



HOUGHTON REGIS TOWN COUNCIL

Internal Audit Planning, Reporting & Review Policy

Date of Adoption:	Town Council 18 th May 2011
Date of Review:	22 nd September 2014; 15 th June 2015; 3 rd October 2016; 9 th October 2017; 5 th October 2020; 4 th October 2022; 11 th September 2023; 9 th September 2024
Date of Re-adoption	19 th December 2022; 11 th December 2023; 16 th December 2024

Background

A system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk or failure to achieve policies, aims and objectives. It thus provides a reasonable, not absolute, assurance of effectiveness. A system of prioritisation therefore pertains.

It is the responsibility of Council to determine the scope of audit, without undue influence from the internal auditor, to ensure his/her independence and that planning and reporting access is effective and direct

Legislative Framework

Regulation 4 of the Accounts and Audit Regulations 2003 requires audited bodies (which includes local authorities / parish councils) to conduct, at least annually, a review of the effectiveness of the system of internal control and to publish the results. This statement of assurance forms part of the financial statements.

The Accounts and Audit (Amendment) (England) Regulations 2006 which came into force in April 2006 clarify the 2003 Regulations and strengthen governance and accountability.

Councillors, together with the Town Clerk (the Proper Officer) are responsible to the electorate to ensure good governance within Houghton Regis Town Council. Houghton Regis Town Council is required to:

1. consider the findings of the review of systems of internal control in Regulation 4(3) of the 2003 Regulations (as amended in 2006); and
2. carry out and consider the findings of a review of the effectiveness of the system of internal audit in Regulations 6(3) and 6(4) of the 2003 Regulations (as amended in 2006);

Policy Framework

The Council's approved Standing Orders require that (*Section 18 b i*):

18 FINANCIAL CONTROLS AND PROCUREMENT

- b The council shall consider and approve financial regulations drawn up by the Responsible Financial Officer, which shall include detailed arrangements in respect of the following:
 - i the keeping of accounting records and systems of internal controls;

The Council's approved Financial Regulations require that (*Section 2*, Accounting and Audit, as applicable to internal audit):

2. ACCOUNTING AND AUDIT (INTERNAL AND EXTERNAL)

- 2.4. The council shall ensure that there is an adequate and effective system of internal audit of its accounting records, and of its system of internal control in accordance with proper practices. Any officer or member of the council shall make available such documents and records as appear to the council to be necessary for the purpose of the audit and shall, as directed by the council, supply the RFO, internal auditor, or external auditor with such information and explanation as the council considers necessary for that purpose.
- 2.5. The internal auditor shall be appointed by and shall carry out the work in relation to internal controls required by the council in accordance with proper practices.
- 2.6. The internal auditor shall:
- be competent and independent of the financial operations of the council;
 - report to council in writing, or in person, on a regular basis with a minimum of one annual written report during each financial year;
 - to demonstrate competence, objectivity and independence, be free from any actual or perceived conflicts of interest, including those arising from family relationships; and
 - have no involvement in the financial decision making, management or control of the council.
- 2.7. Internal or external auditors may not under any circumstances:
- perform any operational duties for the council;
 - initiate or approve accounting transactions; or
 - direct the activities of any council employee, except to the extent that such employees have been appropriately assigned to assist the internal auditor.
- 2.8. For the avoidance of doubt, in relation to internal audit the terms ‘independent’ and ‘independence’ shall have the same meaning as is described in proper practices.
- 2.9. The RFO shall make arrangements for the exercise of electors’ rights in relation to the accounts including the opportunity to inspect the accounts, books, and vouchers and display or publish any notices and statements of account required by Audit Commission Act 1998, or any superseding legislation, and the Accounts and Audit Regulations.
- 2.10. The RFO shall, without undue delay, bring to the attention of all councillors any correspondence or report from internal or external auditors.

Purpose of Internal Audit

Internal Audit is a function of management and forms part of the Council's internal control mechanisms. It is designed to manage risk to a reasonable level rather than eliminate all risk. It thus provides a reasonable, not absolute, assurance of effectiveness.

The audit should cover the areas of 'risk' identified by the annual return and any additional matters Council chooses. It must be based on the financial year.

Traditionally the audit has been achieved by a *mid year interim Internal Audit and* a 'year-end' internal audit, although there is provision to contact the internal auditor as necessary.

