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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 8 June via Zoom and finalised the information on 21 June.

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 2020 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 2020 – 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>	No further recommendations.
C	Review of Internal Controls	I have noted that Council has assessed the significant risks to achieving its objectives using their Risk Assessment and have seen the document.	<p>However, the Risk Management assessment is limited.</p> <p>The Council should review and update it annually at the beginning of the year using the JPAG recommendations (starting at 5.89 and criteria 5.91) and publish it on the website.</p>
D	Budgetary Controls (Precept requirement)	The annual Precept requirement resulted from an adequate budgetary process.	However, more detail needs to be included in the Minutes regarding the setting of the draft budget which should be agreed prior to the consideration of the Precept (which should also be minuted in full).
D	Budgetary Controls (Budget monitoring)	Progress against the budget was monitored and minuted regularly.	No further recommendations.
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.	Income should be included in the published budget and minuted upon receipt in the monthly Finance Report.
F	Petty cash controls	Petty cash is operated by the Council. Ensure that all receipts are accounted for.	Consider closing the petty cash account and requesting all items of expenditure via invoice.

Annual Return Section	Process	Findings	Recommendations and actions
G	Payroll controls	Salaries to employees were paid in accordance with Council approvals. But the HMRC / NI requirements were not properly applied.	The Council, as an employer, is required to register with HMRC and to record all payments to all its employees (both Clerk and Village Hall staff) with HMRC regardless of whether any tax is due (HMRC advice note from 2011 supplied). It is imperative that this is rectified as soon as possible.
H	Asset Controls - the register has correctly recorded all material assets?	The current asset register has recorded all material Assets.	No further recommendations.
H	Asset Controls - all additions 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.
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	<p>The Parish Council published the exercise of public rights on the website and noticeboard.</p> <p>Unfortunately, the dates were not compliant and did not cover the required 30 working days.</p>	<p>Ensure that the dates are for 30 working days and cover the first 10 working days of July.</p> <p>I also recommend that the notice is posted on the noticeboard, published in the Finance section of the website, and that the dates are agreed and Minuted prior to publication.</p> <p>Photographic proof may be required next year.</p>
N	AGAR Publication Requirements	The Parish Council complied with the other publication requirements for the 2019/20 AGAR.	No further recommendations.
O	Trust Funds (if applicable)	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.
External Audit recommendations have been considered and actioned.	Good Practice	As the Council claimed exemption last year, no report had been produced.	No further recommendations.
Accounting Statements agreed and reconciled to the Annual Return	Section 1 of the Annual Return Part 1 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.	
Compliance with the Transparency Act	As the Parish falls into the criteria for Councils below the £25k threshold, it must conform to the criteria and publish the items below.		

Process	Criteria	Findings	Recommendations and actions
Compliance with the Transparency Act	1) Expenditure over £100 is recorded on the Council Web-Site and with all information requirements	Available on the website.	No further recommendations.
Compliance with the Transparency Act	2) Annual Return published on the Web-Site	Available on the website.	No further recommendations.
Compliance with the Transparency Act	3) Explanation of significant variances	Available on the website.	No further recommendations.
Compliance with the Transparency Act	4) Explanation of difference between Box 7 & 8 if applicable	Available on the website.	No further recommendations.
Compliance with the Transparency Act	5) Annual Governance Statement recorded	Available on the website.	No further recommendations.
Compliance with the Transparency Act	6) Internal Audit Report Published	Available on the website.	No further recommendations.
Compliance with the Transparency Act	7) A List of Councillors' responsibilities	Available on the website.	No further recommendations.
Compliance with the Transparency Act	8) Details of Public Land and Building Assets	I was not able to find the Deeds and Titles on the Website.	Ensure that the Land Registry references are included on the Asset Register.
Compliance with the Transparency Act	9) Minutes & Agenda	Available on the website.	No further recommendations.

Further Recommendations:

Following the completion of the Internal Audit, I strongly recommend that the Council completes a review of effectiveness. A blank form can be supplied.

The Clerk and the Councillors should be encouraged to take up the training offered by Oxfordshire Association of Local Councils (and the Society of Local Council Clerks) to increase their knowledge and expand the Clerk's professional development. There are currently a number of courses available which would be of benefit to both the Clerk and Council.

On initial inspection of the documents, it was noted that the published Standing Orders were not compliant with current legislation; the latest version was published by NALC in 2018. The Council should be reminded that it is the Council as a body which is responsible for ensuring that the documents are kept up-to-date when new versions are published by NALC.

I should like to see more significance made of the budget and precept setting. The overall budget total should be minuted and a draft budget published for consideration. For clarity, once the budget has been considered, the total amount of Precept should also be minuted. It then helps to clarify the amount requested is the amount deposited by the District Council.

I understand that there have been significant issues with the current banking arrangements. The Council should undertake a review to ensure that the banking provision is fit for purpose – including consideration of electronic banking. I recommend that the Clerk is the administrator on the bank accounts and that the Council has at least three Councillor authorisers / signatories. To protect the Council and Clerk, a similar procedure should be maintained whether cheques or online payments are made – ie that the Clerk prepares the payment and at least one Councillor (for online) authorises it having seen and checked the appropriate paperwork. It may be that a change of provider should be considered, even if this means paying bank fees, as this may save the Clerk time over all.

As part of the banking review, the Council might like to consider some form of payment card on the account for the Clerk, in order that items such as Office 365, Dropbox or antivirus software, can be ordered online. With the appropriate safeguards in place this would be more appropriate than the Clerk having to use her own personal debit card for Parish Council expenses and may also mean that Petty Cash can be dissolved.

I noted that the Council had reserves but that much of the money was not currently earmarked for specific projects. I strongly recommend that much of the general reserve is allocated to earmarked reserves as, moving forward, the Council may start to find it difficult to justify the Precept with the current levels. Advice on allocating reserves is published in the Joint Practitioners Guide. This is an annual publication and as my comments relate to reserves moving forward I recommend reading section 5 of the new edition - <https://www.nalc.gov.uk/library/our-work/jpag/3479-practitioners-guide-2021/file> (from page 38).

For information, it is acceptable to pay the Information Commissioner via Direct Debit. Not only does this save £5, but also time and effort. The form to complete and return to the ICO is on the ICO's website at <https://ico.org.uk/for-organisations/data-protection-fee/renew/#pay>

Following on from the Information Commissioner, the GDPR policies are extremely limited. While the Freedom of Information Publication Scheme is available, the Parish should also consider adopting a Data Protection Policy and a Document Retention Policy and Procedure – all of which should be reviewed on a two year rolling programme.

As mentioned in Annual Return Section G, the Council, as an employer, is required to register with HMRC and to record all payments to its employees – both Clerk and Village Hall Staff – with HMRC – even if no tax is due. I have supplied the HMRC advice note from 2011. It is imperative that this is rectified as soon as possible. An Accounts Office Reference Number and an Employer PAYE Reference Number will be needed.

It is also a requirement that the Council should be registered with the Pension Regulator and the regular (three-yearly) submission completed online – regardless of whether the Clerk has chosen to take up the Council's offer of a pension.

Employment legislation requires that the Clerk and other staff should be issued with a full contract of employment; model copies are available from NALC / SLCC. OALC also has a wide range of staffing documents available.

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.

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

Merton Parish Council has an electorate in the region of 271 and the Precept for the year 20/21 was set at £16,000.

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.

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