

**Ledbury Town Council - Internal Audit Programme**

Date	Subject	Guidance
1	Proper book-keeping	<p>The basic record of receipts and payments is always the starting point of an accounting system; the majority of internal controls will work back to that original record. It is essential that the system requires that the basic cash book is kept up to date and balances are regularly verified against a bank statement or the actual cash in the petty cash tin. This record will also agree with the supporting vouchers, invoices or receipts. Even though the arithmetic may be automatic on a computer based system it is necessary to check that the additions and balancing are correct. The level of checking will depend on who does what and at what frequency. Where there is a computer based system, the reliability of information reported by the system depends on the quality and accuracy of data input, and how it is then processed, and so tests of the integrity of data input and processing should be considered. A councillor or member of staff may do the checking or verification; internal audit will test that the checking verification within the system has been undertaken.</p>
2	Financial Regulations Standing Orders Payment Controls	<p>The first step in establishing a financial system is to identify the general rules applicable at council or committee meetings and in carrying out the council's business. The Standing Orders, Financial Regulations and other internal instructions do this. Model versions of Standing Orders and Financial Regulations are available from NALC and SLCC. Internal audit should have a copy of the current Standing Orders, Financial Regulations and any internal instructions. Internal audit's report to the council will include any recommendations for improvement in these documents arising as a result of their work during the year. The level of checking will depend on the content of the Standing Orders and Financial Regulations.</p> <p>The amount of work may well vary, and more extensive testing of compliance may be needed from time to time, but as a minimum, having established whether the council has within the year reviewed its Standing Orders and Financial Regulations for continued relevance, internal audit will test.</p> <p>In purchase order procedures:</p> <ul style="list-style-type: none"> <li>• that the correct number of estimates, quotes or full tenders depending on estimated value of contract have</li> </ul>

		<p>been obtained (Standing Orders will state the value at which tenders are required; Financial Regulations or Standing Orders will show the value where estimates or quotes only are required);</p> <ul style="list-style-type: none"> <li>• that proper purchase authority by council, a committee or officers (under clear delegated powers) is in place; and</li> <li>• that a proper legal power has been identified for the expenditure.</li> </ul> <p>In purchase payments:</p> <ul style="list-style-type: none"> <li>• that the supporting paperwork confirms that there is a fully approved invoice and authorisation for payment; and</li> <li>• that VAT is identified appropriately for reclaim.</li> </ul> <p>In most councils these checks can be limited to a sample of transactions selected at random plus those which are large or unusual, such as each payment for a value in excess of £1,000, or some other figure appropriate to the level of activity of the council. The aim is for internal audit to check that the systems put in place by management are working and are appropriate.</p> <p>Standing Orders and Financial Regulations may well repeat the statutory requirement to maintain 'a separate account' of expenditure and income under Local Government Act 1972 section 137 and Local Government Act 1986 section 5.</p> <p>Internal audit should check annually that such an analysis is kept and that the cash limit in section 137 is not exceeded. Internal audit may scrutinise the resulting list of expenditure and should consider whether the power is being properly used but would not check through for the correct analysis of every item.</p> <p>Internal audit should also check that payments of interest and principal in respect of loans (and investments if any are held) are in accordance with an agreed schedule.</p>
3	Risk management	<p>The greatest risk facing a local authority is not being able to deliver the activity or services expected of the council. The council is likely to be managing many of those risks when it reviews its insurance and its systems. The minutes are an essential record of such reviews. Budget setting and insurance review are annual activities; the review of systems may be less frequent. It is suggested that systems should be reviewed in some detail, unless triggered by external or internal audit reports, or change in risk, at least every four years or on the change of Clerk/RFO. This might be more appropriate for larger councils on a cyclical basis. Minutes should be checked by internal audit for any suggestion of unusual activity and evidence that risks are being identified and managed.</p>

4	Budgetary controls	<p>Internal audit will not check the budget but will verify that a budget has been properly prepared by the council and adopted in setting the precept. The regular reporting of expenditure, and variances from budget, is an important part of the proper control of public money. Internal audit will expect to see the regular reports to council and the variance analysis. That variance analysis and the decisions of council or committee taken as a result may suggest areas for additional analysis by internal audit. Part of budgetary control is to ensure adequate but not excessive reserves or balances. Progress against budgets should be regularly monitored. It is particularly helpful when determining the likely precept that will be required for the following year. Internal audit will be keen to establish that this has taken place.</p>
5	Income controls	<p>Internal audit will look for evidence that the precept and grant income is properly and promptly received. In value this is usually the largest item of income. Internal audit is more likely to focus on other income particularly where it is unusual or cash-based.</p> <p>Cash income brings higher risks, in turn requiring greater control by ticket issues, receipt issues, segregation of duties of the cashier and the invoice-raising clerk. The need for greater control implies a need for internal audit to verify the operation of all checks and balances. If the council has let property or holds investments, then the council should have established a system to ensure regular income collection; a diary of expected dates of income etc. Internal audit will look for evidence of such activity and any necessary progress or invoice chasing. If the income is from quoted investments these is a clear risk to be addressed in terms of identifying the investment policy to be followed, controls over who can initiate a change of investment and an awareness of the investment risks being accepted.</p>
6	Petty cash procedure	<p>Internal audit will be looking to see that there is an established system in place rather than ad hoc reimbursement. If the clerk is reimbursed for all small cost expenses or there is a separate cash float, a regular payment must be made to keep up to date. Internal audit would be looking to see that reimbursement is regular and evidence that on occasions an independent person has physically counted the cash balance and checked to be in agreement with the up-to-date record. The council should have a system for the regular approval of petty cash expenditure.</p>

