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Our Ref: MARK/PEA001

Mr T Allen
Peacehaven Town Council
Community House
Meridian Centre
Meridian Way
Peacehaven
East Sussex
BN10 8BB

28th April 2020

Dear Tony

Re: Peacehaven Town Council
Internal Audit Year Ended 31st March 2020

Following completion of our interim internal audit on the 16/01/20 and our final audit on 28/04/20 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. The recommendations from the interim visit have been answered 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 accounts. The internal audit reports 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 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 Peacehaven 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 Tony & 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 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 2020. Accordingly, I have signed off the AGAR.

A. BOOKS OF ACCOUNT (INTERIM AUDIT)

The Council continues to use RBS as a day to day accounting package, this is a tried and tested industry specific package and I make no recommendation to change. The system is used daily to report on and record the financial transactions of that of the Council.

There are four users with their own individual logons.

1. Clerk & RFO – Oversight role
2. Finance Administrator – Daily processing, sales ledger, Purchase Ledger & Bank
3. Locum Finance Office: - Month End Reconciliations
4. Information Officer: - Sales Ledger invoices and Credits

The passwords to the system are prompted to change.

Every month, a month end hard close down is performed, various reports are printed and filed in hard copy, these include but are not limited to; Income and expenditure against budget, cashbooks, bank reconciliations and other reports as fit. This is a clear and easy to follow system 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.

I performed walk through tests on both receipts and payments 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 1/4/19 and confirmed they could be agreed back to the audited accounts for 2018/19.

The Council is VAT registered and the last VAT return was for the quarter ended 31st December 2019, which shows a payment position which will be paid in February 2020. This also indicates that the council is up to date with its postings on the financial package. I tested the cut off at the quarter end there were no errors. **I would recommend the council introduce a VAT permeant file to contain amongst others, VAT Registration Certificate, Options to Tax, Gateway details, VAT periods & submission deadlines and HMRC correspondence.**

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

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

External auditors report was not qualified in 2018/19. This was reported to Policy & Finance Committee in September 2019. Whilst the minutes of committee were taken full council, **I recommend this is also taken to full council before the year end.**

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 correctly 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" and "acceptance to receive information by electronic means"; all in line with regulations.

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

I note that the Council is required by law to follow the 2015 Transparency Code, a review of the web site has shown that the code is being followed.

Confirm that the Council is compliant with the GDPR.

As council is aware of GDPR. It was noted the Council has common email addresses. A common email system such as cllr.name@peacehaven..... is recommended because it gives a natural segregation so it is clear beyond doubt in what capacity a councillor is acting, gives control to the council, adds a degree of professionalism and in the event of a FOI request limits access to personal computers.

Confirm that the Council meets regularly throughout the year

The council has the following committees:

- Full Council; meets 8 times per annum
- Planning & Highways; meets 3 weekly
- Leisure Amenities and Environment; 6 times per annum
- Business Plan; 4 times per annum
- Policy & Finance; 10 times
- Personnel; adhoc
- Civic & Events; 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. Whilst we have not tested every single committee and council meeting there was no evidence of non-compliance in giving three clear days' notice of the meeting.

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

Minutes are uploaded to the council website.

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

The standing orders are based on the NALC model and are dated May 2019.

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

Financial regulations are based on the NALC model and are dated September 2019. 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 2.2 deals with bank reconciliations, the council is performing a monthly bank reconciliation for all accounts and this is minuted in accordance with regulations. However, it was noted that the chairman signed off the reports, strictly speaking the regulation states someone other than the chairman or a cheque signatory. **I recommend this regulation is reviewed.**

Financial regulation 4 deals with budgetary control and authority to spend. The council has thresholds in place at which authorisations to spend must be obtained.

