

DREWSTEIGNTON PARISH COUNCIL.

Internal Audit Policy

This document sets out Drewsteignton Parish Councils approved and agreed practices. Any deviation must be made by resolution of the full Council and recorded below.

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20-01-2020	1.0	Policy adopted

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Drewsteignton Parish Council

Internal Audit Policy.

1. Introduction - Legal Requirements & Responsibilities.

To safeguard Drewsteignton Parish Council (DPC) finances there are 3 systems of control:

- **Internal control** - incorporates up-to-date standing orders, financial regulations, code of conduct, insurance and audit review.
- **External Audit** - is independent of the operations (financial control/management) of DPC and competent in the understanding of the law as applicable to Local Councils, of simple accounting and basic PAYE and VAT requirements.
- **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 DPC are adequate, effective, and in line with current regulations. Internal audit does not actively seek evidence of fraud, corruption, error or mistakes however, it can assist DPC in its responsibility for the prevention and detection of such occurrences.

The **Accounts and Audit Regulations 2015** requires DPC as a smaller authority, each financial year, to conduct a review of the effectiveness of the system of internal control and prepare an annual governance statement in accordance with proper practices in relation to accounts. The purpose of the Annual Governance Statement is for DPC to report publicly on its arrangements for ensuring that its business is conducted in accordance with the law, regulations and proper practices and that public money is safeguarded and properly accounted for.

2. Annual Governance Statement (AGS) Assertions

In order to have appropriate evidence to support its AGS, DPC will appoint an independent Internal Auditor to review, test and report on whether DPC's system of financial control is adequate and working satisfactorily covering the following assertions;

- 2.1 Financial management and preparation of accounting statements – DPC have put in place arrangements for effective financial management during the year, and for the preparation of the accounting statements.
- 2.2 Internal Control - DPC maintains an adequate system of internal control, including measures designed to prevent and detect fraud and corruption and reviewed its effectiveness.
- 2.3 Compliance with laws, regulations and proper practices - DPC takes all reasonable steps to assure that there are no matters of actual or potential noncompliance with laws, regulations and proper practices that could have a significant financial effect on the ability of this smaller authority to conduct its business or on its finances.
- 2.4 Exercise of Public Rights - DPC provides proper opportunity during the year for the exercise of elector's rights in accordance with the requirements of the Accounts and Audit Regulations.
- 2.5 Risk Management - DPC carries out an assessment of the risks facing a smaller authority and ensures appropriate steps are taken to manage those risks; including the introduction of internal controls and/or external insurance cover where required.
- 2.6 Internal Audit - DPC maintains throughout the year an adequate and effective system of internal audit of the accounting records and control systems.
- 2.7 Reports from Auditors - DPC takes appropriate action on all matters raised in reports from internal and external audit.
- 2.8 Significant Events - DPC has considered whether any litigation, liabilities or commitments, events or transactions, occurring either during or after the year-end,

Drewsteignton Parish Council

Internal Audit Policy.

have a financial impact on this smaller authority and, where appropriate, included them in the accounting statements.

3. Appointment of the Internal Auditor – Independence & Competence

DPC will ensure the Internal Auditor will be independent and free of any actual or perceived conflict of interest i.e. no involvement in financial decision making, management, control or other role within DPC. The Internal Auditor will be allowed to have direct access to those charged with governance.

DPC will ensure that the Internal Auditor is competent to carry out the work and possess accounting and audit qualifications, with supporting local council references.

The Internal Auditor is appointed by and reports to DPC and not the Clerk/RFO.

4. Scope and Timing of the Internal Audit

Officers will discuss and agree on the content of the Audit Plan prior to the commencement of the audit. The Audit Plan will take account of the risk management processes (e.g. the Annual Financial Risk Assessment) and the wider internal controls (the whole system of checks and controls, financial or otherwise, established by DPC. Specifically, in relation to fraud, the Internal Auditor should report to the Chair & Vice Chair.