Planning

Legislation

Regulation 6 of the Regulations 2006 requires the Houghton Regis Town Council to maintain an adequate and effective system of internal audit of its accounting records and system of internal control in accordance with proper internal audit practices.

Policy

Internal control is set through Council's Standing Orders and Financial Regulations which encompass administrative processes with segregation of duties, supervision and delegation of duties. It includes provision for example budget monitoring, policy and procedure adherence and update, risk assessments and management and compliance with laws and regulations. The internal controls are designed to include measures to prevent and detect fraud and corruption, their effectiveness must be reviewed.

Internal Audit Specification

The internal audit specification is produced in draft by the Clerk (&RFO). Other relevant staff members are consulted on its content. The draft is presented to Council annually for approval. The approved document sets out the areas to be covered by the internal audit.

As a basis it should include:

- Legal basis
- Previous internal audit report
- Proper bookkeeping
- Council policy
- Risk management
- Budgetary controls
- Income controls
- Payroll controls
- Asset controls
- Bank reconciliation

- Year end procedures

Other issues may be added which reflect on previous audit reports or on any other areas of concern as noted by Members or staff.

The scope of audit is determined by Council, without undue influence from the internal auditor.

Reporting

The internal audit process is set out in the approved Internal Audit Specification. Once the internal audit has been completed and the report received by the Clerk (&RFO) the findings accompanied by an action plan are to be reported to Council.

Review

Policy

Council will review on an annual basis the following:

- Internal Audit Planning, Reporting And Review Policy
- Internal Audit Specification **APPENDIX A**

Reports

Council will review as soon as reasonably practicable the following reports:

- Internal audit report and action plan
- External audit report and action plan

Annual Return

The statement of internal control is included within the Annual Return. Governance should be reviewed during the year so that the declaration may be made when the accounts are completed and signed.



HOUGHTON REGIS TOWN COUNCIL

Internal Audit Specification & Terms of Reference

Purpose of Internal Audit

Internal Audit is a function of management and forms part of the Council's internal control mechanisms. By the use of an independent internal audit service assurance is gained regarding the areas examined.

Internal Audit Process

1. Internal Auditor to be appointed by Town Council;
2. The internal auditor is to be advised of;
 - the Internal Audit Specification;
 - the Internal Audit Planning, Reporting and Review Policy;
 - contact details for Town Council Members and staff.
3. Timely arrangements to be made with the appointed Internal Auditor to visit the Council offices and inspect the specified documents;
4. The Internal Auditor prepares his independent report which is to be submitted in writing to the Clerk to the Council in his own name;
5. The Internal Auditor completes and signs the statement within the Annual Return as legally required to do so.

Internal Audit Specification

The following areas are required to be reviewed / checked:

Legal basis including; Council has been acting legally and fulfilling its duties within the powers vested in it

Previous internal audit report including; review of report undertaken by Council and formulation of an action plan to address any issues raised

Proper bookkeeping including; appropriate books of account have been properly kept throughout the year, payments were supported by invoices, expenditure was approved and VAT was appropriately accounted for

Council policy specifically Standing Orders and Financial Regulations including; requirements within these documents have been met, annual review undertaken

Risk management including; review of Minutes to identify any unusual activity, review of risk assessments, provision of adequate and appropriate insurance cover, systems of internal control are sufficient in terms of minimising the risk of fraud including Council policy and procedures and practice

Budgetary controls including; the annual precept requirement resulted from an adequate budgetary process, progress against the budget was regularly monitored, reserves were appropriate, any significant variances from budget noted

Income controls including; petty cash controls, suitability of recording mechanisms, suitability of banking procedures, security and effectiveness of cash controls, expected income was fully received

Payroll controls including; salaries to employees and allowances to members were paid in accordance with council approvals, PAYE and NI requirements were properly applied

Asset controls including; asset and investment registers were complete, accurate, properly maintained and relate to the insurance schedule

Bank reconciliation including; periodic and year-end bank account reconciliations were properly carried out

Year end procedures including; year-end accounts were prepared to the correct accounting basis, agreed with cash book, were supported by an adequate audit trail from underlying records, debtors and creditors were properly recorded

Terms of Reference

1. The internal audit is to cover the financial year of the council;
2. The internal audit is to be completed by a suitably qualified person who acts ethically with integrity and objectivity and is independent of the Council
3. Internal audit report to be reviewed annually by Town Council
4. Action plan to be drawn up to respond to any points raised