
INTERNAL AUDIT POLICY

This is a document that sets out Llanbadoc Community Councils approved and agreed practices. Any deviation must be by resolution of the full Council.

Last Reviewed Feb 22

Adopted by Full Council March 22

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PART A

1. Clerks summary

2. Background

This summary is a brief precis of the full internal auditor policy report.

It is for the Community Councillors to make an informed decision based on the entirety of the report after careful consideration of the full details and not just this precis.

Llanbadoc Community Council and its Councillors have a legal responsibility to approve, adopt and implement an internal audit Policy based on their own determinations.

1. SUMMARY

The External Auditor is responsible for checking the accounts.

The Internal Auditor is responsible for ensuring our practices, policies and procedures are legal, accurate and compliant and, including our accounting process.

2. BACKGROUND

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.

It is also important for Councils to recognise that internal audit's function is to test and report to them on whether the Council's system of financial control put in place by management is adequate and working satisfactorily.

It is not for the external auditor, nor is it a matter for internal audit, to actively seek evidence of fraud, corruption, error or mistake. Internal audit's role is to assist the Council in fulfilling its responsibility to have and maintain proper internal control arrangements and those for the prevention and detection of fraud, error or mistakes

Local Councils should carry out an internal auditor review periodically. It is recommended that reviews be carried out no longer than three years apart and also in the year of any change of internal auditor

Any review should balance the Council's internal audit needs and usage. It should be designed to provide sufficient assurance for the Council that standards are being met and that the work of internal audit is effective

A key point to note is that any review should be undertaken by the Council. This is not a review that can be carried out by the external auditor or as part of the annual audit. Nor is it something that can be delegated to the clerk or RFO, and certainly not to internal audit.

Although the internal audit provider cannot be allowed to influence the direction or extent of the review, it is good practice to seek their input into the process.

There are no hard and fast rules about who actually performs the review or how it is carried out, but Councils may wish to set up a small working party for this purpose or ask an appropriate internal group. Regardless of how the review is carried out, the results should always be reported to and considered by a full meeting of the Council.

Internal audit is a key component of a local Council's internal controls.

At each change of internal auditor, the Council should also review the outgoing internal audit and set out its requirements for the incoming internal audit.

Monitoring of any action plans addressing weaknesses in internal audit should be continuous until the remedial actions are complete.

Those carrying out the review of internal audit will need to understand the purpose of the review, what it includes, and how to carry it out. Training on this may be delivered by NALC and SLCC.

PART B

1. Internal audit plan
2. Schedule of internal control testing
3. Terms of reference
4. Internal audit plan schedule
5. Standards to be met by the internal auditor

1. INTERNAL AUDIT PLAN

Governance and Accountability for Local Councils

1. 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 the proper completion of the annual internal audit report.
2. Internal audit will have planned and carried out the work necessary to give the assurances called for. The ten 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.
3. 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.
4. The following schedule suggests an approach to the testing of key internal controls to provide assurance that the minimum level of coverage has been met.

2. SCHEDULE OF INTERNAL CONTROL TESTING

Internal Control	Suggested testing
Proper bookkeeping	<ul style="list-style-type: none"> • Is the cashbook maintained and up to date? • Is the cashbook arithmetic correct?

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	<ul style="list-style-type: none"> • Is the cashbook regularly balanced?
<p>a) standing orders and financial regulations adopted and applied; and</p> <p>b) payments controls</p>	<ul style="list-style-type: none"> • Has the council formally adopted standing orders and financial regulations? • Has a Responsible finance 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?
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? • Are internal financial controls documented and regularly reviewed?
Budgetary Controls	<ul style="list-style-type: none"> • Has the Council prepared an annual budget in support of its 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 and near-cash adequate and 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 the account? • Is a bank reconciliation carried out regularly and in a timely fashion? • Are there any unexplained balancing entries in any reconciliation?

	<ul style="list-style-type: none"> Is the value of investments held summarised on the reconciliation?
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3. TERMS OF REFERENCE

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 Llanbadoc Community Council finances there are 3 systems of control:

Internal control

Internal control incorporates up-to-date standing orders, financial regulations, code of conduct, insurance, audit review.

See Appendix C for proposed internal Control/Audit review process

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 External 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 the following tasks:

- To review once during the year the accounting and internal control systems noting that their establishment and alteration is the responsibility of the Council.
- To report in writing to the Council each year on the results of such tests of the system that are carried out;
- To report to Council in the format required in the Annual Return as published by the Audit Commission each year;
- To carry out test checking of the books accounts and vouchers as required.

