

REVIEW OF INTERNAL AUDIT

REQUIREMENTS UNDER THE ACCOUNTS AND AUDIT REGULATIONS 2003 (as amended)

Review of the Council's System of Internal Audit Control and Review of the Effectiveness of Independent Internal Audit

These two exercises are mandatory for all local councils no matter what their size. This Advice Note gives general information about them but if needed detailed advice is available from the YLCA.

Background

The requirements focus on Regulation 4 of the Accounts and Audit Regulations 2003 and Regulations 4 and 6 of the Accounts and Audit (Amendment)(England) Regulations 2006. In accordance with Regulation 4, councils should be already undertaking a review at least once per year of the effectiveness of their **system of internal control** and publish a statement on internal control.

Regulation 6 of the 2006 enactment requires councils to review the **effectiveness** of their **system of independent internal audit** once per year, and for the findings of the review to be considered by full council or a committee of the council.

System of Internal Control

The frequency of the exercise is not defined in legislation but council must ensure that this reflects the level of its financial activity and turnover. The system of internal control comprises and mechanisms that the council has in place to ensure the authority is checking its own financial management. The exercise will likely include:

- Review of fidelity insurance, making sure it is adequate in comparison to council funds and the precept;
- Review of financial regulations, including the council's standing order for goods and services;
- Review of financial risk assessment;
- Ensuring that council is receiving adequate and regular financial information from the RFO to keep it sufficiently updated;
- Collation and cross referencing of regular financial information such as the cash book, cheque book, bank statements, invoices and minutes;
- Undertaking responsibility for the review of the effectiveness of the system of internal audit (details below).

The exercise needs to be channelled and to the point. It may therefore be sensible for councils to appoint a committee to conduct the exercise, comprising perhaps three members, and possibly non cheque signatories to promote integrity? The committee will report its findings to full council, which

will then take action should there be any issues arising. The internal control exercise is the council's own form of financial scrutiny.

Conducting an Annual Review of the Effectiveness of the System of Internal Audit

The YLCA suggests that the check should be linked to the internal audit report, produced by the internal auditor which should show that the independent internal auditor has thoroughly undertaken the following checks. This is not an exhaustive list. When a local council appoints an internal auditor it should ensure that the person or company is fit for purpose and this means not only having accountancy skills but also some experience in the financial powers and requirements for local councils:

- That there is a numbered minute showing that council has formally approved the end of year accounts?
- Does that minute accord with the information given in section 1 of the Annual Return?
- Have financial and other risk assessments been undertaken?
- Has council taken out adequate insurance to account for its financial and other activities?
- Has council acted lawfully in its decision making and not exceeded its powers? Internal auditors would be expected to look particularly at powers used in financial decisions?
- Has council given members of the public opportunity to inspect and raise questions on the accounts (clerks – remember to retain the notice advertising inspection as evidence)
- Has council adopted financial regulations and a standing order to manage contracts for goods and services?
- Has council responded positively to issues that were raised in the previous internal audit report
- Is the council a sole trustee of a charity and if so, has it managed the charity accounts properly?
- Cash book is reconciled with invoices
- VAT is correct in cash book, linked to invoices and has been reclaimed
- Separate column in the cash book for VAT
- Separate column in the cash book for Section 137 payments
- Bank reconciliations provided regularly and definitely to 31st March
- A budget has been approved
- Council has approved the Annual Return by the specified date
- Petty cash transactions recorded and reconciled
- Bank statements reconciled to cash book and all bank statements are present
- All payments listed in minutes
- Minute recording the precept decision
- Significant variances in the Annual Return (section 1) figures explained
- Asset register submitted, up to date and concurring with Annual Report (section 1 box 9)
- Tax and National Insurance requirements properly applied

- Does the Council receive a written report from the Internal Auditor following completion of the exercise?

Following the independent internal audit, the council should receive a substantial written report for formal consideration.

The above list is not exhaustive and will depend upon a council's specific financial and other activities. By addressing this check-list council should have made an assessment in relation to the scope of internal audit, independence of the audit, competence of the internal auditor and addressed audit planning and reporting. In addition to the check list above councils should also ask themselves:

- Has the council properly briefed the internal auditor on the expectations of his/her role and explained the duties and responsibilities of the clerk and RFO so that the internal auditor has a clear picture of the financial activities and measures of the council?
- Checked that the internal auditor is wholly independent of the council and internal auditor reports are produced in his/her name
- That the internal auditor has direct access if needed to the RFO, clerk and chairman
- Prior to and during the internal audit process, the auditor liaises with the Clerk and RFO.