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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 17 May via Zoom and finalised the information on 3 June on receipt of the AGAR.

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 2021 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 2021 – 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	<p>I have noted that Council has assessed the significant risks to achieving its objectives using their Risk Assessment and have seen the document.</p> <p>However, the content of the document is limited.</p>	<p>The Council should review and update it annually using the JPAG recommendations (2022 version - starting at 5.84) and publish it on the website.</p> <p>Attention should also be given to the recommendation at 5.92 relating to the assessment matrix.</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	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.
F	Petty cash controls	<p>Petty cash is operated by the Council.</p> <p>Ensure that all receipts are accounted for.</p>	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. However, as mentioned last year, 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 its employees 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 correctly recorded all material Assets. The correct basis of valuation has been applied.	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.	While Income and Expenditure method is 'correct' it is unnecessary for a small Parish Council. Receipts and Payments would be far more appropriate.
K	Limited Assurance Review Exemption	The Council meets the exemption criteria.	No further recommendations.
L	Information published on website	The information is currently partially available.	Ensure that the menu structure is re-installed.
M	Exercise of Public Rights	The Parish Council published the exercise of public rights on the website and noticeboard, but did not comply with the first ten working days of July requirement.	Ensure that the Electors' Rights dates are for 30 working days and cover the first ten working days of July. Note that the earliest date for 21/22 is 1 June due to the Jubilee bank holiday.

Annual Return Section	Process	Findings	Recommendations and actions
N	AGAR Publication Requirements	The Parish Council complied with the publication requirements for the 2020/21 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.
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 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.		
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	Explanation provided in the Variances document.	The difference could be avoided if the change was made to Receipts and Payments.
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.

Process	Criteria	Findings	Recommendations and actions
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	Not available on the website.	Establish the details and include in 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, 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 OALC and SLCC to increase their knowledge and expand the Clerk's professional development. I recommend including a regular agenda item and budget for training.

Financial Responsibility

While the Clerk / RFO is responsible for the day-to-day running of the Parish, the Council should be reminded that, as a corporate body, it is the Council which is responsible for financial governance and this responsibility should not be taken lightly. I recommend that a Councillor Responsible for Internal Financial Control is appointed.

As recently recommended by OALC, the Councillor Responsible for Internal Financial Control should have a check sheet to help them make the appropriate checks on the accounts. For instance, with the payments, I recommend that the Councillor identifies a number of payments from the original bank statement and then follows them back through the Minutes checking the process of paying and agreeing to place the order / undertake the work. The Councillor should also check that any income is also recorded.

It was noted that a Councillor, on occasion, had made purchases on behalf of the Council. The Council should be reminded that while the Clerk may have delegated authority (generally in conjunction with the Chairman / Vice Chairman) to approve emergency spending (for matters such as health and safety) between meetings, no Councillor may act to authorise any expenditure individually.

Budget Setting

I should like to see more significance made of the budget and precept setting. The overall budget (both income and expenditure) totals should be minuted and 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 and also makes sure that the outturn at the end of the year is in line with expectations.

Banking

Following the review of the banking and the change to Unity Trust, I recommend that the Council reviews the bank mandate annually as part of its review of finances in April. Additionally, as the Council has electronic banking provision, an electronic payment procedure should be adopted as a matter of urgency.

Debit / Payment Card

The Council still holds petty cash. However, the Council should consider the provision of a debit card or charge card on the bank account in the Clerk/ RFO's name in order that items such as Office 365 or anti-virus software can be bought in the Parish's name without the need to resort to the Clerk or another Councillor having to use their personal accounts. With the appropriate safeguards and procedures this would be acceptable.

Reserves

I recommend that the Parish considers earmarked reserves and agrees to adopt a full Reserves Policy which should be reviewed annually. Guidance can be found in the latest edition of JPAG.

Provision of Equipment

I noted that my recommendation about purchasing the appropriate IT equipment is yet to be implemented. This should be rectified as a matter of urgency.

An IT budget and reserves should be considered for the future.

Staff Appraisal

The Clerk is employed by the Council and the Council, therefore, should be mindful that it is, as a corporate body, an employer. I recommend that the Council form a staffing committee, of at least three members, which is able to perform an annual review of the Clerk's employment. Employment training provided by the County Association should be undertaken.

HMRC

As mentioned in last year's report, 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. This has not been implemented.

The HMRC advice note from 2011 was supplied last year and is, again, attached to this report.

It is imperative that this is implemented as a matter of urgency. I recommend that the Council engages a payroll company experienced at dealing with Parish Councils to ensure that the correct procedures are followed. OALC will be able to give details of their employment adviser.

Home Working Allowance

The Clerk is entitled to the Home Working Allowance, particularly as the Council does not incur the costs of a Parish Office. I recommend that the Council budgets to pay the Clerk for the full – HMRC agreed – £6 per week.

Document Management

In our discussions, I noted that the Clerk is in possession of many of the Parish Council Minute books. 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, both paper and electronic, should also be undertaken following adoption of a Document Retention policy.

Councillor Email Accounts

As part of GDPR, it is recommended that all Councillors should use email addresses provided for them by the Council.

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.

Merton Parish Council has an electorate in the region of 279 and the Precept for the year 21/22 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.

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