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Our Ref: MARK/LIT003

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

11th June 2018

Dear Peter

Re: Littlehampton Town Council
Internal Audit Year Ended 31st March 2018

Following completion of our final internal audit on the 10th November and our final audit on the 8th June 2018 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.

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

It is our opinion that the systems and internal procedures at Littlehampton Town Council are very well established, regulated and followed. The Responsible Finance Officer (RFO) 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.

Final Audit – Summary Findings

I completed the following work at the final audit.

- Review of annual accounts & annual return
- Review of bank reconciliation
- Testing of income and expenditure, second half of financial year
- Review of salaries
- Review of fixed asset register
- Review of information for external auditor.

I am of the opinion that the annual accounts and annual return are ready to be signed off by council and the external auditor. Accordingly, I have signed off the annual return without comment. The results of my interim and final audits can be seen below. I have set out the results of my testing against each of the control objectives set out in the internal audit section of the annual return.

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 annual return 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 and logically filed. I therefore make no recommendation to change in this system.

The council also uses Sage 50 payroll, this is automatically updated for changes in legislation and the primary user has been given appropriate training.

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 2017 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 2016-17 financial year to its website, as required by regulations. I also confirmed that both internal and external audit reports for 2016-17 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 annual return reports produced by the Council's accounting system, RBS. I conclude that all figures on the annual return have been correctly derived from the Council's accounting system. Arithmetic has been checked and the accounts cast.

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

I also confirmed that VAT is up to date. At the time of my audit the VAT return had been completed and had been submitted to HMRC for the period to 31.3.18.

I am satisfied that the Council has met this control objective

B. Financial Regulations & Payments

Interim Audit

The Council's financial regulations and standing orders were last taken to Council in February 2017. These are currently under review, and will be reviewed at Governance and Audit Committee in February 2018, with Full Council approval due in March 2018. I have reminded the RFO that these documents need to be reviewed at Full Council by the end of the financial year.

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:

- Where appropriate, authorised order forms were in place
- 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
- VAT accounted for appropriately.

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 have two minor recommendations

- The Council's ICT support contract is due for retender. It was originally let in 2014, and I recommend that competitive quotes should be obtained every three years for a contract of this nature
- The Council is intending to move to internet banking for the start of the 2018-19 financial year. It is important that the financial regulations relating to processing of payments are reviewed prior to this to ensure they are fit for purpose.

Final Audit

Expenditure per box 6 to the accounts was £ 509,029 (2016-17 £ 480,262)

I tested a second sample of expenditure transactions, selected at random from the last three months of the 2017-18 financial year. For all transactions tested I was able to confirm the following:

- Agree expenditure back to invoice
- Confirmed correct VAT accounting
- Confirmed that the payment had been approved by 2 councilors, as evidenced by signature on the face of invoices
- The goods / service were delivered in 2017/18 and are therefore included in the correct financial year.

I confirmed that transparency information on the Council's website is up to date by sample check of data published.

I was pleased to note that the Council has retendered the IT contract and that financial regulations are under review for future use of electronic banking, in response to recommendations raised at interim audit.

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

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 2018 meeting. I will review the approved risk assessment at my year end visit.

The Council is in year one of a 3 year deal with Zurich insurance. I have viewed the insurance policy and can confirm it is valid until September 2018. Money cover is set at £1million. This appears too low, given the Council's year end cash balance of £2.7 million. I have suggested that the RFO should contact the insurer to see if increased cover is necessary. Buildings cover appears adequate and there is evidence that this was reviewed when the policy was renewed.

The Council has a well-established process for backing up computer data, with backups held at remote locations. It is recommended that these backups are tested on at least an annual basis, to ensure all essential data / systems can be restarted if required.

Final Audit

I confirmed that the Council reviewed and approved the risk assessment at the Full Council meeting of 29.3.18. An appropriate minute was recorded. I confirmed that the risk assessment was subject to detailed review by members at a previous meeting of the Governance and Audit Committee.

