

Lindsey Parish Council

Internal Audit Terms of Reference and Internal Audit Plan

The Council as a whole is responsible in law for ensuring that its financial management is adequate and effective. Similarly, the Council must ensure that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and the arrangements for the management of risk. Internal Audit is a key component within that overall system of internal control.

The purpose of the Internal Audit is to review whether the systems of financial control and other controls over the activities of the Council are adequate, effective, and in line with current regulations. Whilst Internal Audit would not actively seek evidence of fraud, corruption, error or mistakes, it can assist the Council in its responsibility for the prevention and detection of such occurrences. The Internal Auditor is independent of the operations (financial control/management) of the Council and competent in the understanding of the law as applicable to Local Councils, of accounting and basic PAYE and VAT requirements. Any change in personal circumstances that may cause a question over the independence requirement must be reported to the Council.

The Internal Auditor will apply the standards stipulated by the JPAG Practitioner's Guide 'The Governance and Accountability of Smaller Authorities in England' and will carry out under the direction and management of the Council (or as may be delegated to a Committee or to the Clerk) the following duties:

- a) To review during the year the accounting and internal control systems in place (it is the Council's responsibility to establish adequate and effective internal controls and act upon any recommendations put forward by the Internal Auditor in this respect);
- b) To provide an Internal Audit Report to the Council in writing each year on the results of the tests of the operation of the internal control systems;
- c) To carry out reviews and tests of the books, accounts, transactions and vouchers on a sample basis in order to arrive at an opinion on the systems in place;
- d) To complete the Annual Internal Audit Report within the Annual Governance and Accountability Return (AGAR) in respect of the financial year under review;

Internal Audit testing of internal controls will be sufficient for the proper completion of the Annual Internal Audit Report, which should provide an adequate level of assurance for the Council to complete the Annual Governance Statement within the AGAR.

In completing the Annual Internal Audit Report, the Internal Auditor will have planned and carried out the work necessary to give the assurances called for. The key control tests in the AGAR require an adequate and appropriate level of Internal Audit coverage; additional testing and reporting can be tailored to local circumstances. Internal Audit work always requires the application of judgement and, accordingly, the scope and the degree and frequency of testing should reflect and be proportionate to the likelihood of fraud, error or mis-statement that could occur. Testing should be related to the size and level of business activity of the Council.

The following schedule provides an approach to the testing of key controls to provide assurance that an appropriate level of coverage has been met:

Internal Audit Plan

Internal Control Item

Scope of Internal Audit

Governance, Standing Orders, Financial Regulations and other Regulatory issues

- Has the Council formally adopted Standing Orders and Financial Regulations? When were these last reviewed? Are they NALC models?
- Has a Responsible Financial Officer been appointed with specific duties?
- Is a General Power of Competence in operation and being correctly applied?
- Has the Local Code of Conduct been correctly adopted?
- Is the Transparency Code for Smaller Authorities being met (if applicable)?
- Is the Council correctly registered as a Data Controller/Fee Payer under Data Protection legislation? Is the Council meeting/working towards meeting the GDPR requirements?
- Has the Council appropriate Policies, Procedures and Protocols in place? Are they frequently reviewed and updated?
- Are preparations being made for the website accessibility regulations from September 2020?
- Do the Council's Minutes provide a clear record of the Council's actions and decisions?

Accounting Procedures and Proper Bookkeeping

- Is the Accounting System/Cashbook being properly maintained, arithmetically correct and up to date?
- Is the Accounting System regularly balanced/reconciled to the bank statements?
- Is there a clear audit trail from the underlying financial records to the Accounts?
 - Have re-claims for VAT paid been made promptly to HMRC?
- Are the financial information and data being produced and delivered to Councillors adequate and relevant to the Council's needs?

- Is the Council (and its Committees, as appropriate) satisfied with the financial information received?
- Are details of General and any Earmarked Reserves identified and recorded in the accounts?

Bank Reconciliation

- Is there a bank reconciliation for each account, carried out regularly/timely?
- Can the Bank Reconciliation at the year-end 31 March be confirmed to bank statements, investment records, unpresented cheques etc.?
- Are there any unexplained balancing entries in any reconciliation?

Preparation of Budget, agreement of Precept and Budgetary Controls

- Has the Council prepared an annual budget in support of the Precept?
- Are budget papers suitably detailed to ensure that Councillors have sufficient information to make informed decisions?
- Has the Precept amount been agreed in full Council and clearly Minuted?
- Is actual expenditure against the budget regularly reported to the Council?
- Are there any significant unexplained variances from budget?
- Is the level of overall Reserves adequate to provide for any unforeseen costs? Does the level of General Reserves meet best financial practice?

Payment Controls

- Are payments in the Cashbook supported by invoices, authorised and Minuted?
- Are Internet Banking transactions properly recorded/approved?
- Has VAT on payments been identified, recorded and reclaimed?
- Are payments under LGA 1972 Section 137 Minuted and separately recorded in the accounts and within statutory limits?
- Have items or services above the de minimus amount been competitively purchased?
- Is Petty Cash in operation? If so, are associated books and an adequate control system in place.

Internal Control and Risk Management arrangements

- Is a risk assessment document in place?
- Do Minutes record the Council carrying out an annual risk assessment and review of internal control systems?
- Is insurance cover appropriate and adequate?
- Is the fidelity guarantee insurance cover appropriate and has it been reviewed?
- Are internal control systems documented and regularly reviewed?
- Has appropriate action been taken regarding matters raised in reports from Internal Audit and (if appropriate) External Audit?

Income Controls

- Is income properly recorded and promptly banked?
- Are all income sources, fees and charges reviewed each year to confirm appropriate and adequate rates are being charged? Are these issues adequately dealt with in the budget process?
- Does the Precept recorded agree to the Council Tax authority's notification?
- Are security controls over cash and cheques adequate and effective?
- What is the balance of debtors outstanding? Are invoices promptly issued and followed up if necessary? Is the follow-up procedure adequate and effective?

Payroll Controls

- Do all employees have Contracts of Employment with clear terms and conditions?
- Do salaries paid agree with those approved by the Council?
- Is the Payroll Service outsourced or being operated in-house?
- Have PAYE and NIC been properly operated by the Council as an employer? Have End-of-Year P60 certificates been prepared?
- Are other payments to employees reasonable and approved by the Council?
- Have all necessary declarations been made to the Pensions Regulator regarding workplace pensions?

Assets Controls

- Does the Council maintain a Register of all material assets owned or in its care?
- Is the Asset Register regularly reviewed by the Council (at least annually)?
- Are all assets and investments included in the Register? Is it up to date and valuations consistent year-on-year (e.g.at cost/proxy cost)?
- Have items listed in the Asset Register been agreed with those in the insurance schedules?

End of Year procedures

- Are year-end accounts prepared on the correct accounting basis (Receipts and Payments or Income and Expenditure)?
- Do the Accounts agree with the Cashbook?
- Is there an audit trail from underlying financial records to the accounts?
- Has a CIL Report, if appropriate, been prepared? Has it been submitted to the District Council by the due date?
- Have the appropriate End-of-Year AGAR 2019/20 documents been completed? Have they been approved by the Council?

Other Issues

- Did the date/format of the Annual Parish Council meeting meet the requirements of the Local Government Act 1972?
- Are there any areas in which the Clerk/RFO or her staff require additional training or support?
- Have any issues been brought to the notice of the Internal Auditor by Councillors or the Clerk/RFO and require review?

Trevor Brown

Trevor Brown CPFA

Internal Audit Services

Date 9 January 2020