7	Payroll controls	<p>Internal audit will be seeking reassurance that the system is delivering the correct payments for wages and salaries and that PAYE/NIC is correctly deducted from the gross pay and paid to HM Revenue and Customs. Historically, one of the greatest areas of risk for local councils has been the improper payment of wages and salaries, together with the lack of proper deduction of income tax and national insurance contributions. There are some simple tests to establish whether a person is employed by a local authority or can be regarded as a contractor. The clerk is always regarded as an employee – as an ‘office holder’. If a deduction for tax or national insurance is not made by the employer, HM Revenue and Customs has the right to seek the lost tax and contributions from the employer as if the payments made were after deduction of the appropriate amounts (ie the amount sought is ‘grossed up’). There may also be a liability for interest and penalties that can increase the sum significantly.</p> <p>The clerk, even at the smallest of councils, will need to be able to produce evidence that the correct tax treatment of salary has been arranged with HM Revenue and Customs. HM Revenue and Customs seek to avoid setting up a PAYE scheme for a single employee whenever possible, so will seek to ‘code out’ any parish council salary through other income, pension scheme or by direct assessment. The council should to have a letter from HM Revenue and Customs (addressed to the Council) confirming that arrangements to their satisfaction have been made for the particular employee. Internal audit may verify that evidence each year as part of the annual statement forming part of the annual return.</p> <p>Changes to contracts of employment (whether annual salary change, or other) would normally require formal agreement by council, committee or less frequently the RFO, as well as a written statement for the employee. The council should record evidence of such agreement. Internal audit should check that this evidence is in place and would agree sums paid to those shown as payable.</p> <p>The purpose of specifically investigating the PAYE/NIC system recognises the risks inherent in these items, either through fraud or error, and the risk of significant management time and penalties in making corrections if errors arise.</p>
8	Asset control	<p>The Council is required to maintain an asset and investment register. In the smallest councils, this may only be a note produced for the members and local electors. Internal audit will be interested in seeing that there is evidence that the continuing existence of owned and managed assets is checked on a regular basis. In a larger council the register may be hand written, typed or computer produced; the essence is the same in that the system should require verification on a regular basis. This verification should include confirmation that</p>

		<p>insurance cover is adequate and sufficient.</p> <p>If investments are held then the asset register will be a more active record; it should include details of cost, values, and expected income that can be checked against the actual income. Dates and references to minutes of the members' review of the investments against the investment policy might also be included. The Council will have regard to the advice from the Secretary of State (see Appendix 8). This will be particularly important when considering de-mutualisation or privatisation shareholdings which have no identifiable cost and may have a volatile value.</p>
9	Bank reconciliation	<p>In most councils, the bulk of the financial records will be concerned with a current account and a form of deposit account at a bank or building society.</p> <p>A regular feature of the financial system will be the reconciliation of the balances shown on the statements with those calculated in the council's financial records. It is strongly recommended that on receipt of a bank statement, there should be a reconciliation of the appropriate cash book record. Internal audit will wish to see that this has been done, but should not undertake the reconciliation unless it requires re-performance. It may be appropriate for the year-end balances and the reconciliation to be checked in detail.</p> <p>The basic cash book record must not be written up from the bank statements. That does not provide any form of control. The cash book record is written up from the council's records: cheque counterfoils and the paying-in books, together with the known direct payments and credits. It is the cash book record that is checked regularly against the bank statements to provide control.</p> <p>The bank reconciliation should include a note of the historic cost of current investments held by the council, if any, so that this can also be monitored to ensure that these funds are performing in the way planned by the council and also so that the council can have, each time this is reviewed, as complete a picture as possible of its liquidity and available funds.</p> <p>As part of internal control, a member may be appointed to review the bank reconciliation in detail and to evidence that review by signing the reconciliation form and the bank statements.</p>
10	Year-end procedures	<p>It is the duty of the council and the RFO to produce the year-end financial statements. Internal audit will be looking to see that the appropriate accounting basis is used, that the figures can be followed through on working papers and that adjustments, transfers, contra entries etc are fully explained and justified. Internal audit would not be expected to check all figures but will probably verify a small sample and the totals. In producing year-end financial statements there is a need to consider proper valuation of assets and liabilities. A system will be in</p>

		<p>place for identifying outstanding amounts (receivable and payable) and then for deciding on their materiality for inclusion in the income and expenditure accounts.</p> <p>Internal audit will scrutinise the lists of creditors and other balances to ensure that the system is working adequately and that the RFO has correctly identified transactions in the one year that may relate to another.</p>
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