I note that the Council has reviewed money cover in response to my interim audit recommendation. Following an assessment of risk, and a review of bank mandates, the insurance has not been changed. I am satisfied this responds effectively to my recommendation.

The RFO also confirmed that computer back up has been tested and that she will be meeting with the IT contractor shortly to review results of this testing.

I am satisfied the Council complies with this control objective.

D. Budget, Precept & Reserves

Interim Audit

The council is in the process of preparing the budgets for 2018/19. It is anticipated that the budget will pass through the committee cycle by the end of December, with Full Council approval of the budget and precept due in January 2018. 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.

Current projections suggest that the Council will hold reserves as follows at 31.3.18:

Reserve	Projected balance 31.3.18
Capital Receipts Reserve	£1.575m
Earmarked Reserves	£0.753m
General Fund	£0.175m
Total	£2.503m

General fund reserve is £175K, which represents around 2 months' expenditure. There are specific earmarked reserves in place to cover revenue expenditure on areas such as vehicle and building maintenance / elections and legal expenses. Levels of reserves therefore appear adequate.

The Council is correctly holding land sales receipts in a separate reserve until suitable capital schemes are identified. I have no recommendations in this area.

Final Audit

The 2018/19 budget and precept were approved at the Full Council meeting of January 2018. Both precept and budget were appropriately recorded in minutes. Precept has been increased by 1.9 % and a small surplus budget has been set.

Reserves at 31.3.18 were £2,620,090 (2016-17 £2,513,699)

The Council has very well developed reserves. At year end, Council reserves were as follows:

Reserve	Balance 31.3.18
Capital Receipts Reserve	£1.537m
Project Reserves	£0.402m
General Fund	£0.201m
Capital Reserves	£0.341m
Building Reserves	£0.115m
Other reserves	£0.021m
Total	£2.620m

I note that the Council continues to hold capital receipts reserve of £1.6 million as an earmarked reserve. This relates to a capital sale 2 years ago, and the Council is currently working up proposals to utilise this reserve on future capital projects. I am satisfied that accounting for this capital receipt continues to be correct.

General Fund and Projects Reserves amount to £600K, which is around £50% of council income for the year. This is an appropriate level of reserves.

I am satisfied that the Council has met this control objective

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 (grant notification / invoice for car parking).

Final Audit

Precept per box 2 to the accounts is £1,078,470 (2016-17 £1,014,746) Precept agreed to Council minutes.

Other income per box 3 to the accounts is £182,596 (2016-17 £1,769,004)

I tested a sample of income transactions selected randomly from the last 6 months of the financial year. For all transactions tested, I was able to confirm

- 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 have found no errors in my testing of precept income per box 2 to the accounts and other income per box 3.

F. Petty Cash

Final 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.

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 August 2017 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. The Council has satisfactory controls over payroll.

Final Audit

Staff Costs per box 4 to the accounts were £603,466 (2016-17 £592,328)

I carried out further testing by reviewing the March 2018 payroll. I confirmed this had been approved by the Clerk and the RFO. I selected a small sample of payroll transactions and confirmed

- Ledger entry could be agreed to payslip
- Ledger entry agreed to telepay slip, which had been signed off by the Clerk and the RFO
- Correct accounting (no expenses or non-staff costs include on staffing payroll code

I am satisfied that this control objective has been met and no errors have been identified in my testing of payroll.

H. Assets and Investments

Final Audit

Fixed Assets per box 9 to the accounts are £3,101,911 (2016-17 £3,077,526)

I have agreed the fixed asset register balance in the accounts back to the fixed asset register. Fixed asset register includes £500K investment in CCLA property fund, which is to be held for more than 12 months, so is correctly held as a fixed asset and not cash.

I note that there have been a small number of additions to fixed asset register in 2017. I confirmed these have been added at historic cost, and that there has been no change in the accounting basis for existing assets. I have one recommendation:

I recommend that the Council should draw up a fixed asset accounting policy, which should include a capitalisation threshold and a definition of assets to be included on the register. This should be compliant with the requirements of the NALC publication "Governance and Accountability"

I have identified no errors in my testing of fixed assets.

