

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 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 its Annual Governance Statement.

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

Proper bookkeeping

- Is the cashbook maintained and up to date?
- Is the cashbook arithmetically correct?
- Is the cashbook regularly balanced and reconciled to the bank statements?

Standing Orders and Financial Regulations (adopted and applied).

- Has the Council formally adopted Standing Orders and Financial Regulations? When were these last reviewed?
- 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?
- Has the Transparency Code for Smaller Authorities been correctly applied?
- Is the Council suitably registered as a Data Controller under Data Protection legislation?
- Has the Council made progress towards meeting the GDPR requirements?
- Do the Council's Minutes provide a clear record of the Council's actions and decisions in the year?

Payment Controls

- Have items or services above the de minimus amount been competitively purchased?
- Are payments in the Cashbook supported by invoices, authorised and Minuted?
- Are any 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?
- Is Petty Cash in operation? If so, are associated books and an adequate control system in place.

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 the council carried out a review of the effectiveness of Internal Audit during the year?

	<ul style="list-style-type: none"> • Has appropriate action been taken regarding matters raised in reports from External Audit and Internal Audit?
Budgetary Controls	<ul style="list-style-type: none"> • 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?
Income Controls	<ul style="list-style-type: none"> • Is income properly recorded and promptly banked? • Does the Precept recorded agree to the Council Tax authority's notification? • Are security controls over cash & cheques adequate & effective?
Payroll Controls	<ul style="list-style-type: none"> • Do all employees have contracts of employment with clear terms and conditions? • Do salaries paid agree with those approved by the Council? • Are other payments to employees reasonable and approved by the Council? • Have PAYE/NIC been properly operated by the council as an employer?
Assets Controls	<ul style="list-style-type: none"> • Does the Council maintain a register of all material assets owned or in its care? • Are the assets and investments registers 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?
Bank Reconciliation	<ul style="list-style-type: none"> • Is there a bank reconciliation for each account, carried out regularly/timely? • Are there any unexplained balancing entries in any reconciliation?
Year-end procedures	<ul style="list-style-type: none"> • 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? • Have the appropriate End-of-Year AGAR 2017/18 documents been completed?

List of documents required by Internal Audit

Below is a check list of the documents required for the audit:

1. Copy of the Cash Book, the Receipts and Payments Account (or Income and Expenditure Account) for the year and the Bank Reconciliation for the year ended 31 March, which reconciles the Account Balance with the bank statements.
2. The Bank Statements for the year.
3. Cheque books/stubs covering the year.
4. Paying-in books covering the year.
5. Insurance Schedules/cover details for the year of account, to include fidelity guarantee cover.
6. Invoices, vouchers to support the Payments made.
7. Vouchers or other records to support any Receipts.
8. A copy of the Council's Standing Orders and Financial Regulations (with date of last review/approval and Minute Reference).
9. VAT details in the year, copy of re-claims made to HMRC.
10. Risk Assessment/Internal Control review documents (including date of last review by the Council, Minute Reference and date when the efficiency of internal audit was reviewed).
11. Budget for the year.
12. Minutes for the Council Meetings from the November prior to the year of account through to the end of the year of account. Please highlight or make a note of:
 - (a) The date when the Precept for the year of account was agreed and
 - (b) The date when the Code of Conduct was agreed/reviewed in the year.
13. Petty Cash records, if any, in the year.
14. PAYE/HMRC records for the year (including an end of year return if a copy is available).
15. Asset Register (including basis of valuations and date of last review).
16. Copy of Data Protection Registration, if applicable.
17. Confirmation of action taken/to be taken in response to the requirements of the GDPR.
18. The Annual Governance & Accountability Return 2017/18.
19. A copy of the previous year's Annual Return and the latest External Audit report detailing any recommendations or comments.
20. A copy of the previous year's Internal Audit report detailing any recommendations or comments.
21. Confirmation, if appropriate, that the recommendations made by the previous Internal Auditor and the External Auditor have been reported to Council and implemented.