



## Ivybridge Town Council

### Internal Audit System January 2023



Please also refer to the Internal Audit Policy dated 5th January 2023

#### 1. Introduction

CIPFA current practice makes reference to PSIAS (Public Sector Internal Audit Standards) regarding internal audit practices which include:

- a) a relevant authority (the Council) must ensure that it has a sound system of internal control which:
- b) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- c) ensures that the financial and operational management of the Council is effective; and
- d) includes effective arrangements for the management of risk.

The Council must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, and taking into account public sector internal auditing standards for guidance.

Any officer or member must, if required, to do so for the purposes of the internal audit:

- (i) Make available such documents and record (including information recorded in electronic form); and
- (ii) supply such information and explanations as are considered necessary by those conducting the internal audit.

Internal audit is a key component of internal control. Its purpose is to review whether the systems of financial and other controls over a council's activities and operating procedures are effective. It must be sufficiently independent of the other financial controls and procedures of the council which are the subject of review. It must play no part in the financial decision making, management or control of the council, or assist with the accounting, preparation of financial statements or the annual return, {but see paragraph (iv) (b) below} . The person(s) carrying out the internal audit must be competent to do so in a way which will meet the business needs of the council.

- (iii) Managing the risk of fraud and corruption is the responsibility of management. Internal Audit does not have responsibilities for the prevention or detection of fraud and corruption. Internal Auditors should, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud or corruption has been occurring. Audit procedures alone, even when

performed with due professional care, cannot guarantee that fraud or corruption will be detected. The Town Council has produced an anti fraud and corruption policy setting out responsibilities.

- (iv) CIPFA's Code of Practice for Internal Audit in Local Government in the U.K. defines internal audit as:
- (a) "Internal Audit is an assurance function that provides an independent and objective opinion to the organization on the control environment, by evaluating its effectiveness in achieving the organization's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- (b) It provides an independent and objective opinion of the organization on the control environment. It may also undertake non-assurance work, at the request of the organization, subject to there being no impact on the core assurance work and the availability of skills and resources."
- (v) Internal audit is an ongoing function reporting to council at least once a year. It is not, however, its function to perform a detailed inspection of all records and transactions in order to detect error or fraud. In addition to providing assurance of the effectiveness of the council's controls and procedures it can highlight areas for development.
- (vi) Having established the purpose of internal control the Council must consider whether it is proportionate to its needs, size and circumstances. It is for the Council to determine the scope and extent of the internal audit. It is not possible to draw up a standard internal audit program for all councils.
- (vii) The work of internal audit should be subject to an engagement letter on first appointment by the Council, setting out the terms of the appointment. Engagement terms may include:
- roles and responsibilities
  - audit planning
  - reporting requirements
  - assurances around independence and competence
  - access to information, members and officers
  - period of engagement
  - remuneration, and
  - any other matters required for the management of the engagement by the Council.
- (viii) The core assurance work in the case of Parish and Town Councils is encompassed in section 1 of the Annual Governance And Accountability Return (AGAR) and the assurances given in that section, and this is what the Council has contracted as its requirement.

## **2. Scope of Internal Audit**

### **a) Proper book-keeping**

- (i) The basic cash book is kept up to date and balances regularly verified against a bank statement (and petty cash tin where appropriate).
- (ii) The record will agree with supporting documents such as invoices.
- (iii) Verification of the cash receipts through the Watermark facilities.
- (iv) Verification of the data input into the accounting system.
- (v) Particular regard will need to be taken to the compatibility of the receipts and payments of the Watermark with those of the Town Hall and take note of purchases made through the business credit card.
- (vi) Proving the adequacy, resilience and integrity of the electronic payment system

### **b) Financial Regulations and Standing Orders**

- (i) Internal audit should have copies of the above document together with any relevant internal instructions as these form the basis of the Council's general operating procedures. Particular emphasis needs to be given to the complexity of the Watermark operation.
- (ii) Internal audit's report to the Council should include any recommendations to amend the documents arising as a result of the work done.
- (iii) The level of checking will depend on the content of the Standing Orders and Financial Regulations.
- (iv) The amount of work may vary with more extensive testing of compliance may be needed from time to time in different areas
  - that where relevant estimates or quotes have been obtained in line with Financial Regulations or Standing Orders
  - that proper purchase authority by Council or correctly delegated officers is in place, and
  - that a proper legal power has been identified for the expenditure.
  - In purchase payments:
    - That the supporting paperwork confirms there is a fully approved invoice and authorisation for payment, and
    - That VAT is identified appropriately for reclaim/payment
    - That the electronic records for suppliers are adequately maintained
    - That the integrity of the electronic payment system is maintained
    - That payments are correctly authorised by appropriate password holders

