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Our Ref: MARK/GOD001

Ms R Tong
Godalming Town Council
107-109 High Street
Godalming
Surrey
GU7 1AQ

17 April 2023

Dear Rita

Re: Godalming Town Council
Internal Audit Year Ended 31 March 2023 – Year-End Audit report

Executive summary

Following completion of our year-end internal audit on 17th April 2023 we enclose our report for your kind attention and presentation to the council. This report should be considered alongside the interim audit report issued following our interim audit on 20th September 2022. The audits were 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.

Our report is presented in the same order as the assertions on the internal auditor report within the published AGAR. The start of each section details the nature of the assertion to be verified. Testing requirements follow those detailed in the audit plan previously sent to the council, a copy of this is available on request. The report concludes with an opinion as to whether each assertion has been met or not. Where appropriate **recommendations for action are shown in bold text and are summarised in the table at the end of the report.**

Our sample testing did not uncover any errors or misstatements that require reporting to the external auditor at this time, nor did we identify any significant weaknesses in the internal controls such that public money would be put at risk.

It is clear the council takes governance, policies and procedures seriously and I am pleased to report that overall, the systems and procedures you have in place are fit for purpose and whilst my report may contain recommendations to change these are not indicative of any significant failings, but rather are pointers to improving upon an already well-ordered system.

It is therefore our opinion that the systems and internal procedures at Godalming Town Council are well established and followed.

Regulation

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. In addition to this, a smaller authority is required by Regulation 5(1) of the Accounts and Audit Regulations 2015 to “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

Internal auditing is an independent, objective assurance activity designed to improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The purpose of internal audit is to review and report to the authority on whether its systems of financial and other internal controls over its activities and operating procedures are effective.

Internal audit's function is to test and report to the authority on whether its specific system of internal control is adequate and working satisfactorily. 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.

Independence and competence

Your audit was conducted by Mark Mulberry of Mulberry & Co. Your auditor has over 30 years' experience in the financial sector with the last 20 years specialising in local government finance and internal audit.

Your auditor is independent from the management of the financial controls and procedures of the council and has no conflicts of interest with the audit client, nor do they provide any management or financial assistance to the client.

Engagement Letter

An engagement letter was previously issued to the council covering the 2022/23 internal audit assignment. Copies of this document are available on request.

Planning and inherent risk assessment

The scope and plan of works including fee structure was issued to the council under separate cover. Copies of this document are available on request. In summary, our work will address each of the internal control objectives as stated on the Annual Internal Audit Report of the AGAR. As part of the inherent risk assessment, we have concluded that:

- There have been no reported instances of breaches of regulations in the past.
- The client uses an industry approved financial reporting package.
- The client regularly carries out reconciliations and documents these.
- There is regular reporting to council.
- The management team are experienced and informed.
- Records are neatly maintained and referenced.
- The client is aware of current regulations and practices.
- There has been no instance of high staff turnover.

It is our opinion that the inherent risk of error or misstatement is low, and the controls of the council can be relied upon and as such substantive testing of individual transactions is not required. Testing to be carried out will be "walk through testing" on sample data to encompass the period of the council year under review.

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Interim Audit - Points Carried Forward

None at the interim stage

B. FINANCIAL REGULATIONS, GOVERNANCE AND PAYMENTS

Internal audit requirement

This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved, and VAT was appropriately accounted for.

Audit findings

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

The council has thresholds in place at which authorisations to spend must be obtained as below:

FR 4.1. Expenditure on revenue items may be authorised up to the amounts included for that class of expenditure in the approved budget.

FR 4.2 No expenditure may be authorised that will exceed the amount provided in the revenue budget for that class of expenditure, or that is not contained within the revenue budget or within the Clerks delegated authority of £4,500, other than by resolution of the Council, or duly delegated committee. During the budget year and with the approval of Council having considered fully the implications for public services, unspent and available amounts may be moved to other budget headings or to an earmarked reserve as appropriate (virement).

Any time the Clerk exercises a delegated financial authority, the Clerk will agree expenditure with the Chair or Vice Chair of the appropriate Committee and shall report the action taken and costs incurred to the same Committee as soon as practicable thereafter.