- £5,000 + full council
- £1,000 - £5,000 - delegated committee
- 0 - £1,000 – clerk & chair

The NALC model is very restrictive and not representative of day to day practice. **I would recommend that a lower threshold be introduced to enable the clerk to order goods and services without the need for chairman approval. Such as**

- £5,000 + full council
- £3,000 - £5,000 - delegated committee
- £1,000 - £3,000 – clerk & chair
- £0 - £1,000 – clerk – this then also agrees to Clerks emergency spending threshold.

The de-minimis limit recorded in the Financial Regulations for the competitive purchase of items and services is as listed below.

- £25,000 + Tender Process
- £3,000 - £25,000 3 quotations are required.
- £1,000 - £3,000 – strive to get 3 estimates
- 0 - £1,000 – power to spend

Financial Regulation 5 deals with authorisation of payments. We were unable to locate the payments lists for the 2019/20 year. **I recommend that the payments list for the entire year to date are taken to committee or council as soon as possible. I will need to see that February and March meetings include a minute reference and payments list approved in accordance with regulation.**

Financial regulation 6 deals with making payments. The council makes payments by cheque, direct debit. The cheques must be signed by two individuals and I verified this from the cheque book stubs.

I discussed the purchasing system with the RFO vis-à-vis financial regulations 4, 5 & 6 and ascertained that the regulations are being followed at a local level as described below:

1. Regular and recurring expenditure (rent, rates, wages, light & heat, contractual spend etc.) is known and authorised in advance (budget setting or tender process). These are, in the main, paid via direct debit.

2. An ad hoc expenditure requirement is identified and noted to the clerk/RFO – this can be from a number of sources and depending on the financial amount will be discussed in advance with council, committee or chair. If required, this is approved in advance by council committee before the expenditure is incurred. My audit testing showed in the main/but not always, that there is where appropriate discussion of expenditure before the orders are placed. **I would however remind council to ensure financial regulation 4 and 11 are reviewed and followed.**
3. The order is made via the office – councillors are not allowed or permitted to place amend or vary orders.
4. The supplier invoice, when received, is reviewed by the finance administrator and box stamped and batched ready for clerk review. My audit testing showed that supplier invoices do all have a box stamp.
5. The batch of supplier invoices are passed back to the finance administrator they are posted to the financial reporting package and the cheque is pre written.
6. Councillors are then invited to attend to the office to sign off the supplier invoices for payment.

Confirm all section 137 expenditure meets the guidelines & does not exceed the annual per elector limit of £8.12 per elector.

The council has no S.137 expenditure; council has general power of competence.

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

I have reviewed the expenditure list which is broadly similar to the prior year after accounting for one of 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 £17,548 of which

- Trade Creditors £nil
- Accruals £3,994
- Mayors appeal £12,632
- Deposits £922

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)

Interim Audit

The Council undertakes a full risk assessment that covers operational and financial risks, this was taken to council in July 2019,

I have confirmed that the Council has a valid insurance certificate. The Council reviews its insurance requirements as part of the renewal process.

In respect of motor insurance, I would recommend that council introduce a checklist of driver details to comply with insurance requirements on an annual basis.

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

I confirmed that the 2020 -21 budget and precept setting process was completed at the time of our interim audit, with all precepting authority deadlines met. A review of the minutes shows discussion and agreement of the same.

As at 31st December 2019 total reportable income was £885,349 (Annual Budget £750,795), and expenditure £609,379 (annual budget £750,795). The additional income is down to the CIL receipts of £139,140. It is very likely the budget will be matched at the year end.

At the end of December, the general reserve was £75,947 and earmarked reserves were £203,649. The clerk is aware of the reserves position and demonstrated awareness of the rules and regulations. **General reserves remain low.**

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

The council has £413,583 of reserves of which £327,188 are earmarked reserves and £86,397 are 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 £250k.

