



# Ivybridge Town Council

## Internal Audit Policy 2021

### Draft



#### **Preamble**

The joint panel on Accountability and Governance (JPAG) is made up of representatives from NALC, The Society of Local Council Clerks together with representation from other professional bodies, government departments including the National Audit Office. It is responsible for issuing proper practices about the governance and accounts of smaller authorities.

JPAG has finalised new guidance in 2021 and it has been published by NALC.

Section 4 is the Best Practice Guidance for Internal Audit and, as this forms the basis of the Town Council's Internal Audit policy, for ease of reference the paragraphs have been numbered in accordance with the document.

## **SECTION 4 — BEST PRACTICE GUIDANCE FOR INTERNAL AUDIT**

### **Introduction**

4.1. This section intends to provide members and officers of smaller authorities as well as those offering to provide internal audit services to such authorities, details of the legal framework, regulations and guidance to be followed.

4.2. Smaller authorities are required by the Accounts and Audit Regulations 2015 to 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.

4.4. It is not the purpose of either internal or external audit to detect or prevent fraud. However if internal auditors identify concerns as part of the review, they may wish to contact the authority's external auditor who are a 'prescribed body' under the Public Interest Disclosure Act.

4.5. It is not the role of any internal auditor to complete Section 1 or Section 2 of the AGAR, that is the responsibility of the authority.

### **Selecting and appointing an internal audit provider**

4.6. In addition to ensuring the appointed internal auditor has relevant knowledge of the public sector, there are two key principles an authority must follow in appointing an internal audit provider: independence and competence.

4.7. There are various ways for an authority to source an internal audit service. The Town Council has purchased an internal audit service from a specialist internal audit practice with an understanding of the local government legal framework.

4.8. There is no requirement for a person providing the internal audit role to be professionally qualified, however essential competencies to be sought from any internal audit service should include:

- understanding basic book-keeping and accounting processes; where an authority exceeds the £200,000 threshold, this understanding must include accrual accounting and balance sheets
- understanding the role of internal audit in reviewing systems rather than undertaking detailed checks that are more appropriately the responsibility of management;
- awareness of relevant principles and practice of financial and other risk management
- understanding proper practices in relation to governance and accounting requirements within the legal framework and powers of smaller authorities, as set out in Sections 1 and 3 of this guide (knowledge of which is a prerequisite)
- awareness of the most recent model Standing Orders and model Financial Regulations as published by NALC and how they are adopted by authorities
- awareness of relevance of VAT and PAYE/NIC rules as applied to the authority
- for larger authorities, a clear understanding of the risks and controls associated with 'cut off' procedures, particularly with respect to revenue generating activities

### **Independence**

4.9. Independence requires the absence of any actual or perceived conflict of interest. It means that whoever carries out the internal audit role does not have any involvement in, or responsibility for, the financial decision making, management or control of the Council, or for the authority's financial controls and procedures.

4.10. A current or recent authority member, who cannot demonstrate independence from decisions in the year to be audited, cannot be its internal auditor. Similarly, it would not be appropriate for any individual or firm with a personal connection to a member or officer of the authority to be appointed. Conflicts of interest must be avoided, such as in cases where an external provider of accounting software or services to the authority, also offers internal audit services through an associate company, firm or individual.

4.11. There is no requirement to rotate auditors but the independence of the appointed person or firm should be reviewed every year with regard to; personal independence, financial independence, and professional independence.

### **Competence**

4.12. Evidence as to competence might include letters of recommendation from other similar authorities.

## **Engagement**

4.13. Every authority should ensure that they have a letter of engagement which would normally include:

- roles and responsibilities
- audit planning and timing of visits
- reporting requirements
- rights to access to information, members and officers
- period of engagement
- remuneration
- any other matters required for the management of the engagement by the authority

4.14. Most internal auditors will have professional indemnity insurance cover which provides both the authority and the person or firm engaged, with protection and assurance.

## **Planning and oversight**

4.15. It is a matter for the Council to determine how best to meet the statutory requirement for internal audit, having regard to its size, scope of services and complexity of financial arrangements.

4.16. The Council carries out an annual review of the effectiveness of its overall internal audit arrangements. It is designed to provide sufficient assurance for the Council that standards are being met and that the work of internal audit is effective.

4.17. The Internal Audit is based on evidence gathered by the Internal Auditor on the six monthly visits to the Council. Sources will include:

- previous review and action plan
- previous reports by the Internal Auditor
- results of any other investigations
- any reports by the external auditor
- the results of any other external reviews of internal control

4.18. As part of the review the internal auditor should produce a report to the authority highlighting areas for improvement or development. An action plan should be produced setting out the areas of improvement required, any proposed remedial actions, the members or officers responsible for delivering improvement, and the deadlines for completion of the actions.