FR4.5 The Clerk may incur expenditure on behalf of the Council which is necessary to carry out any repair, replacement, health and safety or other work which is of such extreme urgency that it must be done at once, whether or not there is any budget provision for the expenditure, subject to a limit of £4,500. Before doing so, the Clerk will agree expenditure with the Chair or Vice Chair of the appropriate Committee and shall report the action taken and costs incurred to the same Committee as soon as practicable thereafter.

Further to the testing conducted at the interim visit, I tested an additional sample of invoices and found these had been approved in accordance with the thresholds contained within the Financial Regulations, and approval, where needed, recorded in the minutes of meetings.

The council has Financial Regulations in place regarding the award of contracts, and this includes:

FR 11.10 When it is to enter into a contract of between £5,000 and £25,000 in value for the supply of goods or materials or for the execution of works or specialist services other than such goods, materials, works or specialist services as are excepted as set out in paragraph 11.6 the Clerk or RFO shall obtain 3 quotations or estimates (price descriptions of the proposed supply). Otherwise, Regulation 10(3) above shall apply.

There were no tenders during the year under review.

Confirm all section 137 expenditure meets the guidelines and does not exceed the annual per elector limit of £8.82 per elector.

The council has adopted the General Power of Competence (GPC) and the section 137 thresholds do not apply. The council is reminded that after each scheduled election, the council must declare its eligibility and re-adopt the GPC, recording this within the minutes of the meeting.

Check receipt of VAT refund matches last submitted VAT return.

The council submits its VAT return on a quarterly basis. I reviewed the submission for the period ending 31 December 2023 which showed a refund amount due of £4,157.98. I was able to confirm receipt of this amount to the council's bank account on 11th January 2023. The March 2023 VAT return is ready for submission. The council is up to date with its VAT submissions.

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

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

C. RISK MANAGEMENT AND INSURANCE

Internal audit requirement

This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.

Audit findings

We discussed assertion 8 on the Annual Governance Statement and whether 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.”

The Clerk confirmed that they were not aware of any event having a financial impact that was not included in the accounting statements.

D. BUDGET, PRECEPT AND RESERVES

Internal audit requirement

The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.

Audit findings

The accounting records show that the council ended the year with income reported as 105.4 % of budget and expenditure reported as 99.3 % of budget. A review shows that there is no one individual significant amount that has contributed to the additional income, but certain the council has benefits from additional interest, rents and CIL monies.

The council holds £434,547 in earmarked reserves (EMR), spread across a range of clearly identifiable projects. I checked the purpose of these EMRs with the Clerk and am satisfied they are all for legitimate future planned projects of the council.

The council also holds £418,991 in the general reserve.

The Joint Panel on Accountability and Governance (JPAG) Practitioner’s guide states ‘*the generally accepted recommendation with regard to the appropriate minimum level of a smaller authority’s general reserve is that this should be maintained at between three and twelve months of net revenue expenditure*’ (para 5.33).

The general reserve balance is within the recommended range.

G. PAYROLL

Internal audit requirement

Salaries to employees and allowances to members were paid in accordance with this authority’s approvals, and PAYE and NI requirements were properly applied.

Audit findings

I reviewed the total figure being included within box 4 (staff costs) on the Annual Governance and Accountability Return (AGAR) and confirmed that this includes only salary payments, HMRC payments and pension contributions.

H. ASSETS AND INVESTMENTS

Internal audit requirement

Asset and investments registers were complete and accurate and properly maintained.

Audit findings

I confirmed the asset register total matches that included in box 9 (total fixed assets plus long term investments and assets) on the AGAR and was able to trace the changes to the previous year’s total against the asset register.

During the year under review two assets (Shutters) with a combined value of £5,352 we added to the register. I have reviewed the nominal ledger for missing assets and found none in evidence.

The council has 4 Public Works Loan Board (PWLB) loans. I was able to confirm the year-end loan balance and in year capital and interest repayments against the PWLB year-end statement. At the year end the council owed a combined total of £1,382,692.

