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Our Ref: MARK/LIT003

Mr P Herbert
Littlehampton Town Council
Manor House
Church Street
Littlehampton
West Sussex
BN17 5EW

4th June 2019

Dear Peter

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

Following completion of our final internal audit on 3 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 financial year. Recommendations for future action are shown in the table at Appendix A.

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 Bank Reconciliations
- Compliance with Regulations
- Salaries and Wages

Final Audit – Summary findings

We completed the following work at the final audit.

- Review of annual accounts & AGAR
- Review of bank reconciliation
- Testing of income and expenditure, final quarter of financial year
- Review of fixed asset register
- Review of information for external auditor.

I have set out the results of my testing against each of the control objectives set out in the internal audit section of the AGAR below.

I am of the opinion that the annual accounts and AGAR are ready to be signed off by Council and the external auditor. Accordingly, I have signed off the Annual Internal Audit Report.

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 Laura and Claire for their assistance and hard work.

A. Books of Account

Interim Audit

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

The RBS system is used daily to report and record the financial transactions of the Council, it is used to make bookings for hires, allotments, and fixed asset register recording. A review of the cashbook shows that all data fields are being entered, the hard copy reports are easy to read. Supporting documentation is easily located from references recorded on the general ledger.

I have confirmed that the Council's VAT returns are up to date, with the most recent claim for the 3 months to 30 September 2018 submitted to HMRC. I checked that balances in the return could be agreed to schedules produced by the accounting system.

The Council has loaded the signed accounts and audit certificate for the 2017-18 financial year to its website, as required by regulations. The Council received a clear report from the external auditors. Completion of Audit certificate was completed by the deadline of 30 September, and has been published on the Council website. I also confirmed that both internal and external audit reports for 2017-18 were taken to a meeting of the Full Council and the review of these reports properly noted in minutes.

I have no recommendations in this area.

Final Audit

I agreed the statement of accounts back to AGAR reports produced by the Council's accounting system, RBS. I therefore conclude that all figures on the AGAR have been correctly derived from the Council's accounting system. Arithmetic has been checked and the accounts cast. The Council received a clean audit opinion from external audit in 2017-18, so there is nothing requiring consideration in the current financial statements.

I checked comparative figures for the previous financial year disclosed on this year's AGAR back to last year's signed accounts, and can confirm that opening reserves balances, and comparative figures are accurately recorded in this year's AGAR.

I also confirmed that VAT is up to date, with the return completed and submitted to HMRC for the period to 31.3.19. VAT reclaimed has been agreed to RBS VAT reports.

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 Audit

The Council's financial regulations and standing orders have been reviewed and updated since my last visit. Both documents were reviewed at Governance and Audit Committee in July 2018 and formally adopted at Full Council in October 2018. The Littlehampton documents are based on NALC templates.

I have confirmed by sample testing that the Council has a clear process to ensure all members sign acceptance of office forms. Forms were in place for all Councillors selected, and were signed and dated by the councillor and the Town Clerk.

Council is given authority to spend via the annual budget process. The Council has a strong procedure in place to ensure that all expenditure is authorised in line with financial regulations. I selected a sample of transactions from the ledger and I was able to confirm that:

- Transactions could be agreed back to invoice
- Payment approval slip was on file, authorised by appropriate officers, with evidence of councillor sign off
- Payment approved at a meeting of the Council
- Cheque signed to provide appropriate councilor authorization (copy cheques saved electronically)
- VAT accounted for appropriately.

I note that the RFO is currently working on a project to move the Council over to electronic banking. This is a sensible decision, as on line banking produces a better audit trail and better security of payment than a cheque based system. I was pleased to note that the RFO will review the financial regulations and will work with councilors before making the move to electronic banking at the start of 2019-20.

I can confirm that the Council is compliant with the 2015 Transparency Code. Information is disclosed in the "Littlehampton Town Council Finance" section of the website, and regular information on payments, fixed assets, grants and staffing is loaded to the website. I tested a sample of information loaded on to the website and found it was up to date.