These Tasks will be carried out using the guidance taken from the most recent Governance and Accountability for Local Councils: (2019)

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 the 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 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.

4. INTERNAL AUDIT PLAN SCHEDULE

The following schedule suggests an approach to the testing of key controls and provides assurance that the minimum level of coverage has been met

JANUARY	<ol style="list-style-type: none"> 1) The Financial and Procedural Group to meet with the Clerk to: <ul style="list-style-type: none"> • review the effectiveness of the Internal Audit • review the Councils system for internal financial control • review this audit plan • review Terms of Reference for the Internal Auditor 2) The FAPG to check that the Council has carried out a risk assessment in the last twelve months
FEBRUARY	<ol style="list-style-type: none"> 1) The Council to receive a report from the FAPG on the effectiveness of the Internal Audit 2) The Council to approve this audit plan 3) The Council to approve the Terms of Reference for the Internal Auditor 4) The Council to approve the appointment of the Internal Auditor for the next 16 months commencing April.
APRIL	START OF THE NEW FINANCIAL YEAR
MAY	<ol style="list-style-type: none"> 1) The Internal Auditor to receive the accounts for the last 12 months. 2) The Council to receive a copy of the Annual Return to the External Auditor and approve it
JUNE	
JULY	<ol style="list-style-type: none"> 1) The Council to review any issues raised by the Internal Auditor 2) The Council to review if the Internal Audit has been carried out ethically and with integrity and objectivity 3) Council to note any issues that need to be addressed in the next audit cycle
OCTOBER	Council to receive a report from the External Auditor

5. STANDARDS TO BE MET BY INTERNAL AUDITOR

Accounts and Audit Regulations, requires all local Councils to now review the effectiveness of the system of internal audit at least on an annual basis

The following five standards will need to be addressed which should be clearly defined in the internal auditor's engagement letter

Scope of Internal Audit

The work should take account of the risk management processes (eg the Annual Financial Risk Assessment) and also the wider internal controls (the whole system of checks and controls, financial or otherwise, established by management in order to provide assurance regarding the achievement of the organisations objectives). A good example of an (or a set of) internal control in local councils is financial regulations.

The terms of reference should define the responsibility of the auditor in relation to fraud, that is, who the auditor should report to – Council, chairman or clerk? This, of course, will depend on the type of fraud discovered

Independence

The internal auditor should be allowed to have direct access to those charged with governance (ie the Council) where this is thought necessary by the auditor (for example, in the case of fraud - see above).

The internal auditor should have no other role within the Council and the Council should confirm this. This is not to say that he/she cannot be an employee of the Council. This may happen within larger local Councils and certainly does happen in principle authorities, but the internal auditor should have no role in the financial or decision-making processes.

The internal auditors report should be made in his/her own name and addressed to the Council. It is perfectly feasible to prepare the audit report on a "negative" basis, ie. only those items which require amendment or improvement to be mentioned, but where the auditor finds that no matters have arisen from the audit which necessitates bringing to the attention of members, then the report should reflect this.

Competence

The Council must be satisfied that the internal auditor is competent to carry out the work. The internal auditor does not have to possess any qualifications but the following essential competencies to be sought should be:

- understanding of basic accounting processes;
- understanding of the role of internal audit in reviewing systems rather than undertaking detailed checks that are more appropriately the responsibility of management;
- awareness of risk management issues; and
- understanding of accounting requirements and the legal framework and powers of local councils.

There should, be no evidence that the internal audit work has not been carried out ethically and with integrity and objectivity.

Relationships

Officers of the Council should be consulted on the content of the audit plan and all concerned should agree this beforehand.

Responsibilities for officers and internal audit should be defined in relation to risk management, internal control and fraud and corruption matters. These will be clearly set out in such documents as job descriptions and the auditors' engagement letter. Council members should be clear on their own responsibilities for the "protection of the public purse" and within the internal audit framework. The Council has a duty to consider the annual internal audit report and to demonstrate that consideration by inclusion in the minutes. Each item mentioned in the report should be fully addressed. There may be a need for councillor training to ensure that all members fully understand this role and budget provision should be made where necessary.

Audit Planning and Reporting

The audit plan should properly take account of the corporate risk ie controls and procedures within the Council which minimise the risk of the body not being able to function or carry out what it sets out to do. The Council should approve the plan. Internal audit should report in writing in accordance with the plan.