Loan Number	Loan Type	Repayment Method	Payment Frequency	Advance Date	Maturity Date	Previous Payment Date	Next Payment Date	Principal Balance Outstanding (£)	Loan Rate (%)
PW504288	FIXED	ANNUITY	SEMI ANNUAL	13-Aug-2015	13-Feb-2045	13-Feb-2023	13-Aug-2023	349,114.99	3.36
PW504568	FIXED	ANNUITY	SEMI ANNUAL	13-Jan-2016	13-Jul-2045	13-Jan-2023	13-Jul-2023	354,185.55	3.33
PW506047	FIXED	ANNUITY	SEMI ANNUAL	04-May-2017	04-Nov-2046	04-Nov-2022	04-May-2023	260,082.13	2.63
131999	FIXED	ANNUITY	SEMI ANNUAL	14-Nov-2019	14-May-2069	14-Nov-2022	14-May-2023	419,309.13	3.38

The council has no long-term investments.

I. BANK AND CASH

Internal audit requirement

Periodic and year-end bank account reconciliations were properly carried out.

Audit findings

The financial regulations at 2.2 state, *On a regular basis, at least once in each quarter, and at each financial year end, a member other than a cheque signatory shall be appointed to verify bank reconciliations (for all accounts) produced by the RFO. The member shall sign the reconciliations and the original bank statements (or similar document) as evidence of verification. This activity shall on conclusion be reported, including exceptions, to and noted by the Audit Committee.*

I reviewed the March 2023 bank reconciliation and was able to confirm the balances to the bank statements and found no errors. There was evidence in the file of reconciliations and the face of bank statements being signed in accordance with regulations.

Balances held are not within the £85,000 protection limit offered by the Financial Services Compensation Scheme (FSCS).

J. YEAR END ACCOUNTS

Internal audit requirement

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.

Audit findings

The council, at its meeting to sign off the year-end accounts, must discuss Section 1 of the AGAR (Annual Governance Statement) and record this activity in the minutes of the meeting. **COUNCIL IS REMINDED THAT THIS MUST BE A SEPARATE AGENDA ITEM PRIOR TO THE SIGNING OF SECTION 2 OF THE AGAR (ANNUAL ACCOUNTS).**

Section 1 – Annual Governance Statement

Based on the internal audit finding I recommend using the table below as the basis for that discussion.

	Annual Governance Statement	<i>'Yes', means that this authority</i>	Suggested response based on evidence
1	We have put in place arrangements for effective financial management during the year, and for the preparation of the accounting statements.	<i>prepared its accounting statements in accordance with the Accounts and Audit Regulations.</i>	YES – accounts follow latest Accounts and Audit Regulations and practitioners guide recommendations.
2	We maintained an adequate system of internal control including measures designed to prevent and detect fraud and corruption and reviewed its effectiveness.	<i>made proper arrangements and accepted responsibility for safeguarding the public money and resources in its charge.</i>	YES – there is regular reporting of financial transactions and accounting summaries, offering the opportunity for scrutiny.
3	We took all reasonable steps to assure ourselves that there are no matters of actual or potential non-compliance with laws, regulations and Proper Practices that could have a significant financial effect on the ability of this authority to conduct its business or manage its finances.	<i>has only done what it has the legal power to do and has complied with Proper Practices in doing so.</i>	YES – the Clerk advises the council in respect of its legal powers.
4	We provided proper opportunity during the year for the exercise of electors' rights in accordance with the requirements of the Accounts and Audit Regulations.	<i>during the year gave all persons interested the opportunity to inspect and ask questions about this authority's accounts.</i>	YES – the requirements and timescales for 2021/22 year-end were followed.
5	We carried out an assessment of the risks facing this authority and took appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required.	<i>considered and documented the financial and other risks it faces and dealt with them properly.</i>	YES – the council has a risk management scheme and appropriate external insurance.
6	We maintained throughout the year an adequate and effective system of internal audit of the accounting records and control systems.	<i>arranged for a competent person, independent of the financial controls and procedures, to give an objective view on whether internal controls meet the needs of this smaller authority.</i>	YES – the council has appointed an independent and competent internal auditor.
7	We took appropriate action on all matters raised in reports from internal and external audit.	<i>responded to matters brought to its attention by internal and external audit.</i>	YES – matters raised in internal and external audit reports have been addressed.
8	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	<i>disclosed everything it should have about its business activity during the year including events taking place after the year end if relevant.</i>	YES – no matters were raised during the internal audit visits.

