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2022/23 Internal Audit Report for Merton Parish Council

From Jane Olds – Internal Auditor

I reviewed the documents provided and met with the Clerk, Tracey Charlesworth, on 20 April via Zoom and finalised the information on 7 June on receipt of the AGAR documentation.

BASIS OF REPORT

This internal audit report is based upon the JPAG (Joint Panel on Accountability and Governance) Governance and Accountability for Smaller Authorities in England 2022 publication.

The scope of this internal audit is focused on assessing the effectiveness of the Council's internal controls and was outlined in the original Letter of Engagement. Where any such controls are found to be deficient, the internal audit will help lead to improvement in those processes.

By applying the principles of internal auditing, outlined in the current Accounts and Audit Regulations and applying the approach to internal audit testing outlined above, every effort is made to ensure that all internal audits are conducted with due professional care, integrity and independence. All conclusions derived from the audit are based upon objective and traceable evidence.

Please note: it would be incorrect to view internal audit as the detailed inspection of all records and transactions of the Council in order to detect error or fraud. It is the periodic independent review of a Council's internal controls resulting in an assurance report designed to improve effectiveness and efficiency of the activities and operating procedures under the Council's control. Managing the Council's internal controls should be a day-to-day function of the staff and Councillors and not left for internal audit. (Source: Governance and Accountability for Smaller Councils - A Practitioners' Guide 2022 – Section 4).

Annual Return Section	Process	Findings	Recommendations and actions
A	Bookkeeping Arrangements	Appropriate books of account have been kept properly throughout the year and are well maintained with sound audit trails.	No further recommendations.

Annual Return Section	Process	Findings	Recommendations and actions
B	Council's Financial Regulations have been met with regard to expenditure	<p>The Council's Financial Regulations have been met in that appropriate authorisations have been given for each level of expenditure.</p> <p>Payments were supported by invoices, and expenditure was approved and VAT appropriately accounted for.</p>	Ensure that suppliers / contractors, amounts and time frames (if appropriate) are included in the minutes.
C	Review of Internal Controls	The Council has adequate Internal Control provision including a policy and a Councillor Responsible for Internal Financial Control.	No further recommendations.
C	Review of Risk Assessment	<p>It is minuted that the Council assessed the significant risks to achieving its objectives using their Risk Assessment; the document was adopted at a meeting on 13 March. However, there is no evidence of it being published on the website.</p>	<p>Ensure that the Risk Assessment is reviewed annually – preferably at the beginning of the Financial Year in order that it can be used as a working document throughout the year.</p> <p>Practitioners' Guide recommendations should be used (currently starting at 5.89 and criteria 5.91).</p>
D	Budgetary Controls (Precept requirement)	The annual Precept requirement resulted from an adequate budgetary process.	No further recommendations.
D	Budgetary Controls (Budget monitoring)	Progress against the budget was monitored and minuted regularly.	No further recommendations.
D	Reserves were appropriate	It was not possible to check the reserves as the amounts do not appear to be publicly available.	Devise a Reserves Policy and publish the Earmarked Reserve Levels.
D	The final outturn is in line with expectations	The final outturn was materially in line with expectations.	No further recommendations.
E	Income controls	Expected income was fully received and properly recorded.	No further recommendations.