DPC may require the Internal Auditor to conduct and prepare an interim audit, part way through the year, of DPC's processes and procedures in order to support assurance ahead of the final audit.

The final audit is undertaken after completion of the year-end, so that balances within the accounts may be verified. The Internal Auditor will submit their written report/s to the Council.

5. Audit Reporting and Action Planning

On completion, the Internal Auditor's report will be addressed to DPC and include an action plan setting out any areas of improvement required, any proposed remedial actions, the people responsible for delivering improvement, and the deadlines for completion of the actions. DPC is required to review the internal audit report and to demonstrate consideration by inclusion in the minutes. Each item mentioned in the report should be fully addressed.

There may be a need for councillor training to ensure that all members fully understand this role and budget provision will be provided where necessary.

6. Review of Effectiveness of Internal Audit

DPC will at least every three years carry out a review of the effectiveness of their overall internal audit arrangements in the year of any change of internal audit provider or RFO. The review should balance the authority's internal audit needs and usage. It should be designed to provide sufficient assurance that standards are being met and that the work of internal audit is effective. The results of the review should be reported at a DPC meeting.

7. Conclusion

DPC prides itself on setting and maintaining high standards and promoting a culture of openness, with core values of fairness and trust. This policy fully supports DPC's desire to maintain an honest council, free from fraud and corruption.

Drewsteignton Parish Council

Internal Audit Policy.

8. Reference Document

Governance and Accountability for Smaller Authorities in England - A Practitioners' Guide to Proper Practices to be applied in the preparation of statutory annual accounts and governance statements (March 2017)

9. Appendices

[Appendix 1. Example of "Schedule of Internal Control Testing"](#)

[Appendix 2: Example of "Review of effectiveness of the Internal Auditor"](#)

[Appendix 3: Example of "Review of effectiveness of the DPC Internal Audit"](#)

Drewsteignton Parish Council
Internal Audit Policy.

Appendix 1. Example “Schedule of Internal Control Testing”

Internal Control	Suggested testing
Proper bookkeeping	<ul style="list-style-type: none"> • Is the cashbook maintained and up to date? • Is the cashbook arithmetic correct? • Is the cashbook regularly balanced?
<p>a) standing orders and financial regulations adopted and applied; and</p> <p>b) payments controls</p>	<ul style="list-style-type: none"> • Has the council formally adopted standing orders and financial regulations? • Has a Responsible finance officer been appointed with specific duties? • Have items or services above the de minimus amount been competitively purchased? • Are payments in the cashbook supported by invoices, authorised and minuted? • Has VAT on payments been identified, recorded and reclaimed? • Is s137 expenditure separately recorded and within statutory limits?
Risk management arrangements	<ul style="list-style-type: none"> • Does a review of the minutes identify any unusual financial activity? • Do minutes record the Council carrying out an annual risk assessment? • Is insurance cover appropriate and adequate? • Are internal financial controls documented and regularly reviewed?
Budgetary Controls	<ul style="list-style-type: none"> • Has the Council prepared an annual budget in support of its precept? • 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 and near-cash adequate and 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?

Drewsteignton Parish Council
Internal Audit Policy.

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? • Do asset insurance valuations agree with those in the asset register?
Bank Reconciliation	<ul style="list-style-type: none"> • Is there a bank reconciliation for each account? • Is a bank reconciliation carried out regularly and in a timely fashion? • Are there any unexplained balancing entries in any reconciliation? • Is the value of investments held summarised on the 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 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?

Appendix 2: Example of “Review of effectiveness of the Internal Auditor”

[Insert name of Internal Auditor] has acted as the Drewsteignton Parish Council internal auditor for *[Insert]* fiscal year. The work as Internal Auditor is done on a paid basis. He/she has indicated that they are prepared to continue to act as the Council’s Internal Auditor for *[Insert]* fiscal year end audit.

