions. A general reserve balance of £60k is far too low and only gives the council one month's cover and no room for emergency expenditure. A review of the earmarked reserves shows that these are appropriately allocated and in the case of the maintenance fund a little low for the buildings and other assets are therefore not available for significant reallocation to general reserve.

It is clear North Horsham Parish Council is a low cost council and prides itself in having a low precept, but the costs of running the council are such that over time the increases in precept have not met inflationary changes in costs. **I would caution the council in making cost reductions as this will impact of the ability to provide valuable community services, in my opinion it is a better strategy to increase precept and thereby increase the spending on the provision of visible services.**

E. Income

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.

The council has, precept income, grant income, hire income and allotments.

F. Petty cash

To be tested at year end.

G. Payroll

Employees are paid with reference with NJC scales for consistency purposes. The signed minutes show that council approves changes to wages.

The council has fulfilled its obligations in respect of auto enrolment.

H. Assets and investments

The Council has a detailed list of assets in the financial accounts and within its working papers a detailed list of individual assets. This is in accordance with regulations.

I. Bank reconciliations

I have tested that the bank accounts are being reconciled promptly at the end of each month. I also re-performed the November bank reconciliation. I found no error in the reconciliation.

J. Year end accounts

To be tested at year end

K. Trusteeship

No trusts.

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

Kind regards

Yours sincerely


Mark Mulberry

North Horsham Parish Council

Internal Audit Plan

31/03/2018



Prepared by: Mulberry & Co
Date of Interim Visit: 21st October 2016
Date of Final Visit: 23rd May 2017

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Law and Regulation Regarding Internal audit

Regulation 5 (1) of the Accounts and Audit Regulations 2015 imposes a duty on local councils to ‘undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards or guidance.’ For parish and town councils, this guidance is set out in the NALC publication “Governance and Accountability for Smaller Authorities in England.”

The purpose of internal audit is to review and report to the council whether its systems of financial and other internal controls over its activities and operating procedures are effective.

Internal audit’s role is to assist the council in fulfilling its responsibility to have and maintain proper internal control arrangements and those for the prevention and detection of fraud, error or mistakes. All internal audit work must be reported to the council. Any report by internal audit is addressed to the council, may recommend actions to be taken by the council, and should be treated as a document open to view by local taxpayers.

Two pieces of legislation set out how local councils should behave when accounting for the public funds they manage and what rights local taxpayers have in relation to those accounts. These are the **Local Audit and Accountability Act 2014** and the **Accounts and Audit Regulations issued from time to time under the Act**. Sections 25-27 of the Local Audit and Accountability Act 2014 set out the rights for local government electors and interested parties to inspect council accounting records and accounting statements.

Under these regulations, all local councils must at least once a year conduct in accordance with proper practices a review of the effectiveness of their system of internal control and publicly report the outcome. The Annual Governance Statement in Section 2 of the annual return provides the means for local councils to report to local taxpayers on their system of internal control.

This report is prepared for the council and proper officers of the council named above, for use in fulfilling their obligations under the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations issued from time to time under the Act for preparing the Annual Return and reviewing the effectiveness of their system of internal controls. Mulberry and Co accept no responsibility for any action or inaction taken as a result of the findings of this report and accept no responsibility to any other party other than those named above.

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Specific Audit Plan

Audit Area	Risk of error or misstatement	Tests
Appropriate books of account have been kept properly throughout the year.	Low	Review transactions in cashbook make verbal enquiries. Test arithmetic.
The council's financial regulations have been met, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.	Low	<p>Have FR & Standing orders been reviewed and noted in minutes in last 12 months</p> <p>Select items from FR to test to physical documentation</p> <p>Review invoices and reconcile to cash book in detail</p> <p>Review selection of VAT entries</p> <p>Review minutes and payment list for authorisations</p> <p>Agendas and minutes properly prepared and published</p> <p>Council has acceptance of office and declarations of interest in place and signed</p> <p>Review council is following transparency regulations</p>
The council assessed the	Low	Review and comment on risk assessments

