

## **Rugeley Town Council Internal Audit Terms of Reference and Internal Audit Plan**

To safeguard Rugeley Parish Council finances there are 3 systems of control:

- **Internal Control**
- **Internal Audit** 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 the council 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.
- **External Audit**

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 the Council twice a year on the results of such tests of the system that were carried out.
- To complete the Internal Audit section of the Annual Return each year and to present their findings to the Full Council meeting that decides the AGAR.
- To carry out test checking of the books accounts and vouchers as required.

These tests will be carried out using the guidance taken from Governance and Accountability for Local Councils: A Practitioners Guide 2014:

*The council will determine the scope and coverage of the work to be carried out by internal audit in accordance with proper practices guidance. Internal audit testing of internal controls will be sufficient for proper completion of the annual internal audit report. The annual internal audit report should provide an adequate level of assurance for the council to complete assertion 6 in its annual governance statement. In completing the annual report at Section 4 of the annual return, internal audit will have planned and carried out the work necessary to give the assurances called for. The key control tests in the annual report represent the minimum level of internal audit coverage required. Additional testing and reporting should be tailored to local circumstances. Internal audit work always requires the application of judgement and should only be carried out following risk assessment. The scope and frequency of testing should reflect that assessment, and therefore should always be in proportion to the likelihood of fraud, error or misstatement that could occur. It should be directly related to the size and level of business activity of the council. The following schedule suggests an approach to the testing of key controls and provides assurance that the minimum level of coverage has been met.*

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<b>Internal Control</b>	<i>Scope of Internal Audit</i>	<i>Internal Auditor Comments</i>
<p><b>A</b> <i>Appropriate accounting records have been properly kept throughout the financial year.</i></p>	<ul style="list-style-type: none"> <li>• <i>Is the cashbook maintained and up to date?</i></li> <li>• <i>Is the cashbook arithmetically correct?</i></li> <li>• <i>Is the cashbook regularly balanced?</i></li> </ul>	
<p><b>B</b> <i>The authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.</i></p>	<ul style="list-style-type: none"> <li>• <i>Has the council formally adopted Standing Orders and Financial Regulations? When were these last reviewed?</i></li> <li>• <i>Has a Responsible Financial Officer been appointed with specific duties?</i></li> <li>• <i>Have items or services above the de minimus amount been competitively purchased?</i></li> <li>• <i>Are payments in the cashbook supported by invoices, authorised and minuted?</i></li> <li>• <i>Has VAT on payments been identified, recorded and reclaimed?</i></li> <li>• <i>Is s.137 expenditure minuted, separately recorded in the accounts and within statutory limits?</i></li> <li>• <i>Is all expenditure approved?</i></li> </ul>	
<p><b>C</b> <i>The authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.</i></p>	<ul style="list-style-type: none"> <li>• <i>Does a review of the minutes identify any unusual financial activity?</i></li> <li>• <i>Do minutes record the council carrying out an annual risk assessment?</i></li> <li>• <i>Is insurance cover appropriate and adequate?</i></li> <li>• <i>Is the fidelity guarantee appropriate and has it been reviewed?</i></li> <li>• <i>Are internal control systems documented and regularly reviewed?</i></li> <li>• <i>Has appropriate action been taken regarding matters raised in reports from Internal and External Audit?</i></li> <li>• <i>Date of last review of Standing Orders</i></li> <li>• <i>Date of last review of Financial Regulations</i></li> </ul>	
<p><b>D</b> <i>The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and</i></p>	<ul style="list-style-type: none"> <li>• <i>Has the council prepared an annual budget in support of the precept?</i></li> <li>• <i>Is actual expenditure against the budget regularly reported to the council?</i></li> <li>• <i>Are there any significant unexplained variances from</i></li> </ul>	