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 2017 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.
- Bank reconciliations were reported to a meeting of the Council, and this review was minuted.

I have no recommendations in this area.

Final Audit

Cash per box 8 to the accounts is £2,712,644 (2016-17 £ 2,706,779)

I agreed the cash balance to the bank reconciliation, once £250 petty cash adjustment has been made. I agreed all bank statement balances on the reconciliation back to bank statements. I also agreed the cashbook balances to year end reports produced by RBS. I confirmed that all deposit balances held as cash mature within 12 months and are therefore correctly categorised as cash. I tested a sample of high value unpresented cheques and confirmed that they were presented to bank in the new financial year.

I note that the reconciliation has been reviewed and signed off as such by a councillor, and that bank statements have also been signed off by the councillor reviewing the reconciliation. I have one minor recommendation:

- PSDF bank statement and deposit balance statements should be presented to councillor as part of regular bank reconciliations, and these statements should be signed off by the councillor

Total borrowings per box 10 to the accounts are £128,000 (2016-17 £166,000) Agreed to external confirmation provided by Public Works Loan Board.

Boxes 10 and 8 to the accounts are fairly stated.

J. Year-end accounts

Final Audit

The Council has compiled accounts on accruals basis, as required by regulation.

The RFO is in the process of preparing the external audit pack to be sent to Moore Stephens, I confirmed that working papers are being prepared as required by the auditors

I reminded the Clerk to check carefully dates to allow for an inspection period in line with regulations, and confirmed that the inspection period must include the first 2 weeks of July.

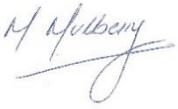
I am satisfied that the Council has met this control objective

K. Trusteeship

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 to the right.

Mark Mulberry

Points Forward – Action Plan - Interim Audit

Matter Arising	Recommendation	Council Response
<p>The Council’s ICT support contract is due for retender.</p>	<p>It was originally let in 2014, and I recommend that competitive quotes should be obtained every three years for a contract of this nature</p>	<p>This has been retendered, 4 quotes obtained, renewed with existing company.</p>
<p>The Council is intending to move to internet banking for the start of the 2018-19 financial year.</p>	<p>It is important that the financial regulations relating to processing of payments are reviewed prior to this to ensure they are fit for purpose.</p>	<p>18-19 is preparation year, financial regulations are under review as part of this.</p>
<p>Money cover is set at £1million. This appears too low, given the Council’s cash balance of £2.7 million</p>	<p>I have suggested that the RFO should contact the insurer to see increased cover is necessary</p>	<p>Insurers have been contacted, a risk assessment has been carried out and decision made by committee not to increase insurance. Increased restriction has been put on the banking mandates, and financial regulations are under review.</p>
<p>The Council has a well-established process for backing up computer data, with back ups held at remote locations</p>	<p>It is recommended that these backups are tested on at least an annual basis, to ensure all essential data / systems can be restarted if required.</p>	<p>This has been completed, no issues identified, RFO is to review results.</p>

Points Forward – Action Plan - Final Audit

Matter Arising	Recommendation	Council Response
<p>I note that there have been a small number of additions to fixed asset register in 2017. I confirmed these have been added at historic cost, and that there has been no change in the accounting basis for existing assets</p>	<p>I recommend that the Council should draw up a fixed asset accounting policy, which should include a capitalisation threshold and a definition of assets to be included on the register. This should be compliant with the requirements of the NALC publication "Governance and Accountability</p>	
<p>I note that the reconciliation has been reviewed and signed off as such by a councillor, and that bank statements have also been signed off by the councillor reviewing the reconciliation. :</p>	<p>PSDF bank statement and deposit balance statements should be presented to councillor as part of regular bank reconciliations, and these statements should be signed off by the councillor</p>	