The general reserve remains significantly low and I would suggest the council continue on its strategy to bolster these and also review earmarked reserves for any possible reallocations namely purchase reserve of £20k

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 70% of all income)
- Rentals – rooms, – All buildings opted – VAT is charged.
- Grants (LTCS phased out after 2019/20)

- Interest
- Sports Pitches/Filming/Advertising/Wayleaves
- Allotments

The precept was received in full together with grant. The grant has been separately categorised.

The council is reviewing its annual charges at the time of the audit. Audit testing showed that fees charged per the sales ledger did not agree to the annual charges sheet – **I recommend the system is updated and prices properly charged going forward.**

Bad & aged debts are monitored regularly and a new process is being introduced in April. Statements are issued and reports are made to council/committee.

Cash receipts are banked entire and not posted to petty cash. Banking is completed daily.

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

Final Audit

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

At the year-end date the council has £26,210 of debtors which are further broken down into:

- Sales Ledger £20,169
- VAT £5,991
- Deposits £50

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 float of £500. This was reviewed at the audit date, it is clear this is used for small sundries and is not significant or material.

Petty cash expenditure is presented monthly to a Council meeting for approval.

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 an external firm who uses the payroll professional package to calculate the tax and national insurance. The council has fulfilled its obligations in respect of auto-enrolment and uses LGPS.

It was noted that the employment allowance has in error been given to the council. This allowance is not applicable for public authorities. **I recommend the payroll company is contacted and this allowance repaid to HMRC.**

Employees are paid with reference with NJC scales for consistency purposes. I tested the tax deduction for a full time employee – 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 December 2019 was paid after date.

All Council employees are paid through the payroll for all Council work undertaken. No employees are paid separately for any other Council work undertaken. Casual labour payments are correctly recorded via the payroll. Councillors are paid allowances via the payroll.

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.

Final Audit

The amounts shown on the AGAR, were reconcilable to the payroll records, there were no errors.

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 fixed asset register in place. Assets are correctly stated at historic or proxy cost. **I would recommend the council undertake a fixed asset stock take.**

I am of the opinion that the control objective of “Asset and investments registers were complete and accurate and properly maintained.”, has been met.

Final Audit

The Council does not hold any long term investments i.e. over 1 year. Any addition to the asset register is normally with a cost value greater than £1,000.

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

At the interim audit date the council had a reconciled bank position which has been signed in accordance with financial regulations. I have reviewed the reconciliation there were no errors.

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.

Final Audit

At the year-end date the council had a reconciled bank position. The council has three active 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. I have verified the reconciliation to bank statements and proven some of the cheques to after date bank statements

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 2018-19 AGAR.

Agar Box Number		2018/19	2019/20	Auditor Notes
1	Balances brought forward	442,150	289,780	Agrees to bfwd
2	Precept or Rates and Levies	428,340	536,289	Variance £107,949 – increase in precept – shown on variance analysis
3	Total other receipts	264,713	373,241	Variance £108,528 – explained on variance analysis
4	Staff costs	406,663	460,021	
5	Loan interest/capital repayments	0	0	Agreed no loans
6	All other Payments	438,790	325,704	Variance £113,086 – explained on variance analysis
7	Balances carried forward	289,780	413,585	Casting agrees – General £86,397 earmarked £327,188
8	Total value of cash and short term investments	242,934	404,923	Agrees to reconciliation – Bank rec sum needs amending to include first £50 cheque excluded from summing.
9	Total fixed assets plus long term investments and assets	3,247,765	3,252,557	Agrees to register – one addition
10	Total borrowings	0	0	Agreed no loans

The variance analysis is required because there are variances greater than 15% and £500. This has been prepared on a summary table basis.

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. TRUSTESHIP (INTERIM AUDIT)

No trusts.

L: EXERCISE OF PUBLIC RIGHTS - INSPECTION OF ACCOUNTS (FINAL AUDIT)

Due to the Covid 19- Outbreak the statutory deadlines have been changed as follows:

The publication date for final, audited, accounts will move from the 30 September to 30 November 2020 for all local authority bodies. To give local authorities more flexibility, the requirement for the public inspection period to include the first 10 working days of July has been removed. Instead local authorities must commence the public inspection period on or before the first working day of September 2020.

