

## **Fornham All Saints 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"> <li>• Has appropriate action been taken regarding matters raised in reports from External Audit and Internal Audit?</li> </ul>
Budgetary Controls	<ul style="list-style-type: none"> <li>• Has the Council prepared an annual budget in support of the precept?</li> <li>• Are budget papers suitably detailed to ensure that Councillors have sufficient information to make informed decisions?</li> <li>• Has the Precept amount been agreed in full Council and clearly Minuted?</li> <li>• Is actual expenditure against the budget regularly reported to the council?</li> <li>• Are there any significant unexplained variances from budget?</li> </ul>
Income Controls	<ul style="list-style-type: none"> <li>• Is income properly recorded and promptly banked?</li> <li>• Does the Precept recorded agree to the Council Tax authority's notification?</li> <li>• Are security controls over cash &amp; cheques adequate &amp; effective?</li> </ul>
Payroll Controls	<ul style="list-style-type: none"> <li>• Do all employees have contracts of employment with clear terms and conditions?</li> <li>• Do salaries paid agree with those approved by the Council?</li> <li>• Are other payments to employees reasonable and approved by the Council?</li> <li>• Have PAYE/NIC been properly operated by the council as an employer?</li> </ul>
Assets Controls	<ul style="list-style-type: none"> <li>• Does the Council maintain a register of all material assets owned or in its care?</li> <li>• Are the assets and investments registers up to date and valuations consistent year-on-year (e.g.at cost/proxy cost)?</li> <li>• Have items listed in the asset register been agreed with those in the insurance schedules?</li> </ul>
Bank Reconciliation	<ul style="list-style-type: none"> <li>• Is there a bank reconciliation for each account, carried out regularly/timely?</li> <li>• Are there any unexplained balancing entries in any reconciliation?</li> </ul>
Year-end procedures	<ul style="list-style-type: none"> <li>• Are year-end accounts prepared on the correct accounting basis (Receipts and Payments or Income and Expenditure)?</li> <li>• Do the Accounts agree with the Cashbook?</li> <li>• Is there an audit trail from underlying financial records to the accounts?</li> <li>• Have the appropriate End-of-Year AGAR 2017/18 documents been completed?</li> </ul>