- (v) Checks are limited to a number of samples with special regard made to higher value payments. The aim is to be satisfied that the systems put in by management are working and are appropriate.
- (vi) Internal audit should check that expenditure is within the Council's 'Power of General Competence' but would not check for the correct nominal ledger analysis of every item.
- (vii) Internal Audit should also check that payments of interest and principal in respect of loans (and investments if any are held) are in accordance with an agreed schedule.

**c) Risk Management**

- (i) In all types of undertaking there is the potential for events and consequences that may either be opportunities for benefit or threats to success. Risk management is increasingly recognised as being central to the strategic management of the Council.
- (ii) Risk management is the methodical approach to the evaluation of risks attaching to the Council's activities and are not confined to financial outcomes.
- (iii) It is a function of internal audit to encourage the Council to address these issues by strengthening its own Corporate Governance. Members have the ultimate responsibility for risk assessment and management.
- (iv) The greatest risk facing the Council is not being able to deliver the activity or services expected of the Council.
- (v) The Council manages many of those risks when it reviews its insurance and its systems. Minutes are an essential record of such reviews.
- (vi) Minutes should be checked by internal audit for any suggestion of unusual activity and evidence that risks are being identified and managed.
- (vii) Budget setting and insurance review are annual activities; system reviews may be less frequent unless triggered by internal audit investigations or changes in circumstances.

**d) Budgetary Controls**

- (i) Internal audit will not check the budget but will verify that a budget has been properly prepared by the Council and adopted in setting the precept.
- (ii) Internal audit will expect to see regular financial reporting to Council with significant variations to budget analysed and explained. That variance analysis and any decisions made as a result may suggest additional areas for analysis by internal audit.

- (iii) Progress against budgets is particularly helpful when determining the likely precept required for the following year. Internal audit will be keen to establish that this has taken place.

**e) Income Controls**

- (i) Internal audit will seek evidence that the precept and grant money is properly and promptly received.
- (ii) Cash income is generated within the Watermark through events, cinema and the operation of the bar, café and information centre which brings higher risks in turn requiring greater control by ticket issues, receipt issues, segregation of the duties of the cashier and invoice-raising clerk. Internal audit needs to verify the operation of all checks and balances. It should also ensure that VAT is recorded and accounted for in a proper manner

**f) Petty Cash**

- (i) Internal audit will be looking to see that there is an established system in place rather than ad hoc reimbursement. It will also look at the system of reimbursing the petty cash float and that on occasions an independent person has physically counted the cash balance and checked it to be in agreement with the record.

**g) Payroll Controls**

- (i) The Council payroll is dealt with through South Hams District Council for which a monthly administrative fee is payable.
- (ii) Internal audit will have to satisfy itself that the correct information is being passed to the District Council with regard to gross salaries including casual workers' basic and overtime earnings and, where relevant, correct information on deductions to be made.
- (iii) Internal audit should also check by sampling that the correct charges are being made by Local Authority monthly.

**h) Bank Reconciliation**

- (i) The Council operates banking facilities with both Lloyds Bank Plc and CCLA.
- (ii) The normal day to day financial transactions are dealt with through the bank and internal audit will be looking for monthly bank reconciliations and to ensure that the cash book is written up from documentation and not bank statements.

- (iii) As part of the internal control a member has taken responsibility for reviewing the bank reconciliation and to evidence that review by signing the reconciliation form and the bank statements.

**i) Year – End Procedures**

- (i) It is the duty of the Council and the RFO to produce the year-end financial statements.
- (ii) Internal audit will be looking to see that the appropriate accounting basis is used, that the figures can be followed through on working papers and that adjustments, transfers, contra entries etc. are fully explained.
- (iii) Internal audit would not be expected to undertake extensive verification of the figures but may undertake a sampling process.
- (iv) There is a need to consider a proper valuation of assets and liabilities and the materiality of prepayments and accruals in the income and expenditure figures.

