

WEM TOWN COUNCIL INTERNAL AUDIT PLAN 2022-23

Adopted

The maintenance of an adequate and effective system of Internal Audit

- a) Parish & Town Councils have a duty under the Account & Audit Regulations 2011 as amended to maintain an adequate and effective system of Internal Audit of their accounting records and of their systems of internal control in accordance with the proper practices in relation to internal control.
- b) The purpose of Internal Audit is to review whether the systems of financial and other controls are effective.
- c) Parish & Town Councils set out the control objectives usually in the form of standing orders and financial regulations.
- d) Councils determine the scope of and extent of their Internal Audits.
- e) The Council appoints an Internal Auditor who
 - Must not have any involvement in the decision making management or control of the Council thereby satisfying the principle of independence.
 - Understands basic accounting processes, the role of Internal Audit in reviewing systems rather than undertaking detailed checks (the responsibility of management), accounting requirements of the legal framework and powers of local councils, has an awareness of risk issues thereby satisfying the principle of competence.
- f) The role of the internal auditor is to provide independent review and appraisal of the Council's internal control.

2. The Plan

- a) The Town Council on the recommendation of its Finance & Corporate Governance Committee appoints an Internal Auditor prior to the start of each financial year who satisfies the principle of independence and competence. The Appointee will receive a letter of appointment which sets out the terms of the appointment. The appointment will be remunerated. The appointment itself and rate of remuneration will be minuted. The internal auditor for 2021-22 JDH Business Services was appointed in October 2021. There were reappointed in October 2022 to undertake the internal audit for 2022-23
- b) The Council will require the Internal Auditor to conduct the annual audit exercise as soon as possible after year end by agreement. The Internal Auditor will have all the documents required and access to officers and if necessary councillors to undertake an effective audit on each occasion.
- c) The Council will provide the Internal Auditor with Terms of Reference for the annual audit.

- d) The Terms of Reference will ensure that
- The Internal Auditor has access to the evidence that will enable them to complete the Annual Governance and Accountability Return (AGAR).
 - The Council will have an independent opinion of its system of internal control that will underpin its Annual Governance Statement (Section 1 of the AGAR).

Should the Internal Auditor be unable to complete any of the boxes in Section 4 they will provide an explanation.

- e) The Council will conduct a review once during each financial year of the effectiveness of its System of Internal Audit.
- f) The Town Council shall consider at an appropriate time the findings of the review and incorporate them in its Statement of Internal Control.
- g) The Audit Plan timetable is attached as Appendix 1
- h) The Audit Plan for 2022/23 is attached Appendix 2

3 Review of Effectiveness of the System of Internal Audit

- a) The Review will take place in January or February.
- b) The Review will be undertaken by the Finance & Corporate Governance Committee which will report to the Council.
- c) The report of the Finance & Corporate Governance Committee (which will contain their opinion as to whether Internal Audit is effective) will be considered by the Town Council which will incorporate the outcome of the Review in its Annual Statement on Internal Control.

January 2023

Town Council Audit Plan 2022/23

Scope

The scope of internal audit spans the whole range of the Council's activities and includes the review of those controls designed to ensure:

- The Council's policies are put into practice
- The Council's values are met
- Laws and regulations are complied with
- Processes are adhered to
- Financial information is accurate and reliable
- Human financial and other resources are managed efficiently and effectively

Unplanned Work

If necessary work will be varied to include areas where significant weaknesses are identified. No contingency for unplanned work has been included in the plan and each issue will be dealt with as it arises. Examples of unplanned work are:

- Investigations
- Requests from the Council's Finance and Corporate Governance Committee
- Additional work required on planned activities

Reporting

A report will be provided to the Council after the annual visit summarising:

- Work carried out
- Significant findings
- Agreed actions
- Recommendations
- Performance against the Audit Plan

The Audit Plan will be kept under continuous review within the context of achieving overall objectives. Should significant amendments be necessary these will be discussed and reported to the Council at the earliest opportunity.

Internal Auditor's Terms of Reference taken from The Practitioners Guide 2022

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

A. Appropriate accounting records have been properly kept throughout the year.
AND Periodic bank account reconciliations were properly carried out during the year.

B. This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT appropriately accounted for.

C. This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.

Internal Audit action for expected controls

- Ensure the correct roll forward of the prior year cashbook balances to the new financial year
 - 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
 - Ensure that bank reconciliations are prepared routinely, are subject to independent scrutiny and sign-off by members
 - 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, line 8.
 - Where the authority has bank balances in excess of £100,000 it has an appropriate investment strategy.
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- 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.
 - Ensure that consistent values are in place for the acquisition of formal tenders between SOs and FRs (frequently different limits are recorded in the two documents)
 - 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 should be in place
 - 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
 - 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

D. The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.

F. Petty Cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for

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.

- 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
- Review the effectiveness of internal control carried out by the authority
- Ensure that the full Authority, not a committee, has considered, approved and adopted the annual precept for the coming year in accordance with the required parent Authority timetable
- Ensure that current year budget reports are prepared and submitted to Authority / Committees periodically during the year with appropriate commentary on any significant variances
- Review the budget performance either during the year or at the financial year-end seeking explanations for any significant or unanticipated variances
- Ensure that the Authority has considered the establishment of specific earmarked reserves and, ideally, reviews them annually as part of the budget assessment process
- Ensure that the precept received in the accounts matches the prior year submission form to the relevant authority and the public record of precepted amounts
- A number of authorities are now running down and closing their petty cash accounts and using debit / credit cards for ad hoc purchases. Consequently, a "Not covered" response is frequently required in this area.
- Review the systems in place for controlling any petty cash and also cash floats (used for bar, catering, etc)
- Check a sample of transactions during the financial year to ensure appropriate supporting documentation is held
- Ensure that, for all staff, a formal employment contract is in place together with a confirmatory letter setting out any changes to the contract
- Ensure that appropriate procedures are in place for the payment of members allowances and deduction of any tax liability
- 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
- Ensure that appropriate tax codes are being applied to each employee
- Where free or paid for software is used, ensure that it is up to date.
- For the test sample of employees, ensure that tax is calculated appropriately
- Check the correct treatment of Pension contributions
- 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
- Ensure that the correct employers' pension percentage contribution is being applied

- 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

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

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, line 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, line 9.

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 correctly recorded in the AGAR at section 2 line 5
- Ensure that the outstanding loan liability as at 31st March each year is correctly recorded in the AGAR at section 2, line 10 (value should be verified via the DMO website)
- 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

<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>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"> ● 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 ● Ensure that appropriate accounting arrangements are in place to account for debtors and creditors during the year and at the financial year-end
<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"> ● the correct exemption certificate was prepared and minuted in accordance with the statutory submission deadline ● that it has been published, together with all required information on the Authority's website and noticeboard . <p>This test applies only to those councils covered by the £25,000 External Audit exemption</p> <p>IAs should review the Authority's website ensuring that all required documentation is published in accordance with the Transparency Code.</p>
<p>L. The authority publishes information on a free to access website / web page, up to date at the time of the internal audit in accordance with any relevant transparency code requirements</p>	<p>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, 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>IAs 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> <p>IAs may also check whether councils have minuted the relevant dates at the same time as approving the AGAR</p>
<p>N. The authority complied with the publication requirements for the prior year AGAR.</p>	<p>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.</p>

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.