This means that draft accounts must be approved by 31 August 2020 at the latest. However, they may be approved earlier, and we would encourage councils to do so wherever possible, to help manage overall pressure on audit firms towards the end of the year.

Authorities must publish the dates of their public inspection period, and given the removal of the common inspection period and extension of the overall deadlines for this year, it is recommended that all authorities provide public notice on their websites when the public inspection period would usually commence, explaining why they are departing from normal practice for 2019/20 accounts.

The regulations implementing these measures were laid on 7 April and are due to come into force on 30 April 2020.

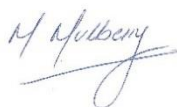
The Relevant dates as set by Peacehaven Town Council are set out in the table below.

Inspection - Key date	2018/19 Actual	2019-20 Proposed
Accounts approved at full council	18 June	TBC
Date Inspection Notice Issued and how published	19 th June	1 st June
Inspection period begins	24 June	15 th June
Inspection period ends	02 August	24 th July
Correct length	Yes	yes
Common period included?	Yes	yes
Summary of rights document on website?	Attached to inspection announcement	Attached to inspection announcement

I am satisfied the requirements of this control objective were met for 2018-19, and assertion 4 on the annual governance statement can therefore be signed off by the Council.

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

Kind regards
Yours sincerely



Mark Mulberry

Interim Audit - Points Forward

Audit Point	Audit Findings	Council comments
Governance	<i>I would recommend the creation of VAT permeant file to contain amongst others, VAT Registration Certificate, Options to Tax, correspondence etc</i>	This is being created for the new financial year as part of the current Internal Audit exercise.
Governance	<i>The external auditors report must be taken to full council and this noted in the minutes</i>	In hand.
Financial Regulation 2.2	<i>Someone other than the chair or cheque signatory must sign off the bank reconciliations</i>	Implemented following Internal Audit in January 2020.
Financial Regulation 4	<i>The ordering thresholds are very restrictive. I would suggest either a scheme of delegation is implemented or additional band to allow spending up to a level within budget without the need for prior approval. I would recommend the thresholds for ordering approval are reviewed</i>	To be reviewed at the next meeting of the Finance Committee.
Financial Regulation 4	<i>In respect of documentary evidence of orders being pre-approved. My audit testing was unable to show this regulation is always being followed. Council needs to decide if regulations are being changed to reflect current practice or if current practice is changed to match regulations.</i>	Current practices have been tightened up to show a clear audit trail. General subject to be reviewed at the next meeting of the Finance Committee.
Financial Regulation 5	<i>My audit testing was unable to show that payments list for council approval have been presented and minuted in accordance with regulation. Payment lists must be taken to council before 31-03-20</i>	Implemented following Internal Audit in January 2020.
Insurance	<i>In respect of motor insurance, I would recommend that council introduce a checklist of driver details to comply with insurance requirements on an annual basis</i>	To be carried out as part of the June 2020 insurance policy review process.
Reserves	<i>I recommend that council consider its earmarked reserves in the light of its general reserve in readiness for the year end. General reserves remain very low.</i>	Fully considered as part of 2019/20 end-of-year processes and for ongoing monitoring by the Finance Committee.
Income	<i>I remind council to ensure annual charges are updated on the RBS system</i>	Implemented following Internal Audit in January 2020.

Payroll	My audit testing showed that the employment allowance has been given in error by the payroll company. This needs to be repaid to HMRC.	This has been repaid to HMRC.
Fixed Assets	I would recommend a fixed asset stock check is undertaken.	To be carried out as part of the June 2020 insurance policy review process.

Final Audit - Points Forward

Audit Point	Audit Findings	Council comments
Bank Reconciliation	Need to correct sum on excel spreadsheet before submission.	