

OLD CATTON PARISH COUNCIL

# Internal Audit Plan

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## Principles

1. **Regulation 6 of the Accounts and Audit (England) Regulations 2015 imposes a duty on local councils to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.**
2. Internal audit is a key component of the system of internal control. The purpose of internal audit is to review and report to the council whether its systems of financial and other internal controls over its activities and operating procedures are effective. **The internal audit function must be sufficiently independent from the management of financial controls and procedures of the council which are the subject of review. The person or persons carrying out internal audit must be competent to carry out the role in a way that meets the business needs of the council.**
3. Internal audit is the periodic independent review of a council's internal controls resulting in an assurance report to members 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 council's staff and management, and not left for internal audit.

## Practice

4. It is good practice for internal audit to be undertaken regularly throughout the financial year to test the continuing existence and adequacy of internal controls.
5. It is important for councils to consider whether internal audit is proportionate to the needs, the size and the circumstances of the council.
6. Each council should set out its control objectives, usually in the form of standing orders and financial regulations. The more complex the council is or becomes, in terms of its organisation and range of services, number of employees, etc. the wider ranging the scope of internal audit should be.
7. It is a matter for the council to determine the necessary scope and extent of its internal audit. **When securing an internal audit service, the council must make sure that it is fit for the purpose for which it is required at that particular council.**
8. Local councils should take into account their size and complexity when determining the way in which they will ensure that adequate internal audit arrangements are in place to meet legal requirements. **There are two key principles, which all local councils must follow in setting up their internal audit function, regardless of how procured: independence and competence.**
9. Independence means that whoever carries out the internal audit role does not have any involvement in the financial decision making, management or control of the council, or with the council's financial controls and procedures. **Those charged with carrying out internal audit must not be asked to provide or to offer consultancy or advice on the council's financial decisions, controls or processes.** For them to do so would prejudice their ability to give an objective and independent view on whether these meet the needs of the council.
10. Essential competencies to be sought from any internal audit service include:
  - i) understanding basic bookkeeping and accounting processes;
  - ii) understanding the role of internal audit in reviewing systems rather than undertaking detailed checks that are more appropriately the responsibility of management;
  - iii) awareness of relevant risk management issues;
  - iv) understanding accounting requirements within the legal framework and powers of local councils.

## Scope

11. The scope of internal audit spans the whole range of the Council's activities and includes the review of those controls designed to ensure:
  - 11.1 The Council's policies are put into practice
  - 11.2 The Council's values are met
  - 11.3 Laws and regulations are complied with
  - 11.4 Processes are adhered to
  - 11.5 Financial information is accurate and reliable
  - 11.6 Human financial and other resources are managed efficiently and effectively
12. If necessary, work will be varied to include areas where significant weaknesses are identified. No contingency for unplanned work of this nature has been included in the plan and each issue will be dealt with as it arises. Examples could include:
  - Investigations
  - Requests from the Council
  - Additional work required on planned activities

## Roles and responsibilities

### *Old Catton Parish Council*

To uphold its responsibilities in the internal audit process, Old Catton Parish Council will put in place and annually review the effectiveness of its systems of internal control including the appointment of the internal auditor and confirm that they are proportionate to the size and complexity of the Council's activities.

13. The Council will:
  - 13.1 appoint an Internal Auditor prior to the start of each financial year who satisfies the principle of independence and competence. The Appointee will receive a letter of appointment which sets out the terms of engagement. The appointment and rate of remuneration will be minuted.
  - 13.2 set out its control objectives in the form of Standing Orders and Financial Regulations and annually review them.
  - 13.3 provide the Internal Auditor with Terms of Reference which will ensure that
    - i) The Internal Auditor has access to the evidence that will enable him to complete Section 4 of the Annual Return
    - ii) The Council will have an independent opinion of its system of internal control that will underpin its Annual Governance Statement (Section 2 of the Annual Return)
  - 13.4 conduct a review of the effectiveness of its System of Internal Audit in January of each financial year and will determine
    - 13.4.1 Whether the Internal Auditor met the Council's expected standards e.g. the scope of the Internal Auditor's work (does it for example enable the Auditor complete Section 4 of the Annual Return give the Council the assurance that it needs to complete Section 2 of the Annual Return his competency and independence)
    - 13.4.2 Consider how valuable and useful the Internal Audit has been since it was last reviewed and how to incorporate new guidance and changes into the Council's own activities
  - 13.5 shall consider the findings of the review and incorporate them in its Statement of Internal Control.
14. The Council will provide the Internal Auditor with access to all the documents required and officers and councillors in order to undertake an effective audit on each occasion.