## **Internal Audit Checklist**

4.19. The following sets out the basic requirements for conduct of an effective internal audit review of an authority's financial and governance records and controls facilitating the completion of the Internal Audit Report in an authority's Annual Governance and Accountability Return (AGAR). The detail is not exhaustive, but aims to provide Proper Officers and internal auditors with a basic guide to the controls that should ideally be in place and physical checks / testing that should be applied. Where records examined include personal detail, such as in the case of staff salaries, allotment records and detail of hall hirers on invoices, care should be taken

to ensure compliance with the requirements of the General Data Protection Regulations (GDPR).

4.20. Internal auditors should also, as part of the overall check on the authority’s governance arrangements, review all full authority and committee minutes (and supporting papers) to gain an overview of the authority’s financial and governance controls, monitoring that no actions of a potentially unlawful nature are being considered or any such decisions have been taken and that approval of all minutes is in accordance with the legislation.

This particular facet does not align to an individual section of the internal audit report in the AGAR, but serves to give a degree of high-level indication as to the effectiveness of an authority’s overall controls and decision-making process.

AGAR Certificate reference	Internal Audit action for expected controls
<p>A. Appropriate accounting records have been kept throughout the year. &amp; I Periodic bank reconciliations were properly carried out during the year.</p>	<p>Authorities should refer to Para 5.10 to 5.27</p> <ul style="list-style-type: none"> <li>• Ensure the correct roll forward of the prior year cashbook balances to the new financial year</li> <li>• Check a sample of financial transactions in cashbooks to bank statements, etc: the sample size dependent on the size of the authority and nature of accounting records maintained</li> <li>• Ensure that bank reconciliations are prepared routinely, are subject to independent scrutiny and sign-off by members</li> <li>• Verify the accuracy of the year-end bank reconciliation detail and ensure accurate disclosure of the combined cash and bank balances in the AGAR, Section 2, Box 8.</li> <li>• Where the authority has bank balances in excess of £100,000 it has an appropriate investment strategy.</li> </ul>
<p>B. The authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.</p>	<p>Authorities should refer to Para 5.34 to 5.41</p> <ul style="list-style-type: none"> <li>• Review the procedures in place for acquisition of formal tenders and quotes, ensuring they are in line with the SOs and FRs which should be based on the latest version.</li> <li>• Ensure that consistent values are in place for the acquisition of formal tenders between SOs and FRs.</li> <li>• Review the procedures for receipt of invoices, agreement of invoice detail and confirmation of goods /services delivery and approval for payment: ideally, a suitably designed certification stamp</li> </ul>

	<p>should be in place providing for evidencing of these checks and payment authorisation.</p> <ul style="list-style-type: none"> <li>• Check that there is effective segregation between the writing of cheques or the setting up of online payments, and physical release of payments</li> <li>• Check that VAT reclaims are prepared and submitted in a timely manner in line with the underlying records and in accordance with current HMRC requirements</li> <li>• Where debit / credit cards are in use, establish the total monthly and individual transaction limits and ensure appropriate controls over physical security and usage of the cards are in place</li> </ul>
<p>C. The authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.</p>	<p>Authorities should refer to Para 5.89 to 5.102</p> <ul style="list-style-type: none"> <li>• Ensure that authorities have prepared, and formally adopted, at least once annually, an appropriate and comprehensive register of assessed risks, both regular and ad hoc</li> <li>• Ensure that appropriate levels of insurance cover are in place for land, buildings, public, employers' and hirers' (where applicable) liability, fidelity / employees (including councillors) liability, business interruption and cyber security</li> <li>• Ensure that appropriate arrangements are in place for monitoring play areas, open spaces and sports pitches: such reviews should be undertaken by appropriately qualified external inspectors or, if by officers or members, that they have received the appropriate training and accreditation</li> </ul>
<p>D. The Precept or rates requirement resulted from an adequate budgetary process, progress against the budget was regularly monitored; and reserves are appropriate.</p>	<p>Authorities should refer to Para 5.7 to 5.9</p> <ul style="list-style-type: none"> <li>• Ensure that the full Authority, not a Committee, has considered, approved and adopted the annual precept in accordance with the required parent Authority timetable</li> <li>• Ensure that budget reports are prepared and submitted to Authority / Committees periodically during the year with appropriate commentary on any significant variances</li> <li>• Review the budget performance either during the year or at the financial year-end seeking explanations for any significant or unanticipated variances</li> </ul>

