



Our Ref: MARK/SOU002

Mrs C Tobin
Southwater Parish Council
Beeson House, 26 Lintot Square
Fairbank Road
Southwater
West Sussex
RH13 9LA

6th December 2017

Dear Catherine

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

Following completion of our interim internal audit we enclose our report for your kind attention and presentation to the Council. The audit was conducted in accordance with current practices and guidelines and testing was risk based. Whilst we have not tested all transactions, our samples have where appropriate covered the entire year to date. Where appropriate recommendations for future action are shown in bold text.

The Accounts and Audit Regulations 2015 require smaller authorities, each financial year, to conduct a review of the effectiveness of the system of internal control and prepare an annual governance statement in accordance with proper practices in relation to accounts. The internal audit reports should therefore be made available to all members to support and inform them when they are considering the authority's approval of the annual governance statement.

Interim Audit – Summary Findings

At the interim visit we reviewed and performed tests on the following areas:

- Review of the Financial Regulations & Standing orders
- Review of the Risk Assessments
- Review of the Budgeting process
- Proper Bookkeeping – review of the use of the accounts package.
- Review of salaries
- Review of fixed asset register

It is our opinion that the systems and internal procedures at Southwater Parish Council are very well established, regulated and followed. The clerk ensures the council follows best practice regulations and has over time adapted and changed the internal procedures as regulations and technologies have changed to maintain compliance.

It is clear the council takes governance, policies and procedures very seriously and I am pleased to report that overall the systems and procedures you have in place are entirely fit for purpose and indeed are a model of good practice. I would like to thank Catherine and her team for their assistance and hard work.

A. Books of Account

The Council continues to use RBS an industry specific accounting package. The RBS system is used daily to report and record the financial transactions of the Council and a review of the cashbook shows that all data fields are being entered, the hard copy reports are easy to read and logically filed.

The clerk/RFO prints off and files in hard copy by cash book, by month; bank reconciliation, cashbook, income and expenditure against budget and other reports as fit. If I had to make one comment, I have often found the system of filing all reports together whilst logical a little tricky to navigate and have found systems where cashbooks, bank reconciliations and bank statements are allocated their own folders appropriately divided by month. However, that said, the system at Southwater is entirely fit for purpose and I therefore make no recommendation to change.

My audit testing showed that supporting documentation could be readily located from records recorded on RBS, I also tested the opening balances as at 1.4.17 and confirmed they could be agreed back to the audited accounts for 2016-17 and confirmed that the Council's last VAT return was for the quarter ended 30th September 2017 and as such the council's returns together with books and records are up to date.

The Council is required by law to follow the 2015 Transparency Code, a review of the web site shows that much of the code is being followed; however, I could not easily locate the list of grants or land register and I did find it was a little tricky to navigate through the web site. In respect of grants the code states each local authority must;

Publish details of all grants to voluntary, community and social enterprise organisations. This can be achieved by either: • tagging and hence specifically identifying transactions which relate to voluntary, community and social enterprise organisations within published data on expenditure over £500 or published procurement information, or • by publishing a separate list or register.

For each identified grant, the following information must be published as a minimum: • date the grant was awarded • time period for which the grant has been given • local authority department which awarded the grant • beneficiary • beneficiary's registration number • summary of the purpose of the grant • amount

I have recommended that it would be sensible to carry out a brief audit against the requirements of the Code to ensure that the Council is fully compliant and to this end I have signposted Crowborough Town Council as a good site to review.

In the light of the new data protection regulations (GDPR) coming into force in May 2018; the council has begun work on this.

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

B. Financial Regulations, Governance & Payments

I confirmed by sample testing that Councillors have all signed "Acceptance of Office" forms and register of members interests, in line with regulations.

Standing orders are based on the NALC model and the council is in the process of revising standing orders with documentation taken to council in October 2017.

