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2021/22 Internal Audit Report for Harpsden Parish Council

From Jane Olds – Internal Auditor

I reviewed the documents provided and met with the Clerk, Anne Marie Scanlon, on 9 May via Zoom and finalised the information on 23 May on receipt of the AGAR and clarification of the year end figures.

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 – also known as JPAG).

Annual Return Section	Process	Findings	Recommendations and actions
A	Bookkeeping Arrangements	Appropriate books of account have been kept throughout the year and are maintained with audit trails.	Ensure that the bank reconciliation is undertaken regularly.

Annual Return Section	Process	Findings	Recommendations and actions
B	Council's Financial Regulations have been met with regard to expenditure	The Council's Financial Regulations have been met in that appropriate authorisations have been given for each level of expenditure. Payments were supported by invoices, and expenditure was approved and VAT appropriately accounted for.	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.	Ensure that the document includes an assessment of potential risk. The document should be reviewed annually using the recommendations in JPAG.
D	Budgetary Controls (Precept requirement)	The annual Precept requirement resulted from a budgetary process.	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). I would expect to see the amounts of expenditure and income minuted to show that the amount of Precept was acceptable.
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 received and recorded.	Ensure that receipt of income is recorded in the Minutes.
F	Petty cash controls	Petty cash is not operated by the Council.	No further recommendations.

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 AGAIN NOT properly applied.	As stated last year, 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.	Ensure that an explanation of the reduction in value is included in the Variances.
H	Asset Controls - all additions correctly recorded?	No additions have been made.	No further recommendations.
H	Asset Controls - all Deeds and Titles established and shown on register?	There are no Deeds or Titles.	No further recommendations.
I	Bank Reconciliations	Periodic and year-end reconciliations were 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 audit trail.	No further recommendations.
K	Limited Assurance Review Exemption	The Council does not meet the exemption criteria.	No further recommendations.
L	Information published on website	The information is available.	While the information is available, the website would benefit from further work on how the information is organised.
M	Exercise of Public Rights	The Parish Council published the exercise of public rights on the website and noticeboard.	No further recommendations.

Annual Return Section	Process	Findings	Recommendations and actions
N	AGAR Publication Requirements	The Parish Council did not fully comply with the publication requirements for the 2020/21 AGAR.	The fully completed (signed) AGAR does not appear to be available online.
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 not been reviewed the previous year.	Ensure that the Internal Audit is reviewed and acted on at the earliest opportunity.
External Audit recommendations have been considered and actioned.	Good Practice	The Conclusion of Audit report had been received for 20/21 and had been published on the website. Findings: in the opinion of the External Auditor, a number of Governance questions which the Council had answered 'yes' to should have been 'no'. Ensure that Box 9 of Section 1 is completed correctly.	The questions should be read out at the meeting in order to give full consideration to each question.
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 the financial position of the Council and its income and expenditure.	The Clerk would benefit from more assistance in ensuring that the accounts balance at the end of the year.
Compliance with the Transparency Act	While the Parish Council does not fall in to the criteria for Councils below the £25k threshold, it is good practise for Parish Councils above the threshold to comply.		

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	Not currently available as a separate list.	It is good practice to include this.
Compliance with the Transparency Act	2) Annual Return published on the Web-Site	Partially available on the website. The signed, completed, AGAR was not available.	The full completed AGAR should be published on the website as soon as possible after it has been agreed.
Compliance with the Transparency Act	3) Explanation of significant variances	Not currently available.	This should be published as part of the AGAR requirement.
Compliance with the Transparency Act	4) Explanation of difference between Box 7 & 8 if applicable	Not applicable.	No further recommendations.
Compliance with the Transparency Act	5) Annual Governance Statement recorded	Not available on the website.	Publish the approved statement as soon as possible after the meeting.
Compliance with the Transparency Act	6) Internal Audit Report Published	AGAR published, accompanying report is not available.	Publish the accompanying report.
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	Nothing owned.	No further recommendations.
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 Oxfordshire Association of Local Councils (OALC) and SLCC to increase their knowledge and expand the Clerk's professional development. The Clerk may like to consider ILCA in the future. I recommend including a regular agenda item 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 and an Internal Financial Controls Policy is adopted as a matter of urgency.

AGAR Completion

As mentioned last year, the Council should receive the Internal Audit report as part of the AGAR completion before Sections 1 and 2 are considered as the report could have a bearing on how the questions in Section 1 are answered – as demonstrated last year.

The Council must recognise that as a corporate body it is responsible for completion of Section 1 of the AGAR and must agree with the figures contained in Section 2. This must include full consideration of the questions contained in Section 1 at a full Council meeting – this form should not be completed prior to the meeting. If the Council has not complied with the question, it must answer 'no'. The External Auditor mentioned a number of instances from last year where the Council answered incorrectly.

The AGAR published on the website is the draft one which did not include the minute references or the date of completion.

The Electors' Rights dates should also be noted in the Minutes.

Risk Assessment

As mentioned above, while the Risk Assessment is available, there is no assessment of potential risk in the document, which needs to be rectified.

The Assessment states that the clerk salary is no longer subject to PAYE as advised by HMRC in 2018. This information is incorrect and should be rectified as soon as possible.

HMRC

As mentioned in last year's report, in the External Audit Report and Certificate and in this year's Section G of the AGAR, 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.

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; a broad percentage increase in the budget does not demonstrate the need – the budget must be fully costed. 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

I do not believe that the current online banking procedures are fit for purpose. I recommend that the Clerk/RFO is administrator on the bank accounts and that the Council has at least three Councillor authorisers / signatories. To protect the Council and staff, a similar procedure should be maintained whether cheques or online payments are made – ie that the staff prepares the payment and at least one Councillor – but preferably two including for online payments – 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 staff time over all.

An online payment procedure should be adopted.

The Council should ensure that the bank mandate is reviewed annually to check it is still up-to-date.

For information, Parish Council bank accounts should never go overdrawn.

Consideration should also be given to bank accounts which hold more than £85,000 due to the Financial Services Compensation Scheme thresholds. Holding all the funds in one bank account is not prudent. Additionally, there are more appropriate ways of investing the funds for a more satisfactory return.

Debit Card

Once the banking has been reviewed, I recommend that the Council considers 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 Office365, anti-virus software or website domain names 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. However, the appropriate safeguards and procedures would need to be agreed before receipt of the card.

VAT Reclaim

The VAT reclaim may be done online using the link: <https://www.gov.uk/guidance/claim-a-vat-refund-as-an-organisation-not-registered-for-vat> provided the Council has a Government Gateway account.

Information Commissioner

It was noted last year that the Council was not registered with the Information Commissioner and this still needs to be completed. Under the Data Protection Act 2018 it is a requirement that all organisations which process personal data should be registered and have an appropriate publication scheme. The Council should also have Data Protection and Document Retention policies.

Provision of Equipment

Again, as mentioned last year, the Council must supply the Clerk with the appropriate IT equipment (including a laptop computer) to execute the Council's business properly. It is not acceptable – or prudent – for employees to use their own equipment.

The provision of a Parish Council-owned laptop should negate the need for the Clerk to use their personal email address for Parish business.

An IT budget and reserves should be considered for the future. I recommend employing an IT professional to set up the laptop if this is not thought straight forward would be sensible.

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.

Conclusion

The above are recommendations to help the Council improve its processes and do not detract from the work it, and the Clerk, has already done – particularly in relation to the Financial Regulations, Standing Orders and website. However, there is much more which needs to be improved.

Harpsden Parish Council has an electorate in the region of 309 and the Precept for the year 21/22 was set at £8,000.

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