

Kersey Parish Council Internal Audit Terms of Reference and Internal Audit Plan

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.

To safeguard Kersey Parish Council finances there are three systems of control:

- **Internal Control**
- **Internal Audit**

Internal audit is a key component of the system of internal control. Its purpose is to independently evaluate the effectiveness of risk management, internal control and governance processes to ensure they 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

- **Limited Assurance Audit Review**

The Parish Council may be exempt from a limited assurance audit review. In which case a certificate will be sent to the external auditor, appointed by Smaller Authorities Audit Appointments and the Annual Governance and Accountability Return completed as necessary.

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 a Committee or to the Clerk) the following tasks:

- To review twice during the year the accounting and internal control systems noting that their establishment and alteration is the responsibility of the Council. One interim review midway through the year and one after the year end accounts have been completed.
- To report in writing to Council twice each year on the results of such tests of the system that are carried out;
- To complete the Annual Internal Audit Assurance Report in the Annual Return;
- 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 Smaller Authorities in England March 2018*.

The council will determine the scope and coverage of the work to be carried out by internal audit in accordance with proper practices and guidance. The purpose of internal audit is to review and report to the authority on whether its systems of financial and other internal controls over its activities and operating procedures are effective. The internal audit function must be independent from the management of the financial controls and procedures of the authority which are the subject of review. The person carrying out internal audit must be competent to carry out the role in a way that meets the business needs of the authority. It is for each authority to decide, given its circumstances, what level of competency is appropriate, and to keep this issue under review. Internal audit is an on-going function, undertaken regularly throughout the financial year, to test the continuing existence and adequacy of the authority's internal controls. It results in an annual assurance report to members designed to improve effectiveness and efficiency of the activities and operating procedures under the authority's control.

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Internal Audit Plan check list

Internal Control	Scope of Internal Audit	Internal Auditor Comments
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? 	
a) Standing Orders and Financial Regulations adopted and applied; and b) payments controls	<ul style="list-style-type: none"> • Has the council formally adopted Standing Orders and Financial Regulations? And when were these last reviewed? • Has a Responsible Financial 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 S 137 expenditure minuted, separately recorded in the accounts 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? • Is the fidelity guarantee 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 and internal control systems during the year? • Has appropriate action been taken regarding matters raised in reports from Internal Audit? 	
Budgetary Controls	<ul style="list-style-type: none"> • Has the council prepared an annual budget in support of the 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 & near-cash 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? • 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 bank reconciliation carried out regularly and in a timely fashion? • 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 accounts agree with the cashbook? • Is there an audit trail from underlying financial records to the accounts? • Where appropriate, have debtors & creditors been properly recorded? • Has the Council complied with the Transparency Code by publishing relevant information on their website? • Has the Annual Return been completed? • Has a certificate of exemption of limited assurance audit review or the Annual Return been sent to the external auditor? • Has appropriate action been taken regarding matters raised in reports from external audit? 	