I have no recommendations in this area.

Final Audit

Non pay expenditure in box 6 to the accounts is £645,672 (£509,030 in 2017-18).

I tested an additional sample of expenditure transactions from the final quarter of the financial year. For all transactions tested I was able to confirm:

- Transactions could be agreed back to invoice
- Payment approval slip was on file, authorised by appropriate officers, with evidence of councillor sign off
- VAT accounted for appropriately

The Council has recently amended financial regulations in preparation for the introduction of electronic banking. I reviewed the new document, and I consider the system documented within the new financial regulations appropriate for the Council.

As a larger town council, Littlehampton is required to follow the 2015 Transparency Code. I confirmed that information required by the Code is disclosed correctly on the Council website, and that information is up to date. There is one area where disclosure could be improved. The Council does not currently publish information relating to Council contracts. I therefore recommend that the RFO reviews the Transparency Code and ensures this information is published on the Council website.

I have identified no errors in my testing of expenditure recorded in box 6 to the accounts

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 Audit

The Council has a risk strategy in place and monitors and reviews risk on an ongoing basis. The RFO has confirmed that this will be formally reviewed at the February Governance and Audit Committee with Full Council sign off at the March 2019 meeting. I will review the approved risk assessment at my year end visit.

The Council is in year two of a 3-year deal with Zurich insurance. I have viewed the insurance policy and can confirm it is valid until September 2019. Money cover is set at £1million. This would appear too low, given the Council’s cash at bank in excess of 2.5 million. However, this was considered by the Council in response to my audit recommendation last year, and rather than increasing insurance cover, the Council made changes to internal financial controls and restricted banking mandates. I therefore conclude that money cover is lower than I would expect for a Council with Littlehampton’s level of cash at bank, however, this has been risk assessed by the Council and appropriate internal controls have been put in place. Asset cover appeared consistent with the asset register.

The Council has a well-established process for backing up computer data, with backups held at remote locations. The RFO confirmed that a test of the back-up has been carried out in the course of 2018-19. The RFO attended and was able to confirm key data could be accessed from the back up.

I have no recommendations in this area.

Final Audit

I confirmed that the Council has carried out a comprehensive risk assessment. This was reviewed at the Governance and Audit Committee in February 2019 after review by Service Managers. The risk assessment was then approved at Full Council on 28 March 2019 and a separate minute recorded. I reviewed the detailed risk assessments, these are comprehensive and well documented, with evidence of updating in the course of the financial year.

I suggest that the Council should add processing of payroll as an additional risk. Payroll is currently processed by the RFO, and there is no other officer with file access or knowledge to process payroll, should the RFO be absent. The risk should be added to the risk register and contingency arrangements considered.

The Council prepared a comprehensive response to my interim audit, which was reviewed at both Governance and Audit Committee and Full Council. I have updated appendix A of this report with details of actions taken by the Council.

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 Audit

The Council is in the process of preparing the budgets for 2019/20. At the time of my audit, meetings had been held with cost centre managers, and at the time of my audit, the RFO was in the middle of a cycle of meetings with committee chairs and council leaders. The budget will be considered at the Full Council meeting in December, and approval of final budget and precept will be finalised at the Full Council meeting in January 2019. All precepting authority deadlines will therefore be met.

I have confirmed that regular budget monitoring reports are issued to committees in line with financial regulations. I reviewed the budget as at 31.10.18. I only identified one significant overspend, an overspend on the ICT budget, relating to work on the new website. I was pleased to note that this spend was approved in advance and is picked up in budget monitoring reports.

I will review the Council's reserves position at my year end visit. However, I note that the Council has well developed reserves, which are recorded on the balance sheet, with additional monitoring via an excel spreadsheet which is used to monitor committed expenditure.