Annual Return Section	Process	Findings	Recommendations and actions
E	VAT	VAT had been appropriately accounted for.	No further recommendations.
F	Petty cash controls	Petty cash is operated by the Council.	Consider closing the petty cash account and requesting all items of expenditure via invoice / payment by debit card.
G	Payroll controls	Salaries to employees were paid in accordance with Council approvals. However, as mentioned last year, the HMRC / NI requirements were not properly applied.	Statement 3 of Section 1 – the Annual Governance Statement – should be considered carefully as the Council is not able to answer ‘yes’ to the statement. See below for further recommendations.
H	Asset Controls - all material assets correctly recorded	The current asset register has correctly recorded all material Assets. The correct basis of valuation has been applied.	No further recommendations.
H	Asset Controls - all additions and removals correctly recorded	Additions in the year have been correctly recorded within the Cash Book and Register.	No further recommendations.
H	Asset Controls - all Deeds and Titles established and shown on register?	Deeds and Titles do not appear to be shown on the Register.	Establish the Deeds and Titles for the land and buildings owned and publish on the Asset Register.
H	Investment Registers	No investment register was required.	No further recommendations.
I	Bank Reconciliations	Periodic and year-end reconciliations were properly carried out.	No further recommendations.
J	Accounting Statements	The Accounting Statements prepared during the year were prepared on the correct accounting basis and were supported by an adequate audit trail.	No further recommendations.
K	Limited Assurance Review Exemption	The Council meets the exemption criteria.	No further recommendations.
L	Information published on website	The information is available.	No further recommendations.

Annual Return Section	Process	Findings	Recommendations and actions
M	Exercise of Public Rights	The Parish Council published the exercise of public rights notice on the website and noticeboard with the following dates: 1 July to 11 August.	No further recommendations.
N	AGAR publication Requirements	The Parish Council complied with the publication requirements for the 2021/22 AGAR.	No further recommendations.
O	Trust funds (If applicable) – the Council met its responsibilities as a trustee	The Parish Council does not operate as a trustee.	No further recommendations.

Transparency Compliance

Process	Criteria	Findings	Recommendations and actions
Review of Internal audit action plan has been considered and actioned?	Good Practice	The Internal Audit had been reviewed the previous year.	No further recommendations.
Accounting Statements agreed and reconciled to the Annual Return	Section 2 of the Annual Return is complete and accurate and reconciles to the statement of accounts.	The accounting statements in this annual return present fairly the financial position of the Council and its income and expenditure.	No further recommendations.
Compliance with the Transparency Code	As the Parish falls into the criteria for Councils below the £25k threshold, it must conform to the criteria and publish the items below.		
Compliance with the Transparency Code	1) Expenditure over £100 is recorded on the Council website and with all information requirements	Available on the website.	No further recommendations.
Compliance with the Transparency Code	2) Annual Return published on the website	Available on the website.	No further recommendations.
Compliance with the Transparency Code	3) Explanation of significant variances	Available on the website.	No further recommendations.

Process	Criteria	Findings	Recommendations and actions
Compliance with the Transparency Code	4) Explanation of difference between Box 7 & 8 if applicable	Explanation provided in the Variances document.	The difference could be avoided if the change was made to Receipts and Payments.
Compliance with the Transparency Code	5) Annual Governance Statement recorded	Available on the website.	No further recommendations.
Compliance with the Transparency Code	6) Internal Audit Report Published	Available on the website.	No further recommendations.
Compliance with the Transparency Code	7) A List of Councillors' responsibilities	Available on the website.	No further recommendations.
Compliance with the Transparency Code	8) Details of Public Land and Building Assets	Not available on the website.	Establish the details and include in the Asset Register.
Compliance with the Transparency Code	9) Minutes & Agenda	Available on the website.	No further recommendations.

Further Recommendations:

Following the completion of the Internal Audit, the Council should undertake a review of effectiveness as per Regulation 6 of the Accounts and Audit Regulations 2015. A blank form can be supplied.

Training

The Clerk and the Councillors should be encouraged to take up the training offered by the local County Association and SLCC to increase their knowledge and expand the Clerk's professional development. The Clerk should be congratulated on starting FILCA and may like to consider ILCA or CiLCA (Certificate in Local Council Administration) in the future.

I recommend including a regular agenda item and budget for training.

Local Council Administration (CAB)

As mentioned in OALC's updates last autumn, it is recommended that all Councils hold a reasonably up-to-date version of Local Council Administration (formerly known as Charles Arnold Baker after the first author). The Council's copy is the 6th Edition. As the 13th Edition has recently been published, I recommend investing in a new copy. A discount can be obtained from the SLCC Bookshop (if a member) or via NALC.