	authority and. Where appropriate, have included them in the accounting statements.		
9	Trust funds including charitable – In our capacity as the sole managing trustee we discharged our accountability responsibilities for the fund(s)/asset(s), including financial reporting and, if required, independent examination or audit.	<i>has met all its responsibilities where, as a body corporate, it is a sole managing trustee of a local trust or trusts.</i>	N/A – the council has no trusts

Section 2 – Accounting Statements

AGAR box number		2021/22	2022/23	Internal Auditor notes
1	Balances brought forward	519,501	764,098	Agrees to 2021/22 carry forward (box 7)
2	Precept or rates and levies	769,225	928,755	Figure confirmed to central records
3	Total other receipts	428,417	269,160	Agrees to underlying records
4	Staff costs	420,299	536,234	Agrees to underlying records
5	Loan interest/capital repayments	77,703	77,703	Verified against PWLB records
6	All other payments	455,043	494,538	Agrees to underlying records
7	Balances carried forward	764,098	853,538	Casts correctly and agrees to balance sheet

8	Total value of cash and short-term investments	752,200	836,759	Agrees to bank reconciliation
9	Total fixed assets plus long-term investments and assets	1,980,004	1,985,356	Matches asset register
10	Total borrowings	1,415,083	1,382,692	Verified against PWLB records

For Local Councils Only		Yes	No	N/A	
11a	Disclosure note re Trust Funds (including charitable)		✓		<i>The Council, as a body corporate, acts as sole trustee and is responsible for managing Trust funds or assets.</i>
11b	Disclosure note re Trust Funds (including charitable)			✓	<i>The figures in the accounting statements above do not include any Trust transactions.</i>

Audit findings

The year-end accounts have been correctly prepared on an income and expenditure basis with the box 7 and 8 reconciliation explained using the accounting records. I tested the debtors, creditors and accruals with the Clerk and am satisfied that these are all legitimately posted to the accounts.

The AGAR correctly casts and cross casts and last year's comparatives match the figures submitted for 2021/22.

The variance analysis has been completed to explain the variances exceeding 15% where required, and in my opinion, contains sufficient narrative and quantitative information for the External Auditor.

K. LIMITED ASSURANCE REVIEW

Internal audit requirement

IF the authority certified itself as exempt from a limited assurance review in 2021/22, it met the exemption criteria and correctly declared itself exempt. (If the authority had a limited assurance review of its 2021/22 AGAR tick “not covered”)

Audit findings

The council did not certify itself exempt in 2021/22 due to exceeding the income and expenditure limits and this test does not apply.

L: PUBLICATION OF INFORMATION

Internal audit requirement

The authority published the required information on a website/webpage up to date at the time of the internal audit in accordance with the relevant legislation

Audit findings

This internal control objective has changed since last year. Where previously it related to the relevant Transparency Codes, a council with annual turnover exceeding £25,000 was recommended to follow the Local Government Transparency Code 2015, but it was not a statutory requirement.

The council has a dedicated transparency page – although the link was difficult to locate. A review of the council website shows the following:

Expenditure over £100 – expenditure items are included within the minutes of meetings, the requirement has been met.

End of year accounts – there is an accounts tab on the website showing this information published for the previous five years, with space to publish this year’s information once approved by council.

Annual Governance Statement – this has also been published for previous years on the accounts tab, with space to publish this year’s information once approved by council.

Internal Audit Report – the internal audit reports for previous years are on the accounts tab, along with the interim report for 2021/22, with space to publish this year’s information once approved by council.

Councillor responsibilities – details of councillors are published on the councillor tab on the website.

Details of public land and buildings – the asset list has been published for the previous five years on the accounts tab, with space to publish this year’s information once approved by council.

Minutes, agendas and meeting papers of formal meetings – these are published on the meetings tab, with links to agendas, minutes and additional documents for each meeting.

All councils are required to follow The Accounts and Audit Regulations which include the following requirements:

13(1) An authority must publish (which must include publication on that authority’s website)

- (a) the Statement of Accounts together with any certificate or opinion entered by the local auditor in accordance with section 20(2) of the Act; and
- (b) the Annual Governance Statement approved in accordance with regulation 6(3)

13(2) Where documents are published under paragraph (1), the authority must

- (a) keep copies of those documents for purchase by any person on payment of a reasonable sum; and
- (b) ensure that those documents remain available for public access for a period of not less than five years beginning with the date on which those documents were first published in accordance with that paragraph.