**3. The Review of the System of Internal Audit**

**a) What does the law say we have to do?**

- (i) The Council has to carry out an annual review of the system of internal audit. This review is an integral part of continually improving governance and accountability.
- (i) The results of the review should be included in the annual governance statement in the annual return.
- (iii) The review must be balanced to the Council's internal audit needs and give assurance to the Council that the standards are being met and the work of the internal review is effective.

**b) What needs to be reviewed?**

- (i) The regulations require, as a prime matter, that a council '**shall maintain in accordance with proper practices an adequate and effective system of internal audit of its accounting records and system of internal control**'.
- (ii) In instituting the operation of internal audit the Council must take into account:
- The scope of the internal audit
  - Independence
  - Competence
  - Relationships
  - Audit planning and reporting

**c) Who should undertake the review?**

- (i) It is the responsibility of Council, but cannot be delegated to the RFO.
- (ii) Although the internal auditor cannot be involved in the review they should make an input into how it is to be done.
- (iii) Regular meetings take place between the internal auditor, the Finance Officer and two members to review the work of the internal audit and discuss any areas which may need reviewing.

**d) What should the review cover?**

- (i) Areas to be covered are based on those shown in **b** (ii) above and will include a consideration of the extent to which internal audit adds value and is helping the delivery of the Council's objectives.
- (ii) The review is primarily about effectiveness not process. The focus should be on the quality of delivery of the audit service i.e. reliable assurance about the Council's internal controls and its management of risk.

**e) What evidence can be used?**

- (i) Wherever possible, evidence to support the review should be gathered throughout the year and may include:
  - Previous year's review
  - Annual report by internal audit
  - Periodic reports from internal audit which *may* include:
  - An internal audit plan
  - Cyclical internal audit monitoring reports
  - The results of any investigation
  - Review of performance indicators, if used
  - Any reports by the external auditor covering internal audit work on key financial systems
  - Results of any other external reviews of internal controls or aspects of them including Quality Council assessments

**f) What is the timescale?**

- (i) The review should not be left to the end of the accounting year and must be available to feed into the Annual Governance Statement which forms part of the annual return.
- (ii) Monitoring of action plans to address any weaknesses identified in the previous year's review should happen through the year.

## **Appendix 1: Internal Audit Review Checklists**

### **Part 1 - Meeting Standards**

1. Scope of Internal Audit
  - (i) The terms of the internal audit were approved by Policy & Resources Committee on 19 June 2006.
  - (ii) Internal audit work takes into account both the Council's risk assessment and wider internal control arrangements.
  - (iii) Internal audit work covers the Council's anti-fraud and corruption arrangements.
2. Independence
  - (i) Internal audit has direct access to those charged with the governance (see Financial Regulations).
  - (ii) Reports are made in own name to management.
  - (iii) Internal audit does not have any other role within the Council.
3. Competence
  - (i) There is no evidence of a failure to carry out internal audit work ethically, with integrity and objectively.
4. Relationships
  - (i) The Responsible Finance Officer is consulted on the internal audit plan
  - (ii) Respective responsibilities for officers and internal audit are defined in relation to internal control, risk management and fraud and corruption matters (job descriptions and engagement letter).
  - (iii) The responsibilities of Council members are understood; training of members is carried out as necessary (see Member training plan).
5. Audit Planning and Reporting
  - (i) The annual internal audit plan properly takes account of all the risks facing the Council.
  - (ii) Internal audit makes regular reports to Council.



## **Appendix 2 – Characteristics of Effectiveness**

1. Internal audit work is planned
  - (i) Planned internal audit work is based on risk assessment and designed to meet the Council's needs.
2. Understanding the whole organization its needs and objectives
  - (i) The annual plan demonstrates how audit work will provide assurance for the Council's Audit Governance Statement.
3. Be seen as a catalyst for change
  - (i) Internal audit supports the Council's work in delivering improved services to the community.
4. Add value and assist the organization in achieving its objectives
  - (i) The Council makes positive responses to internal audit's recommendations and follows up with actions where this is called for.
5. Be forward looking
  - (i) In formulating the annual audit plan, national agenda changes are considered.
  - (ii) Internal audit maintains awareness of new developments in the services, risk management and corporate governance.
6. Be challenging
  - (i) Internal audit focuses on the risks facing the Council
  - (ii) Internal audit encourages managers/members to develop their own responses to risks, rather than relying solely on audit recommendations.
7. Ensure the right resources are available
  - (i) Adequate resource is made for internal audit to complete its work.
  - (ii) Internal audit understands the Council and the legal and corporate framework in which it operates.