	<ul style="list-style-type: none"> <li>• Ensure that the Authority has considered the establishment of specific earmarked reserves and, ideally, reviews them annually as part of the budget assessment process</li> <li>• Ensure that the precept in the accounts matches the submission form to the relevant authority and the public record of precepted amounts</li> </ul>
<p>E. Expected income was fully received based on correct prices, properly recorded and promptly banked; and VAT appropriately accounted for.</p>	<p>Authorities should refer to Para 5.44 to 5.47</p> <ul style="list-style-type: none"> <li>• Review “Aged debtor” listings to ensure appropriate follow up action is in place</li> <li>Allotments: ensure that appropriate signed tenancy agreements exist, that an appropriate register of tenants is maintained identifying, that debtors are monitored.</li> <li>• Burials: ensure that a formal burial register is maintained that it is up-to-date and that a sample of interments and memorials are appropriately evidenced, that fees have been charged at the correct approved rate and been recovered within a reasonable time: (Authorities should also acquire and retain copies of Burial / Cremation certificates)</li> <li>• Hall hire: ensure that an effective diary system for bookings is in place identifying the hirer, hire times and ideally cross referenced to invoices raised</li> <li>• Leases: ensure that leases are reviewed in a timely manner in accordance with the terms of the lease and rents similarly reviewed appropriately at the due time</li> <li>• Other variable income streams: ensure that appropriate control procedures and documentation are in existence to provide a clear audit trail through to invoicing and recovery of all such income</li> <li>• Where amounts are receivable on set dates during the year, ensure that an appropriate control record is maintained duly identifying the date(s) on which income is due and actually received / banked</li> </ul>
<p>F. Petty Cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for</p>	<p>Authorities should refer to Para 5.42 to 5.43</p> <ul style="list-style-type: none"> <li>• Review the systems in place for controlling any petty cash and also cash floats (used for bar, catering, etc)</li> </ul>

	<ul style="list-style-type: none"> <li>• Check a sample of transactions during the financial year to ensure appropriate supporting documentation is held</li> <li>• Review the existence of evidenced periodic independent verification of the petty cash and any other cash floats held</li> <li>• Ensure that VAT is identified wherever incurred and appropriate</li> <li>• Physically check the petty cash and other cash floats held</li> <li>• Where bar or catering facilities are in place, ensure that appropriate cashing-up procedures are in place reconciling the physical cash takings to the till “Z” total readings</li> </ul>
<p>G. Salaries to employees and allowances to members were paid in accordance with the authority’s approvals, and PAYE and NI requirements were properly applied.</p>	<p>Authorities should refer to Para 5.48 to 5.54</p> <ul style="list-style-type: none"> <li>• Ensure that, for all staff, a formal employment contract is in place together with a confirmatory letter setting out any changes to the contract</li> <li>• Ensure that appropriate procedures are in place for the payment of members allowances and deduction of any tax liability</li> <li>• Ensure that, for a sample of staff salaries, gross pay due is calculated in accordance with the approved spinal point on the NJC scale or hourly rate, if off-scale, and also with the contracted hours</li> <li>• Ensure that appropriate tax codes are being applied to each employee</li> <li>• Where free or paid for software is used, ensure that it is up to date</li> <li>• For the test sample of employees, ensure that tax is calculated appropriately</li> <li>• Check the correct treatment of Pension contributions</li> <li>• For NI, ensure that the correct deduction and employer’s contributions are applied: NB. The employers allowance is not available to councils but may be used by other authorities</li> <li>• Ensure that the correct employers’ pension percentage contribution is being applied</li> <li>• Ensure that for the test sample, the correct net pay is paid to the employee with tax, NI and pension contributions correctly paid to the respective agencies.</li> </ul>

H. Asset and investment registers were complete and accurate and properly maintained.

This section / assurance should be extended to include loans to or by the authority

Authorities should refer to Para 5.28 to 5.30  
Authorities should refer to Para 5.57 to 5.63

#### **Tangible Fixed Assets**

- Ensure that the Authority is maintaining a formal asset register and updating it routinely to record new assets at historic cost price, net of VAT and removing any disposed of / no longer serviceable assets
- Physically verifying the existence and condition of high value, high risk assets may be appropriate
- Ideally, the register should identify for each asset the purchase cost and, if practicable, the replacement / insured cost, the latter being updated annually and used to assist in forward planning for asset replacement
- Additions and disposals records should allow tracking from the prior year to the current
- Ensure that the asset value to be reported in the AGAR at Section 2, Box 9 equates to the prior year reported value, adjusted for the nominal value of any new acquisitions and / or disposals
- Compare the asset register with the insurance schedule to ensure that all assets as recorded are appropriately insured or "self-insured" by the Authority

#### **Fixed asset investments**

- Ensure that all long-term investments (i.e., those for more than 12 month terms) are covered by the "Investment Strategy" and reported as Assets in the AGAR at Section 2, Box 9.