Financial regulations are based on the NALC model and are dated 2014. The council is in the process of revising the regulations with documentation taken to council in October 2017. The regulations being based on the NALC model contain provisions for the approval of spending, setting of budgets, reconciliation of the bank and reporting to council.

Accounting and Audit. Financial regulation 2.2 deals with bank reconciliation. The clerk/RFO was able to demonstrate the bank reconciliation, bank statement are signed in accordance with regulations. **I would recommend though that the minutes are added to, to include reference to the bank reconciliation being signed to be fully compliant with regulation.**

Annual Estimates (Budget) and Forward Planning the council is in the main following regulation; however, **I recommend that the September/November date is changed to November/December to give breathing space.**

Financial regulation 5 & 6 deal with authorisation and making of payments. The payments list and the minutes show beyond doubt what is being approved, invoices are annotated and checked. Invoices are authorised and a random sample of payments was selected for September 2017. There were no errors and all agreed to the payments list.

The council makes payments via cheque, bacs, direct debit. No cash payments other than petty cash. The council has an on-line system with Co-op this has a natural segregation of duties insofar as the same user cannot both create and authorise the same transaction. The payments are entered into the RBS finance package and a payment list produced, this is signed. Within the bank system the payments are entered and a payments list produced, this is signed as approved for authorisation. Authorisation is made by a separate user.

C. Risk Management & Insurance

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

I have confirmed that the Council has a valid insurance certificate. The Council reviews its insurance requirements as part of the renewal process. Asset cover appears adequate however money cover (fidelity guarantee) is low. **I recommend this is reviewed with the insurance company on next review.**

D. Budget, Precept & Reserves

In accordance with financial regulation 3, I confirmed that the 2018-19 budget and precept setting process was well underway at the time of our interim audit. The 2018-19 budget and precept will be approved by the end of January 2018, so all precepting authority deadlines will be met.

The Council was able to demonstrate that budget monitoring reporting to members is comprehensive, and is appropriately minuted. At the 30th September, total income was £354,742 (Annual budget £737,119). Expenditure £359,601 (Annual budget £810,132). Income and expenditure is broadly in line with budget and it is noticed this is a deficit budget which will reduce available general reserves.

The council has detailed workings on reserves, the reserves position at 31st October is £442k of which £215k are earmarked leaving £227k as a general reserve, it is anticipated this will reduce to circa £27k by the year end. At a precept level of circa £400k general reserves would be expected to be £200k as adjusted for local conditions. A general reserve balance of £27k is far too low and puts the council into financial distress and no room for emergency expenditure. A review of the earmarked reserves shows that these are appropriately allocated although one reserve was negative and circa £100k of funds are capital and cannot be used for revenue purposes. **I recommend council review its reserves position with a matter of urgency with a view to raising precept and to reallocating earmarked reserves where appropriate back to general in full knowledge that this reduces the ability for the council to provide future services. I would caution the council in making cost reductions as this will impact of the ability to provide valuable community services, in my opinion it is a better strategy to increase precept and thereby increase the spending on the provision of visible services.**

E. Income

The council has a number of streams of income from grants, to hall hire, lease rental, allotments and leisure centre. The largest income element is from precept 50% of total income followed by Leisure centre and gym at 25%.

Financial regulations state fees must be reviewed annually. Council generally reviews and minutes, although the 2016/17 minute was not overly clear. A random selection showed that council is charging the amounts shown on the printed lists.

Detailed income testing will be carried out at a further visit.

F. Petty cash

To be tested at year end.

G. Payroll

Payroll is performed in house using an industry approved package. Employees are paid with reference with NJC scales for consistency purposes. The signed minutes show that council approves changes to payrolls.

The council has fulfilled its obligations in respect of auto enrolment and LGPS is in place and I tested a sample of tax deductions at month 8, there were no errors.

H. Assets and investments

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

I. Bank reconciliations

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

J. Year end accounts

To be tested at year end

K. Trusteeship

No trusts.

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

Kind regards
Yours sincerely



Mark Mulberry