## **Internal Auditor**

The Internal Auditor is required to carry out the periodic independent review of the Council's internal controls resulting in an assurance report to members designed to improve effectiveness and efficiency of the activities and operating procedures under the Council's control.

15. The Internal Auditor will conduct a minimum of two audit exercises in the financial year, the first at some point in the mid-year and the second as soon as possible after year end.
16. Should the Internal Auditor be unable to complete any of the boxes in Section 4 of the Annual Return an explanation will be provided.
17. Internal Audit has unrestricted access to all activities undertaken by the organisation in order to review, appraise and report on:-
  - 17.1 the adequacy and effectiveness of the systems of financial and Officer control and their operation in practice;
  - 17.2 the extent of compliance with, relevance of, and financial effect of, established policies, plans and procedures;
  - 17.3 the extent to which the assets and interests are accounted for and safeguarded from losses of all kinds arising from waste, extravagance, inefficient administration, poor value for money, fraud and other causes;
  - 17.4 the suitability, reliability and integrity of financial and other management information and the means used to identify, measure, classify and report such information;
  - 17.5 the integrity of computer systems, including systems under development, to ensure that controls over computer processing and associated clerical procedures offer adequate protection against error, fraud and loss of all kinds;
  - 17.6 the Council's financial and other management procedures within its powers, for special projects and unusual expenditure;
  - 17.7 review of the Council's risk management procedures and corporate governance;
  - 17.8 the follow up actions required to be taken to remedy weaknesses identified by Internal Audit review;
  - 17.9 review of the risks facing the Council and areas identified for improvement
  - 17.10 efficiencies identified
  - 17.11 the effectiveness of the Council's Corporate Governance
  - 17.12 areas of potential non-compliance across all areas of Council's operation identified for further investigation.
18. The Internal Auditor will present reports to the Council including one copy each of the report to the Parish Clerk after each internal audit and will summarise:
  - Work carried out
  - Significant findings
  - Agreed actions
  - Recommendations

## **Terms of Engagement**

19. The work of internal audit will be subject to an engagement letter on first appointment by the council, setting out the terms of the appointment. Engagement terms will include:

- i) a statement of roles and responsibilities;
- ii) terms of reference
- iii) reporting requirements;
- iv) assurances around independence and competence;
- v) period of engagement;
- vi) remuneration; and
- vii) any other matters required for the management of the engagement by the council.

## Terms of Reference

### Internal Auditor's Terms of Reference – Mid Year

Main Areas of Focus	Specific Point of Audit Review
General Systems	Financial Management  Risk Management  Adherence to Legislation  Standing Orders and Council's Procedures and Internal Controls  Do activities match the Council Policies and Values  Identify Fraud and Corruption Risks  Review the Effective and Efficient Management of the Council Resources
Payment Controls	<ul style="list-style-type: none"> <li>• Do Councillors see a complete list of payees before they authorise payment of accounts each month?</li> <li>• Does the amount of money that they authorise agree with the amount of money recorded in the minutes?</li> <li>• Are payments in the cash book supported by invoices, authorised and minuted?</li> <li>• Are cheques signed in accordance with financial regulations?</li> <li>• Has the Council acted lawfully in its decision making and not exceeded its powers?</li> </ul>
Payroll Controls	<ul style="list-style-type: none"> <li>• Do all employees have contracts of employment with clear terms and conditions?</li> <li>• Do salaries paid agree with those approved by the Council</li> <li>• Are other payments to employees reasonable and approved by the Council?</li> <li>• Have PAYE/NIC been properly operated by the Council's as an employer?</li> </ul>
Bank Reconciliation	<ul style="list-style-type: none"> <li>• Is there a bank reconciliation for each account?</li> <li>• Is there a bank reconciliation carried out regularly and in a timely fashion?</li> <li>• Has the bank reconciliation been signed off by a Councillor?</li> <li>• Are there any unexplained balancing entries in any reconciliation?</li> <li>• Is the value of investments held/summarised on the reconciliation?</li> </ul>