I was able to confirm that pages 4 (Annual Governance Statement), 5 (Accounting Statements) and 6 (External Auditor's Report and Certificate) of the AGAR are available for review on the council website for the last five years.

M: EXERCISE OF PUBLIC RIGHTS - INSPECTION OF ACCOUNTS

Internal audit requirement

The authority has demonstrated that during summer 2022 it correctly provided for the exercise of public rights as required by the Accounts and Audit Regulations.

Audit findings

Inspection – key dates	2021/22 Actual	2022/23 Proposed
Date AGAR signed by council	28/04/2022	27 th May 2023
Date inspection notice issued	10 June 2022	TBC
Inspection period begins	13 June 2022	5 th June
Inspection period ends	22 July 2022	14 th July
Correct length (30 working days)	Yes	Yes
Common period included (first 10 working days of July)	Yes	Yes

I am satisfied the requirements of this control objective were met for 2021/22, and assertion 4 on the Annual Governance Statement can therefore be signed off by the council.

I was able to confirm that the proposed dates for 2022/23 meet the statutory requirements.

N: PUBLICATION REQUIREMENTS

Internal audit requirement

The authority has complied with the publication requirements for 2021/22. Under the Accounts and Audit Regulations 2015, authorities must publish the following information on the authority website / webpage.

Before 1 July 2022 authorities must publish:

- *Notice of the period for the exercise of public rights and a declaration that the accounting statements are as yet unaudited*
- *Section 1 - Annual Governance Statement 2021/22, approved and signed, page 4*
- *Section 2 - Accounting Statements 2021/22, approved and signed, page 5*

Not later than 30 September 2022 authorities must publish:

- *Notice of conclusion of audit*
- *Section 3 - External Auditor Report and Certificate*
- *Sections 1 and 2 of AGAR including any amendments as a result of the limited assurance review.*

It is recommended as best practice, to avoid any potential confusion by local electors and interested parties, that you also publish the Annual Internal Audit Report, page 3.

Audit findings

I was able to confirm that the Notice of Public Rights is published on the council website along with the Notice of Conclusion of Audit and External Auditor Report and Certificate and the publication requirements for 2021/22 have been met.

Achievement of control assertions at year-end audit date

Based on the tests conducted during the year-end audit, our conclusions on the achievement of the internal control objectives are summarised in the table below and are reflected in the completion of the Annual Internal Audit Report within the AGAR.

	INTERNAL CONTROL OBJECTIVE	YES	NO	NOT COVERED
A	Appropriate accounting records have been properly kept throughout the financial year	✓		
B	This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved, and VAT was appropriately accounted for	✓		
C	This authority assesses the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these	✓		
D	The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.	✓		
E	Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for	✓		
F	Petty cash payments were properly supported by receipts, all petty cash expenditure was approved, and VAT appropriately accounted for			None
G	Salaries to employees and allowances to members were paid in accordance with this authority's approvals, and PAYE and NI requirements were properly applied.	✓		
H	Asset and investments registers were complete and accurate and properly maintained.	✓		
I	Periodic bank account reconciliations were properly carried out during the year.	✓		
J	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.	✓		
K	If the authority certified itself as exempt from a limited assurance review in 2021/22, it met the exemption criteria and correctly declared itself exempt. <i>(If the authority had a limited assurance review of its 2020/21 AGAR tick "not covered")</i>			N/a
L	The authority published the required information on a website/webpage up to date at the time of the internal audit in accordance with the relevant legislation	✓		
M	The authority, during the previous year (2021-22) correctly provided for the period for the exercise of public rights as required by the Accounts and Audit Regulations <i>(evidenced by the notice published on the website and/or authority approved minutes confirming the dates set).</i>	✓		
N	The authority has complied with the publication requirements for 2021/22 AGAR.	✓		
O	Trust funds (including charitable) – The council met its responsibilities as a trustee.			✓

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

Yours sincerely



Mark Mulberry
For Mulberry & Co

Year-End Audit - Points Carried Forward

Audit Point	Audit Findings	Council comments
Web site link	The council has a dedicated transparency page – although the link was difficult to locate.	