External Audit / Exemption Criteria

The Council should be aware that if the remedial work on the Village Hall is substantial and takes the accounts over the £25k income or expenditure threshold, a Limited Assurance Review via External Audit would be required.

Payments

A number of the payments I reviewed did not include details in the Minutes of the supplier / contractor, value / amount or the length of the contract (if applicable) when the order was agreed to be placed. It is necessary to include the details (and is allowed within GDPR) in order that the Council is able to check the invoice against the agreement for order in the Minutes.

HMRC

As mentioned in the previous two year's reports, the Council, as an employer, is required to register with HMRC and to record all payments to its employees with HMRC – regardless of whether the salary is below the tax threshold. While the Clerk has attempted to clarify the situation, this has not been implemented. I strongly recommend that the Council requests assistance and advice, either from OALC or the SLCC Advice Line in setting this up as soon as possible.

Furthermore, the Council should register with the Pension Regulator.

Working from Home Allowance

As the Clerk does not pay tax and is therefore not able to claim the taxable allowance, the Council may contribute up to £6 a week as a non-taxable contribution to the heating, energy and broadband expenses which the Clerk incurs as part of her working day.

Civility and Respect Pledge

I noted that the Council has not yet signed up to the Civility and Respect pledge. This has been developed by NALC, SLCC and One Voice Wales. It is designed as a starting point to encourage all Councils – regardless of size – to be civil and respectful to all, but it also has advice and assistance which can be used should any member fall short of the pledge. While the current Council is well-run and amicable, it is not known what will happen in the future.

Provision of Equipment

The Council should be congratulated on the purchase of the laptop for the Clerk.

In order for the Clerk to be able to maintain an adequate service level, the provision of software is also necessary. While 'free' 'office' software is available and may be thought of as a cost saving, using a proprietary brand such as Microsoft Office 365 - which the Clerk has used for many years and is therefore very familiar with – will ensure continuity of cover and it is more likely to be guaranteed effective for many future years. I strongly recommend ensuring that the Council invests in a single licence of Office 365.

Adequate anti-virus protections – such as Sophos – should also be considered.

Cyber Security

With instances of cyber crime and attacks on councils increasing, I recommend ensuring that passwords are strong and that online security is in place.

Not only should there be a backup of data to the cloud, but also a monthly backup to a removable hard drive to ensure that if the cloud data is corrupted or held to ransom, there is a reasonably recent

backup which can be re-installed. USB 'pen drives' are highly unreliable to be used as backups and can easily corrupt.

Archives

In our discussions I noted that many of the Parish Council Minute books are currently stored with the Clerk. As these books are the only record of the meetings and should be kept in perpetuity, I strongly recommend that just the last five years or so are kept with the Clerk, with the rest being deposited with the County Archive for safety. A review of other documents should also be undertaken as there is no need to keep items held by others such as most planning applications.

Transparency Code

In order to comply with the Transparency Code, the Council should publish all supplementary meeting documents (such as finance reports or draft policies) as well as the Agenda and Minutes on the website.

Councillor Email Accounts

As part of GDPR, it is recommended that all Councillors should use the email addresses provided for them by the Council using the Council's domain name. This should be investigated.

Conclusion

The above are recommendations to help the Council improve its processes and in no way detract from the work it, and the Clerk, has already done.

I have noted that many of the actions which I recommended last year have been completed; the Clerk and Council should be commended for this.

For information, I have now undertaken three reviews of the Parish Council and I recommend that the Council fully reviews the internal audit provision for the year 2023/24.

Merton Parish Council has an electorate in the region of 252 and the Precept for the year 22/23 was set at £16,480.

In general, I believe that the Council has competent arrangements in place to satisfy itself that its systems of internal financial control are transparent and effective. There are approval and authorisation controls to minimise risk. The audit and management trail for financial transactions is good.

This report should be noted and taken to the next meeting of the Council for minuting to inform them of the Internal Audit work carried out.

I hope that this report is of help to the Council. If you would like any further assistance or clarification, please do contact me.

Jane Olds

Jane Olds
Internal Auditor