### Internal Auditor's Terms of Reference – Year End

Internal Control	Testing Required
Proper bookkeeping	<ul style="list-style-type: none"> <li>• Is the cashbook maintained and up-to-date?</li> <li>• Is the cashbook arithmetic correct</li> <li>• Is the cashbook regularly balanced?</li> </ul>
A. Standing Orders & Financial Regulations adopted and applied  B. Payment Controls	<ul style="list-style-type: none"> <li>• Has the Council formally adopted its Standing Orders &amp; Financial Regulations?</li> <li>• Has a responsible officer been appointed with specific duties?</li> <li>• Have items on services above the de minimus amount been competitively purchased?</li> <li>• Are payments in the cashbook supported by invoices authorised and minuted?</li> <li>• Have VAT on payments been identified, recorded and appropriately reclaimed?</li> <li>• Is Section 137 expenditure separately recorded and within statutory limits?</li> </ul>
Risk Management Arrangements	<ul style="list-style-type: none"> <li>• Does a review of the minutes identify any unusual financial activity?</li> <li>• Do minutes record the Council carrying out an annual risk assessment?</li> <li>• Is insurance cover appropriate and adequate?</li> <li>• Are internal financial controls documented and regularly reviewed?</li> </ul>

	<ul style="list-style-type: none"> <li>Has the Council assessed the significant risks to achieving its objectives relative to its management of its finances and has procedures in place to deal with this?</li> </ul>
Budgetary Controls	<ul style="list-style-type: none"> <li>Has the Council prepared an annual budget in support of its precept?</li> <li>Is actual expenditure against the budget regularly reported to the Council?</li> <li>Are there any significant unexplained variances from budget?</li> <li>Is the budget matched to year end outturn to enable consistent comparison of financial performance?</li> <li>Are year-end variances explained?</li> </ul>
Income Controls	<ul style="list-style-type: none"> <li>Is income properly recorded and properly banked?</li> <li>Does the precept recorded agree to the Council Tax authorities' notification?</li> <li>Are security controls over cash and other receipts adequate and effective?</li> <li>Is there a system for regular income collection?</li> <li>Are unpaid invoices chased?</li> </ul>
Petty Cash Procedures	<ul style="list-style-type: none"> <li>Is there an established petty cash system in place?</li> <li>Is all petty cash spent and recorded with VAT invoices/receipts?</li> <li>Is petty cash expenditure reported to each Council meeting?</li> <li>Is petty cash reimbursed regularly?</li> <li>Is cash held checked by an independent person to ensure it is in agreement with an up to date record?</li> </ul>
Payroll Controls	<ul style="list-style-type: none"> <li>Do all employees have contracts of employment with clear terms and conditions?</li> <li>Do salaries paid agree with those approved by the Council?</li> <li>Are other payments to employees reasonable and agreed by the Council?</li> <li>Have PAYE and NIC been properly operated by the Council as an employer?</li> <li>Are employee records maintained in respect of changes to contracts?</li> </ul>
Asset Controls	<ul style="list-style-type: none"> <li>Does the Council maintain a register of all material assets owned or in its care?</li> <li>Are the assets and investments registers up-to-date?</li> <li>Do asset insurance valuations agree with those in the asset register?</li> </ul>
Bank Reconciliation	<ul style="list-style-type: none"> <li>Is there a bank reconciliation for each account?</li> <li>Are bank reconciliations carried out regularly and in a timely fashion?</li> <li>Are there any unexplained balancing entries in any reconciliation?</li> <li>Is the value of investments held summarised on the reconciliation?</li> <li>Has a year-end reconciliation been carried?</li> </ul>
Year End Procedures	<ul style="list-style-type: none"> <li>Are year-end accounts prepared on an income and expenditure basis?</li> <li>Do accounts agree with the cash book?</li> <li>Is there an audit trail for underlying financial records to the accounts?</li> <li>Have debtors and creditors been properly recorded?</li> </ul>
Improvements	<ul style="list-style-type: none"> <li>Has the Council acted on the recommendations and comments of the internal and external auditors?</li> </ul>

## INTERNAL AUDIT SERVICE FOR OLD CATTON PARISH COUNCIL

AUDIT PROGRAMME – 2015/2016

I certify that I have carried out the tests detailed below in accordance with the suggested approach contained in the 2014 edition of "Governance and Accountability in Local Councils in England and Wales – A Practitioners Guide".