The Council has an investment policy in place which is compliant with statutory guidance on local government investments. I have one minor recommendation – the RFO should prepare a year-end report as required by the investment strategy for consideration by councillors.

Final Audit

Reserves at year end set out in box 7 to the account were £2,575,675 (2017/18 £2,620,040). Of this £200K is held in general reserves, plus £500k which is held as long term investments on the asset register. General reserves are therefore £700K, which is 55% of precept plus income. This is an appropriate level of general reserve for a council of this level of activity. £2.3m is held in several well managed earmarked reserves. This includes £1.5m in the capital receipts reserve. I understand from the RFO that work continues on proposals to utilise this capital receipt.

I confirmed that the 2019-20 budget was approved at the Full Council meeting of January 2019. Precepting authority deadlines were met. Budget and precept are properly noted within minutes. I reviewed the 2019-20 budget and note a small surplus is anticipated, which will be transferred to general reserves. Detailed supporting notes confirm that Councillors were given full information on Council budget proposals enabling informed budget setting decisions to be made. I note that agenda papers include

- Detail on year on year changes compared to the budget for the previous financial year
- Reserves statements, including details on projected earmarked reserves

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 Audit

I carried out a small sample test of non-precept income. For all items sampled I was able to agree

- credit in the cashbook back to an appropriate voucher
- Entry on ledger could be agreed back to invoice
- Fees charged on invoice could be agreed back to approved hire rates (e.g. room hire) or third party confirmation of income due
- Correct VAT levied

I also confirmed fees and charges for 2018-19 had been properly approved at a meeting of the Council

Final Audit

Precept per box 2 to the accounts is £1,132,449 (2017-18 £1,078,470). I have confirmed precept income to third party notification available on the Arun DC website.

Other income per box 3 to the accounts is £132,666 (2017-18 £182,596). The fall in income is due to lower grant income (Welcome pack grant) and reductions in hire income.

I tested a small sample of income transactions from the final quarter of the financial year and I was able to confirm income recorded on the cashbook back to invoices. Where appropriate I then agreed invoice to approved fees and charges for the financial year.

I have identified no errors in my testing of income recorded in box 2 and 3 to the accounts

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 holds £250 in petty cash. All expenditure is recorded on a spreadsheet, and is counted periodically, depending on activity levels. Cash count is reconciled to the spreadsheet at each count. Detailed receipts are kept to support transactions, and the finance team review records periodically to ensure that expenditure incurred using petty cash is reasonable. I confirmed the year end petty cash balance to reconciled cash count – this had been signed off by the RFO .

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 Audit

The Council processes the payroll in house using Sage 50 payroll. The RFO inputs all payroll changes and expense claims each month. The payroll is processed and a telepay document is produced and faxed to the bank –payments are made electronically to staff.

I tested the June 2018 payroll in detail. I was able to confirm the payroll posted to the general ledger back to the telepay document that had been authorised by the clerk and by the RFO. I then agreed pay for two officers back to payslips, Rates of pay were checked back to appropriate NJC scales. I am satisfied that the Council has satisfactory controls over payroll.

Final Audit

Staff costs per box 4 of the AGAR £622,789 (2017-18 £603,466)

I carried out further testing of the February payroll. I confirmed the February Telepay document had been completed and signed off by the RFO and counter signature from the Assistant Clerk was viewed. I agreed telepay back to payroll summary produced by SAGE, and agreed pay for 3 officers back to payslip. I confirmed gross pay for these officers back to approved rates of pay.

I have identified no errors in my testing of payroll in box 4 to the accounts.

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

Final Audit

Fixed assets per box 9 to the accounts are £3,095,313 (2017-18 £3,101,911). I have been able to confirm the balance in the accounts to the Council’s asset register. I reviewed the asset register and confirmed that the only change is

due to the disposal of a van, which was correctly written off at cost. I confirmed with the RFO that there have been no additions, and I have identified no additions in my testing of expenditure.