For internal audit to be considered effective, the following criteria must be satisfied:

- that the Internal Auditor is independent of the other financial controls and procedures of the council which are subject of review;
- that they are competent to carry out the role in a way that will meet the business needs of the council;
- that consideration is made to how many times in a year the systems and records should be subject to internal audit;
- that the scope of internal audit is sufficient;
- that any internal audit report is considered in full by a meeting of the parish council; and
- that appropriate action is taken on any recommendations contained in the internal audit report.
- The council must also satisfy itself that the quality of delivery of the internal audit service provides reliable assurance about the council’s internal controls and its management of risk.

Drewsteignton Parish Council Internal Audit Policy.

Considering these requirements for internal audit for Drewsteignton Parish Council:

Independence

[Insert name of Internal Auditor] has no involvement in the Council's financial controls, procedures or decision making. The Internal Auditor is not related to, any member of the Council or the Clerk. The Internal Auditor has direct access to the Council should he/she think this necessary.

Competence

[Insert name of Internal Auditor] is a qualified/unqualified (FMAAT) and operates as an individual. The Internal Auditor has experience of carrying out audit work for parish councils. The Internal Auditor has built up knowledge of local council finance over the years. The Internal Auditor has a copy of "Governance and Accountability for Local Councils – a Practitioner's Guide 2016" which the Internal Auditor uses as a reference tool for their audit work. There is no evidence/reason to believe that the internal audit will not be carried out competently, ethically and with integrity and objectivity.

Scope of Work

The scope of the internal audit work carried out by *[Insert name of Internal Auditor]* Follows the suggested approach to internal audit provided by Appendix 9 of the "Governance and Accountability for Local Councils – a Practitioner's Guide 2016."

Audit Report

[Insert name of Internal Auditor] will prepare a report in their own name and addressed to the council following completion of the internal audit. It will be presented in full to the Council at the next meeting after it has been issued. Any actions to be taken on the recommendations made will be minuted.

Recommendation: That Drewsteignton Parish Council considers that the system of internal audit is sufficiently effective.

Signed by: _____ Date: _____

Print Name: _____ Chair/Vice-Chair

Drewsteignton Parish Council Internal Audit Policy.

Appendix 3: Example of “Review of effectiveness of the DPC Internal Audit”

Reviewed and adopted on: _____

Characteristics of ‘effectiveness’	Evidence of Achievement	Areas for development
1. Scope of internal audit	Terms of Reference were approved on Scope of audit work takes into account risk management processes and wider internal control. Risk Assessment defines audit responsibilities in relation to fraud	
2. Independence	Internal Auditor has direct access to all records. Reports are made in own name to management. Auditor does not have any other role within the Council	
3. Competence	No evidence that internal audit work has not been carried out ethically, with integrity and objectivity.	
4. Relationships	Responsible Officer consulted on the internal audit and on the scope of each audit. Responsibilities for officers and internal audit are defined in relation to internal control, risk management and fraud and corruption matters. The responsibilities of council members are understood; training of members is carried out as necessary.	
5 Audit Planning and reporting	The Audit takes account of corporate risk. The details of the internal audit will be approved by the council as report received. Internal Audit has reported in accordance with the objectives and responsibilities of the Council	
Internal audit work is planned	Planned Internal audit work is based on risk assessment and designed to meet the Councils needs	
Understanding the whole organisation its needs and objectives	The annual audit demonstrates how audit work will provide assurance	

Drewsteignton Parish Council
Internal Audit Policy.

	in relation to the Councils responsibilities	
Be seen as a catalyst for change	Supportive role of audit for developments such as risk management and ethics.	
Add value and assist the organisation in achieving its objectives	Demonstrated through positive management responses to recommendations and follow up action where called for.	
Be forward looking	When identifying risks and in formulating the annual audit, changes on national agenda are considered. Internal audit maintains awareness of new developments in the services and risk management	
Be challenging	Internal audit focuses on risks and encourages The council to develop their own responses to risks, rather than relying solely on audit recommendations. The aim of this is to encourage greater ownership of the control environment.	
Ensure the right resources are available	Adequate resource is made available for internal audit to complete its work. Internal Auditor understands the body and the legal and corporate framework in which it operates.	