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<i>reserves were appropriate.</i>	<p><i>the budget?</i></p> <ul style="list-style-type: none"> <li>• <i>Are reserves appropriate?</i></li> </ul>	
<b>E</b> <i>Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was properly accounted for.</i>	<ul style="list-style-type: none"> <li>• <i>Is income properly recorded and promptly banked?</i></li> <li>• <i>Does the precept recorded agree to the Council Tax Authorities notification?</i></li> <li>• <i>Are security controls over cash and near cash adequate and effective?</i></li> <li>• <i>Is the council VAT registered?</i></li> <li>• <i>Are returns submitted in a timely manner?</i></li> <li>• <i>Is VAT reclaimed on exempt business activities reviewed and considered insignificant?</i></li> <li>• <i>Are receipts for 'business activities' within the registration threshold?</i></li> </ul>	
<b>F</b> <i>Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.</i>	<ul style="list-style-type: none"> <li>• <i>Is all petty cash spent recorded and supported by VAT invoices / receipts?</i></li> <li>• <i>Is petty cash expenditure reported to each council meeting?</i></li> <li>• <i>Is petty cash reimbursement carried out regularly?</i></li> </ul>	
<b>G</b> <i>Salaries to employees and allowances to members were paid in accordance with this authorities approvals and PAYE and NI requirements were properly applied.</i>	<ul style="list-style-type: none"> <li>• <i>Do all employees have contract of employment with clear terms and conditions?</i></li> <li>• <i>Do salaries paid agree with those approved by the council?</i></li> <li>• <i>Are other payments to employees reasonable and approved by the council?</i></li> <li>• <i>Have PAYE/NIC been properly operated by the council as an employer?</i></li> </ul>	
<b>H</b> <i>Asset and investment registers were complete and accurate and properly maintained.</i>	<ul style="list-style-type: none"> <li>• <i>Does the council maintain a register of all material assets owner or in care?</i></li> <li>• <i>Are the assets and investment registers up to date?</i></li> <li>• <i>Do asset insurance valuations agree with those in the asset register?</i></li> </ul>	
<b>I</b> <i>Periodic and year end bank reconciliations were properly carried out.</i>	<ul style="list-style-type: none"> <li>• <i>Is there a bank reconciliation for each account?</i></li> <li>• <i>Is bank reconciliation carried out regularly and in a timely fashion?</i></li> <li>• <i>Are there any unexplained balancing entries in any reconciliation?</i></li> </ul>	

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	<ul style="list-style-type: none"> <li>• <i>Is the value of investment held summarised on the reconciliation?</i></li> </ul>	
<p><b>J</b> <i>Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, supported by an adequate audit trail from underlying records and where appropriate debtors and creditors were properly recorded.</i></p>	<ul style="list-style-type: none"> <li>• <i>Are year-end accounts prepared on the correct accounting basis (Receipts and Payments or income and Expenditure)?</i></li> <li>• <i>Do accounts agree with the cashbook?</i></li> <li>• <i>Is there an audit trail from underlying financial records to the accounts?</i></li> <li>• <i>Where appropriate, have debtors &amp; creditors been properly recorded?</i></li> <li>• <i>Have the external audit papers been completed and has appropriate action been taken regarding matters raised in reports from external audit?</i></li> </ul>	
<p><b>K</b> <i>If the authority certified itself as exempt from a limited assurance review, it met the exemption criteria and correctly certified itself exempt.</i></p>		
<p><b>L</b> <i>If the authority has an annual turnover not exceeding £25,000 it publishes information on a website/webpage up to date at the time of the internal audit in accordance with the Transparency Code for smaller authorities.</i></p>		
<p><b>M</b> <i>The authority has demonstrated that during the summer 2021 it correctly provided for the exercise of public rights as required by the Accounts and Audit Regulations (evidenced by website or minutes).</i></p>	<ul style="list-style-type: none"> <li>• <i>Date from</i></li> <li>• <i>Date to</i></li> </ul>	
<p><b>N</b> <i>The authority has complied with the publication requirements for 2020/2021 AGAR.</i></p>	<ul style="list-style-type: none"> <li>• <i>Notice of Period for Exercise of Electors Rights</i></li> <li>• <i>Section 1 Annual Governance Statement</i></li> <li>• <i>Section 2 Accounting Statements</i></li> <li>• <i>Notice of Conclusion of Audit</i></li> <li>• <i>Section 3 External Audit Report and Certificate</i></li> <li>• <i>Internal Audit Report</i></li> </ul>	
<p><b>O</b> <i>Trust funds (including charitable) – the council met its responsibilities as a trustee.</i></p>		