<p>significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.</p>		<p>in place – ensure financial risk assessment considered</p> <p>Review of effectiveness of audit carried out</p> <p>Review and comment on council disaster recovery plans</p> <p>Review and comment on council’s insurance</p>
<p>The annual precept requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate</p>	<p>Low</p>	<p>Review minutes for evidence of council discussion of the same</p> <p>Review and comment on actual versus budget information presented to council</p> <p>Review and comment on level of general and earmarked reserves</p>
<p>Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.</p>	<p>Low</p>	<p>Test precept application to precept receipts</p> <p>Test other income to annual charges (as approved by council)</p> <p>Test sample of VAT charged</p> <p>Comment on any partial exemption issues</p>
<p>Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately</p>	<p>Low</p>	<p>Test physical cash balances to accounting records</p>

accounted for.		<p>Review items paid for by cash</p> <p>Enquire as to if cash received is banked entire or used for petty cash</p>
Salaries to employees and allowances to members were paid in accordance with council approvals, and PAYE and NI requirements were properly applied.	Low	<p>Test rates and hours are authorised</p> <p>Test net wages to payments due</p> <p>Ensure PAYE paid on time</p> <p>Council has pensions provision in place</p>
Asset and investments registers were complete and accurate and properly maintained.	Low	<p>Assets shown at cost or proxy cost only</p> <p>Asset register sufficiently detailed</p> <p>Review insurance schedule and cashbook for missing items off the register</p>
Periodic and year-end bank account reconciliations were properly carried out.	Low	<p>Test reconciliation in detail for all accounts</p> <p>Are reconciliations signed and presented to council</p> <p>Test loans to PWLB and or other documentation</p>
Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the	Low	<p>Review and comment on method of preparation</p> <p>Box 7 & 8 reconciliation agrees if</p>

<p>cash book, were supported by an adequate audit trail from underlying records, and where appropriate debtors and creditors were properly recorded.</p>		<p>applicable</p> <p>Schedules of prepayments, accruals, debtors and creditors agree to final accounts</p> <p>Electors rights has correct date parameters</p>
<p>Trust funds (including charitable) The council met its responsibilities as a trustee.</p>	<p>Low</p>	<p>Enquire as to if council is sole managing trustee and note details</p> <p>Ensure accounts do not contain trust income or expenditure</p>

Budget

		Hours
Planning & Systems Work	Interim Visit	4
File Review and reporting	Interim Visit	1
Financial Procedures	Final Visit	4
File review	Final Visit	1
Total Budget Hours		10
Hourly Rate		£50
Time Cost		£500
Other costs	Mileage	£20
Total Budgeted Cost		£520
Total Budgeted Fee		£550

Timetable

Autumn	Planning and Interim Audit work
April - July	Council reviews and signs off Annual Governance Statement
	Council prepares year end accounts
	Final Internal Audit
	Annual Return Taken to council for approval
	Notice of electors rights and accounts published
	Accounts sent to external auditor for audit

Checklist of items for each visit

1. Financial Regulations, standing orders and risk assessments taken to council for review at least annually
2. Bank reconciliation prepared and presented to council for all bank accounts regularly
3. Declarations of interest and acceptance of office forms signed and in place
4. Interim Visit
 - a. Financial Regulations, Standing Orders and Risk assessments on hand
 - b. Insurance schedules on hand
 - c. Signed Minutes available
 - d. Evidence of recommendations from previous internal or external audits have been taken to council and adopted
 - e. Copy of prior year signed annual return
 - f. Bank reconciliation on hand and signed off (all accounts)
 - g. PWLB statements if applicable available
 - h. Payroll & VAT records available
 - i. Proof of annual charges being agreed by council on hand
 - j. Invoices paid & Payment lists available
 - k. Cheque books and paying in books available
 - l. Transparency regulations being followed
5. Final Visit
 - a. External auditors letter on site and to hand
 - b. Annual return prepared (in draft)
 - c. Bank reconciliation agrees to annual return
 - d. Box 7 & 8 reconciliation prepared and agreed to annual return
 - e. Variance analysis completed and agrees to annual return
 - f. Fixed asset register agrees to annual return
 - g. PWLB statements if applicable available
 - h. Audit trail from underlying accounting records to annual return
 - agrees
 - i. Transparency regulations being followed