Th audit is undertaken after completion of the year-end, so that balances within the accounts may be verified, the auditor will submit written reports to the Council after the interim and final audit.

The internal auditor is appointed by and reports to the Council not the clerk/RFO.

PART C

4. Review of Effectiveness of the Internal Audit – Overview
5. Internal Audit Review
6. Draft Engagement Letter

REVIEW OF EFFECTIVENESS OF INTERNAL AUDIT - Overview

The Accounts and Audit (Wales) Regulations 2014

Internal Audit Regulation 7. A relevant body must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control

Internal audit is a key component of the system of internal control. The purpose of internal audit is to review whether the systems of financial and other controls over a council's activities and operating procedures are effective.

Local councils are required, at least once a year, to conduct, in accordance with proper practices, a review of the effectiveness of internal audit. The council is required to sign the annual governance statement (on the annual return submitted to the external auditor) to evidence that this review has been undertaken.

Review of effectiveness of internal audit

NAME has acted as the Llanbadoc Community Council internal auditor for **YEAR DATE**. **His/Her** work as internal auditor is done on a **paid/non paid** basis. **He/She** is prepared to continue to act as the Council's internal auditor for **YEAR DATE**

For internal audit to be considered effective, the following criteria must be satisfied:

- that the internal auditor is independent of the other financial controls and procedures of the council which are subject of review;
- that they are competent to carry out the role in a way that will meet the business needs of the council;
- that any internal audit report is considered in full by a meeting of the community council; and
- that appropriate action is taken on any recommendations contained in the internal audit report.
- The council must also satisfy itself that the quality of delivery of the internal audit service provides reliable assurance about the council's internal controls and its management of risk.

Independence

NAME has no involvement in the Council's financial controls, procedures or decision making. **He/She** is not related to, nor associated with, any member of the Council or the Clerk. The internal auditor has direct access to the Council should he think this necessary.

Competence

NAME is (Qualified/unqualified (FMAAT)) and operates as an individual. **He/She** has extensive experience of carrying out audit work for community councils and other voluntary organisations. He has built up knowledge of local council finance over the years.

His/Her past and/or current employment suggests that they are a fully capable or competent person to carry out this task.

There is no evidence/reason to believe that the internal audit will not be carried out competently, ethically and with integrity and objectivity

Frequency of Internal Audit

An internal audit, undertaken once a year

Scope of Work

The scope of the internal audit work carried out by **NAME** follows the suggested approach to internal audit provided by Governance and Accountability for Local Councils in Wales - A Practitioners Guide.

Audit Report

NAME will prepare a report in his own name and addressed to the council following his completion of the internal audit. It will be presented in full to the Council at the next meeting after it has been issued. Any actions to be taken on the recommendations made will be recorded in the Minutes.

Recommendation

That Llanbadoc Community Council considers for itself whether the system of internal audit is sufficiently effective, using this report as prepared by the Clerk as a starting point for those considerations.

Prepared by:

Date:

2. Review of Effectiveness of Llanbadoc Community Council Internal Audit

Reviewed and adopted on: _____

Characteristics of 'effectiveness'	Evidence of Achievement	Areas for development
1. Scope of internal audit	Terms of Reference were approved on Scope of audit work takes into account risk management processes and wider internal control Risk Assessment defines audit responsibilities in relation to fraud	
2. Independence	Internal Auditor has direct access to all records. Reports are made in own name to management. Auditor does not have any other role within the Council	
3. Competence	No evidence that internal audit work has not been carried out ethically, with integrity and objectivity.	
4. Relationships	Responsible Officer consulted on the internal audit and on the scope of each audit. (Evidence is on audit files). Responsibilities for officers and internal audit are defined in relation to internal control, risk management and fraud and corruption matters. The responsibilities of council members are understood; training of members is carried out as necessary.	
5 Audit Planning and reporting	The Audit takes account of corporate risk. The details of the internal audit will be approved by the council as report received. Internal Audit has reported in accordance with the objectives and responsibilities of the Council	
Internal audit work is planned	Planned Internal audit work is based on risk assessment and designed to meet the Councils need	
Understanding the whole organisation its needs and objectives	The annual audit demonstrates how audit work will provide assurance in relation to the Councils responsibilities	
Be seen as a catalyst for change	Supportive role of audit for developments such as risk management and ethics.	
Add value and assist the organisation in achieving its objectives	Demonstrated through positive management responses to recommendations and follow up action where called for.	
Be forward looking	When identifying risks and in formulating the annual audit, changes on national agenda are considered. Internal audit maintains awareness of new developments in the services and risk management	
Be challenging	Internal audit focuses on risks and encourages The council to develop their own responses to risks, rather than relying solely on audit recommendations. The aim of this is to encourage greater ownership of the control environment.	
Ensure the right resources are available	Adequate resource is made available for internal audit to complete its work. Internal auditor understands the body and the legal and corporate framework in which it operates.	