Authorities should refer to Para 5.64 to 5.67

#### **Borrowing and Lending**

- Ensure that the authority has sought and obtained appropriate DMO approval for all loans acquired
- Ensured that the authority has accounted for the loan appropriately (i.e., recorded the full value of the loan. Any arrangement fee should be regarded as an admin expense) in the year of receipt
- Ensure that the combined principal loan repayment and interest for the year is



	<p>correctly recorded in the AGAR at Section 2, Box 5</p> <ul style="list-style-type: none"> <li>• Ensure that the outstanding loan liability as at 31st March each year is correctly recorded in the AGAR at Section 2, Box 10 (value should be verified via the DMO website)</li> <li>• Where the Authority has issued loans to local bodies, they should ideally seek signed indemnities from the recipient body, or their members, agreeing to underwrite the loan debt</li> </ul>
<p>J. Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cashbook, supported by an adequate audit trail from underlying records and, where appropriate, debtors and creditors were properly recorded.</p>	<p>Authorities should refer to Para 5.122 to 5.160 Whilst IAs are not required to verify the accuracy of detail to be disclosed in the AGAR, this assertion, together with the expectation of most Authorities, effectively requires IAs to ensure that the financial detail reported at Section 2 of the AGAR reflects the detail in the accounting records maintained for the financial year. Consequently, IAs should</p> <ul style="list-style-type: none"> <li>• Ensure that, where annual turnover exceeds £200,000, appropriate records are maintained throughout the year on an Income and Expenditure basis to facilitate budget reporting in that vein</li> <li>• Ensure that appropriate accounting arrangements are in place to account for debtors and creditors during the year and at the financial year-end</li> </ul>
<p>K. If the authority certified itself as exempt from a limited assurance review in the prior year, it met the exemption criteria and correctly declared itself exempt.</p>	<p>IAs should ensure that, all relevant criteria are met (receipts and payments each totalled less than £25,000)</p> <ul style="list-style-type: none"> <li>• the correct exemption certificate was prepared and minuted in accordance with the statutory submission deadline</li> <li>• that it has been published, together with all required information on the Authority's website and noticeboard</li> </ul>
<p>L. The authority publishes information on a website / web page, and complies with the relevant Transparency Code.</p>	<p>This test applies only to those councils covered by the £25,000 External Audit exemption IAs should review the Authority's website ensuring that all required documentation is published in accordance with the Transparency Code.</p>
<p>M. The authority has, during the previous year, correctly provided for the period for the exercise of public rights as required by the Accounts and Audit Regulations.</p>	<p>As should acquire / examine a copy of the required "Public Notice" ensuring that it clearly identifies the statutory 30 working day period when the Authority's records are available for public inspection.</p>

	IAs may also check whether councils have minuted the relevant dates at the same time as approving the AGAR
N. The authority complied with the publication requirements for the prior year AGAR.	IAs should ensure that the statutory disclosure / publication requirements in relation to the prior year's AGAR have been met as detailed on the front page of the current year's AGAR.
O. Trust funds (including charitable) - the Council has met its responsibilities as a trustee	<ul style="list-style-type: none"> <li>• Confirm that all charities of which the council is a Trustee are up to date with CC filing requirements</li> <li>• that the council is the sole trustee on the Charity Commission register</li> <li>• that the council is acting in accordance with the Trust deed</li> <li>• that the Charity meetings and accounts recorded separately from those of the council</li> <li>• review the level and activity of the charity and where a risk based approach suggests such, review the Independent Examiners report</li> </ul>

### Reporting on Internal Audit

4.21. The duties of internal audit relate to reporting on the adequacy and effectiveness of an authority's system of internal control. The minimum reporting requirement for internal audit to the smaller authority is met by completing the annual internal audit report on the Annual Governance and Accountability Return.

4.22. In most cases, particularly for larger authorities, an additional narrative report to the full council would be expected and then be published with the AGAR along with any comments from the external auditor.

4.23. Any narrative report should have conclusions that are compatible with the entries on the AGAR.

4.24. The annual internal report will inform the authority's response to assertion 2 and assertion 6 in the annual governance statement.

4.25. An authority should minute their review and actions planned from the outcomes of the AGAR tests and content of any narrative reports from Internal Auditors.