I note that the Council has approved a fixed asset policy in 2018-19. This is in line with best practice and sets out a clear framework for recording Council fixed assets going forward, whilst ensuring inventories are maintained for equipment not to be included on the fixed asset register (eg ICT equipment)

I confirmed the £500k deposit with the Local Authority Property Fund is still held by the Council by review of 31 March statement. This is correctly shown at cost on the asset register.

I have identified no errors in my testing of fixed assets recorded in box 9 to the accounts

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 Audit

Reconciliations for all bank accounts are carried out regularly and in accordance with regulations. This is clearly evidenced in the Council's bank reconciliation file. The September 2018 bank reconciliation was tested in detail. I confirmed the following.

- The face of the bank statements and the bank reconciliations had been signed off by the reviewing councillor
- All balances on the bank reconciliation were agreed back to bank statements / cashbooks
- Cashbook /bank statement differences were explained by schedules of unpresented cheques / lodgments. Testing of these items to subsequent clearance through the bank account confirmed these adjusting items to be genuine – I tested 5 large items to confirm this.
- Bank reconciliations were reported to a meeting of the Policy and Finance Committee, and this review was minuted.

I have no recommendations in this area.

Final Audit

Borrowings – box 10 to the accounts £90,000 (£128,000, 2017-18). I have confirmed year end borrowings to information available on the Public Works Loans Board website.

Cash and bank – box 8 to the accounts £2,659,208 (£2,712,644 2017-18) I have reperformed the year end bank reconciliation and I was able to agree the bank reconciliation back to bank statements and the RBS cashbook. The reconciliation had been reviewed by Councillors at the time of my audit, and review was evidenced on the bank rec and on the bank statement. The bank reconciliation cast correctly

I checked that all monies on short term deposit, amounting to £2.2m, were held in deposits maturing before 31.3.20. These deposits are therefore correctly categorised as cash on the balance sheet, as they mature within 12 months of balance sheet date.

Unpresented cheques were £88k. I checked 10 cheques, amounting to £53K, to subsequent presentation at bank in April 2019. This confirms all unpresented cheques are genuine.

Boxes 10 and 8 to the accounts are fairly stated.

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

I confirmed that the Council has completed a reconciliation between box 7 and 8 of the accounts and that this is supported by schedules of debtors and creditors. A year on year variance report has been completed as required by the external auditors. Detailed explanation has been provided as required.

The council has prepared the accounts on the income and expenditure basis, which is correct for this larger council.

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

No trusts.

L: Exercise of Public Rights - Inspection of Accounts

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. Proposed dates for inspection periods are set out below – this complies with regulatory requirements.

Inspection of Accounts Process	2018-19 Proposed Dates
Accounts approved at full council	20 June
Date Inspection Notice Issued and how published	21 June
Inspection period begins	21 June
Inspection period ends	2 August
Correct length	yes
Common period included?	yes
Summary of rights document on website?	yes

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



Mark Mulberry

Points Forward – Action Plan - Interim Audit

Matter Arising	Recommendation	Council Response
<p>The Council has an investment policy in place which is compliant with statutory guidance on local government investments</p>	<p>I have one minor recommendation – the RFO should prepare a year end report as required by the investment strategy for consideration by councillors.</p>	<p>This in in hand, will be completed as part of year end outturn documentation</p>

Points Forward – Action Plan - Final Audit

Matter Arising	Recommendation	Council Response
<p>I checked that information required by the Code is disclosed correctly on the Council website, and that information is up to date. There is one area where disclosure could be improved. The Council does not currently publish information relating to Council contracts.</p>	<p>I therefore recommend that the RFO reviews the Transparency Code and ensures this information is published on the Council website.</p>	
<p>I suggest that the Council should add processing of payroll as an additional risk. Payroll is currently processed by the RFO, and there is no other officer with file access or knowledge to process payroll, should the RFO be absent.</p>	<p>The risk should be added to the risk register and contingency arrangements considered</p>	