Note: Review of effectiveness of internal audit must be reviewed and adopted by council annually during the financial year and before 31 March

DRAFT ENGAGEMENT LETTER TO BE ISSUED ANNUALLY

TO ADDRESSEE

DATE

Dear NAME,

Letter of Engagement for the position of Internal Auditor for Llanbadoc Community Council
Llanbadoc Community Council wishes to reappoint you as their internal auditor from YEAR
START DATE (1ST April XXXX) for a further period of 12 months to review the financial
controls and procedures of the Community Council.

If you agree, I should be grateful if you could formally accept the position by signing and
returning one copy for my records.

1. Roles and responsibilities

Of the Council:

The Council is responsible for ensuring that its financial management is adequate and
effective and that it has a sound system of internal control which facilitates the effective
exercise of its functions including arrangements for the management of risk.

The Council is required to undertake an adequate and effective internal audit of its accounting
records and of its system of internal control in accordance with the proper practices in relation
to internal control set out in the Joint Practitioners Advisory Group publication: Governance
and Accountability for Local Councils – A Practitioners Guide.

Of the Internal Auditor:

The Internal Auditor is responsible for reviewing whether the Council's financial management
is adequate and effective, and that it has a sound system of internal control. The Internal
Auditor will liaise with the Community Council Clerk on all assignments and will report to the
Council at least once a year.

2. Audit planning

The Council has in place a strategic audit plan covering the main governance and financial
systems and this is reviewed annually. Further guidance, including a description of the
minimum level of audit, is set out in the Practitioners Guide.

The Internal Auditor will carry out the audit to enable them to provide assurance to members
and officers, and to enable them to complete and sign off Section 4 of the Annual Return in
advance of its submission to the Council and the external auditor.

The programme of work for the year will be determined annually between the Clerk and the
Council prior to the commencement work.

3. Reporting requirements

The Internal Auditor will report to the Council at least once a year by 30th April, setting out the
results of work carried out during the previous twelve months. In the event of a serious matter
coming to light during the year, the Internal Auditor may report to the Council at other times.

The council will be presented with the internal auditor's report for the financial year
PREVIOUS YEAR at the meeting of Llanbadoc Community Council on Wednesday (MAY
MEETING).

During the year, the Internal Auditor will report the provisional results of his work to the Clerk
as they consider appropriate.

To enable the Internal Auditor to fully complete Section 4 of the Annual Return, they will carry
out work relating to the year-end in April/May. The results of such work will be reported in a
written report alongside the presentation of the Annual Return to the Council.

4. Independence and competence

It is essential that the internal audit function is sufficiently independent of other financial
controls and procedures of the Council.

The Internal Auditor will inform the Community Clerk immediately they become aware of any
conflict of interest that may adversely their ability to carry out the audit objectively and
independently.

The Internal Auditor will carry out the internal audit competently and in compliance with proper practice in a way that will meet the business needs of the Council. In the event that the Internal Auditor becomes aware of matters that may affect their competence, they will inform the Clerk or the Chairman immediately.

5. Access to information, members and officers

The Internal Auditor shall have the right of access during the audit to such accounts, correspondence, accounting systems, minutes and other records as are necessary for the performance of the audit.

The Internal Auditor shall have the right of access to any member or officer to discuss and to receive information and explanations in connection with any matter arising from the audit.

6. Period of engagement

The Internal Auditor is appointed for a period of 1 year from BEGINNING OF FINANCIAL YEAR, subject to annual confirmation by the Council.

7. Remuneration

It is agreed between the Internal Auditor and the Council that the fee shall be based on the equivalent of a day's work during each financial year at a rate of (£0.00 per day including all expenses). This rate is fixed for the contract. Payment will normally be made on invoice, based on the amount of work completed.

In the event that additional paid work is required, the terms of this will be agreed between the Council and the Internal Auditor in advance of the assignment at the same daily rate as above and invoiced separately.

I await your acceptance of the post.

Yours sincerely,

SIGNED (Clerk/RFO)

On behalf of Llanbadoc Community Council