Signed.....Date.....

1 Internal Control	2 Tests	3 Tick if Yes	4 Comments/Recommendations
Previous Internal / External Audit Report	Do the minutes record that Council has considered the Internal Audit / External Report for the previous year and the matters arising addressed?		
Proper bookkeeping	Is the cashbook maintained and up to date?		
	Is the cashbook arithmetically correct?		
	Is the cashbook regularly balanced?		
Standing Orders and Financial Regulations	Has a Responsible Financial Officer been appointed?		
	Are Standing Orders and Financial Regulations reviewed annually and are they appropriate for the Council?		
	Have items or services above a de minimis amount been competitively purchased?		
Payment Controls	Do Councillors see a complete list of payees before they authorise payment of accounts each month?		
	Does the amount of money that they authorise agree with the amount of money recorded in the minutes?		
	Are payments in the cash book supported by invoices, authorised and minuted?		
	Are cheques signed in accordance with financial regulations?		
	Has the Council acted lawfully in its decision making and not exceeded its powers?		
	Have VAT on payments been identified, recorded and appropriately reclaimed?		
	Is Section 137 expenditure separately recorded and within statutory limits?		
	Is the General Power of Competence (if relevant) appropriately used and recorded in the minutes?		
	Does a scan of the minutes identify any unusual activity?		
Risk Management Arrangements	Do the minutes record the Council carrying out an annual risk assessment?		
	Is insurance cover appropriate adequate and regularly reviewed?		
	Are internal financial controls documented and regularly reviewed?		
	Has the Council assessed the significant risks to achieving its objectives relative to the management of its finances and has procedures in place to deal with it?		
Budgetary Controls	Has the Council prepared an annual budget in support of its precept?		
	Is actual expenditure against the budget regularly reported to Council?		
	Are there any significant unexplained variances from budget?		
	Is the budget matched to year end outturn to enable consistent comparison of financial performance?		
	Are year-end variances from budget explained?		
Income Controls	Is income properly recorded and promptly banked?		
	Does the precept recorded agree to the District Council's notification?		
	Are security controls over cash adequate and effective?		
Petty Cash Procedures	Is all petty cash spent recorded and supported by VAT invoices/receipts?		
	Is there an established petty cash system in place?		
	Is petty cash expenditure reported to each Council meeting?		
	Is petty cash reimbursement carried out regularly?		
	Is all petty cash spent recorded with VAT		

	invoices/receipts?		
	Is cash held checked by an independent person to ensure it is in agreement with an up to date record?		
Payroll Controls	Do all employees have contracts of employment with clear terms and conditions?		
	Do salaries paid agree with those approved by Council?		
	Are other payments to employees reasonable and approved by Council?		
	Has PAYE/NIC been properly operated by the Council as an employer?		
Asset Controls	Does the Council keep an Asset Register of all material assets owned?		
	Is the Register up to date?		
	Do asset insurance valuations agree with those in the Register?		
Bank Reconciliation	Is there a bank reconciliation for each bank account?		
	Is the bank reconciliation carried out regularly on the receipt of statements?		
	Are there any unexplained balancing entries in any reconciliation?		
	Has the bank reconciliation been signed off by a Councillor?		
	Has a year-end reconciliation been carried out?		
	Is the value of investments held summarised on the reconciliation?		
Year-End Procedures	Are year-end accounts prepared on the correct accounting basis?		
	Do accounts agree with the cashbook?		
	Is there an audit trail from underlying financial records to the accounts?		
	Where appropriate, have debtors and creditors been properly recorded?		
Improvements	Has the Council acted on the recommendations and comments of the internal and external auditors?		

Other Recommendations Arising out of Internal Audit Programme: