HOUGHTON REGIS TOWN COUNCIL

Internal Audit Planning, Reporting & Review Policy

Date of Adoption:	Town Council 18th May 2011
Date of Review:	22nd September 2014; 15th June 2015; 3rd October 2016; 9th October 2017; 5th October 2020; 4th October 2022; 11th September 2023; 9th September 2024; 15th June 2026
Date of Re-adoption	19th December 2022; 11th December 2023; 16th December 2024; 15th June 2026

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.

It is the responsibility of Council to determine the scope of internal audit to ensure independence and that planning, reporting and access remain effective and direct,

Legislative Framework

This policy is prepared in accordance with the Accounts and Audit Regulations 2015 (as amended).

Under this legislation, the Council is required to:

- Maintain an adequate and effective system of internal control
- Conduct, at least annually, a review of the effectiveness of that system
- Maintain an adequate and effective system of internal audit
- Prepare and approve an Annual Governance and Accountability Return (AGAR)

The Council must:

- Review the effectiveness of internal control (Regulation 6)
- Ensure proper internal audit arrangements are in place (Regulation 5)
- Take appropriate action in response to audit findings

Councillors, together with the Head of Corporate Services (Responsible Financial Officer), are responsible for ensuring good governance and accountability to the electorate.

Policy Framework

The Council's governance arrangements include:

- **Standing Orders**
- **Financial Regulations**

These set out:

- Administrative processes
- Segrigation of duties
- Financial controls
- Risk management arrangements

Internal controls include:

- Budget monitoring
- Compliance with polices and procedures
- Risk assessment and management
- Legal and regulatory compliance

- Measures to prevent and detect fraud and corruption

The effectiveness of these controls must be subject to regular reviews.

Purpose of Internal Audit

Internal audit is an independent assurance function within the Council's system of internal control.

Its purpose is to:
Review and report on the effectiveness of controls
Ensure compliance with laws, regulations and policies
Identify risks and recommend improvements

The audit provides **reasonable assurance**, not absolute assurance.

The internal audit must:

- Cover key risk areas identified through the AGAR and Council priorities
- Be based on the financial year
- Be proportionate to the size and scope of the Council

Internal Audit Planning

Legislation
Under the Accounts and Audit Regulations 2015, the Council must maintain:
"An adequate and effective system of internal audit of its accounting records and system of internal control."

Policy
The Council will:

- Prepare an Internal Audit Specification annually
- Base the plan on risk assessment and previous audit findings
- Ensure independence of the internal auditor

Internal Audit Specification
The internal audit specification is produced in draft by the Clerk & the 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.

The audit will typically include:

- Legal powers and compliance
- Previous internal audit recommendations
- Proper bookkeeping
- Council policies (Standing Orders & Financial Regulations)

- Risk management
- Budgetary controls
- Income and expenditure controls
- Payroll controls
- Asset management
- Bank reconciliation
- Year-end procedures

Additional areas may be included where risks are identified.

Internal Audit Arrangements

- The internal auditor is appointed by the Council
- The auditor must be competent, independent and objective
- The auditor must have no involvement in financial decision-making

The auditor will be provided with:

- This policy
- The Internal Audit Specification
- Access to relevant records, documentation, Members and staff

Reporting

The internal auditor produces a written report

The report includes:

- Findings
- Recommendations
- Identified risks

An action plan is prepared by the Clerk and the RFO

The report and action plan are:

- Submitted to Council
- Considered formally
- Monitored for implementation

The internal auditor also completes the AGAR internal audit section.

Review

Policy

Council will review annually:

- This 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 (if applicable)

Annual Return

The Council will:

- Review governance arrangements throughout the year
- Approve the Annual Governance Statement within the AGAR

APPENDIX 'A'

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 an independent report which is to be submitted in writing to the Clerk to the Council in their 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 examined:

Legal basis including; Council has been acting legally and fulfilling its duties within statutory powers.

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

Proper bookkeeping (accuracy and completeness) 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 compliance and annual review.

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 have been fully received.

Payroll controls including; salaries and allowances paid to employees were paid in accordance with council approval and comply with HMRC requirements.

Asset controls including; asset and investment registers were complete, accurate, properly maintained and align with insurance schedule.

Bank reconciliation including; periodic and year-end bank account reconciliations were completed accurately and in a timely manner.

Year-end procedures including; year-end accounts were prepared to the correct accounting and audit trail.

Terms of Reference

The audit covers the full financial year.

The auditor must act with:

- Integrity
- Objectivity
- Independence

The internal audit report must be:

- Submitted in writing
- Reviewed by Council annually

The Council must:

- Respond to findings
- Implement agreed actions
- Monitor progress