



## Broomhaugh & Riding Parish Council Internal Audit Policy

*It is the Council as a whole that is responsible in law for ensuring that its financial management is adequate and effective and that the Council has a sound system of internal control which facilitates the effective exercise of their functions and which includes arrangements for the management of risk. - Governance and Accountability for Local Councils: A Practitioners' Guide 2014*

To safeguard Broomhaugh & Riding Council finances there are 3 systems of control:

**Internal control – see Internal Control Procedure document**

### **Internal Audit**

Internal audit is a key component of the system of internal control. Its purpose 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. Internal audit does not actively seek evidence of fraud, corruption, error or mistakes, but can assist the Council in its responsibility for the prevention and detection of such occurrences.

### **External Audit**

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 simple 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 carry out under the direction and management of the Council (or as may be delegated to the Clerk) the following tasks:

- ❖ To review during the year the accounting and internal control systems noting that their establishment and alteration is the responsibility of the Council.
- ❖ To report in writing to the Council each year on the results of such tests of the system that are carried out;
- ❖ To complete the Internal Audit section of the Annual Return each year;
- ❖ To carry out test checking of the books accounts and vouchers as required.

These Tasks will be carried out using the guidance taken from *Governance and Accountability for Local Councils: A Practitioners Guide 2014*:

*The council will determine the scope and coverage of the work to be carried out by internal audit in accordance with proper practices guidance. Internal audit testing of internal controls will be sufficient for the proper completion of the annual internal audit report. The annual internal audit report should provide an adequate level of assurance for the council to complete assertion 6 in its annual governance statement. In completing the annual report at Section 4 of the annual return,*

*internal audit will have planned and carried out the work necessary to give the assurances called for. The key control tests in the annual report represent the minimum level of internal audit coverage required. Additional testing and reporting should be tailored to local circumstances. Internal audit work always requires the application of judgement and should only be carried out following risk assessment. The scope and frequency of testing should reflect that assessment, and therefore should always be in proportion to the likelihood of fraud, error or misstatement that could occur. It should be directly related to the size and level of business activity of the council. The following schedule suggests an approach to the testing of key controls and provides assurance that the minimum level of coverage has been met.*

Internal Control	Scope of Internal Audit	Internal Auditor
Proper bookkeeping	<ul style="list-style-type: none"> <li>• Is the cashbook maintained and up to date?</li> <li>• Is the cashbook arithmetically correct?</li> <li>• Is the cashbook regularly balanced?</li> </ul>	
a) Standing Orders and Financial Regulations adopted and applied; and  b) payments controls	<ul style="list-style-type: none"> <li>• Has the council formally adopted Standing Orders and Financial Regulations? And when were these last reviewed?</li> <li>• Has a Responsible Financial Officer been appointed with specific duties?</li> <li>• Have items or services above the de minimus amount been competitively purchased?</li> <li>• Are payments in the cashbook supported by invoices, authorised and minuted?</li> <li>• Has VAT on payments been identified, recorded and reclaimed?</li> <li>• Is S137 expenditure minuted, separately recorded in the accounts 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>• Is the fidelity guarantee appropriate and has it been reviewed?</li> <li>• Are internal control systems documented and regularly reviewed?</li> <li>• Has the council carried out a Review of the Effectiveness of Internal Audit during the year?</li> <li>• Has appropriate action been taken regarding matters raised in reports from Internal Audit?</li> </ul>	
Budgetary Controls	<ul style="list-style-type: none"> <li>• Has the council prepared an annual budget in support of the 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> </ul>	
Income Controls	<ul style="list-style-type: none"> <li>• Is income properly recorded and promptly banked?</li> <li>• Does the precept recorded agree to the Council Tax authority's notification?</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 as an employer?</li> </ul>	

Assets 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</li> </ul>	
Bank Reconciliation	<ul style="list-style-type: none"> <li>• Is there a bank reconciliation for each account?</li> <li>• Is bank reconciliation carried out regularly and in a timely fashion?</li> <li>• Are there any unexplained balancing entries in any reconciliation?</li> </ul>	
Year-end procedures	<ul style="list-style-type: none"> <li>• Are year-end accounts prepared on the correct accounting basis (Receipts and Payments or Income and Expenditure)</li> <li>• Do accounts agree with the cashbook?</li> <li>• Is there an audit trail from underlying financial records to the accounts?</li> <li>• Where appropriate, have debtors &amp; creditors been properly recorded?</li> <li>• Have the external audit papers been completed and has appropriate action been taken regarding matters raised in reports from external audit?</li> </ul>	