

# Internal Audit

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## Whitwick Parish Council

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### Year Ending 31<sup>st</sup> March 2013

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#### **INTERNAL AUDITOR**

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#### ***DOCUMENTATION:***

- ***INTERNAL AUDIT PROCEDURE***
- ***INTERNAL AUDIT REPORT***
- ***INTERNAL AUDIT COMPLIANCE TESTING***

# Internal Audit Procedure

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## 1. Introduction & Purpose

The purpose of this procedure is to define Redwood Pryor's process for undertaking internal audits in order to assess the effectiveness of the council's internal controls and also to define the responsibilities for planning and conducting audits, reporting results and retaining associated records.

## 2. Terms & Definitions of Internal Audit Assurance

Audit Opinion	Explanation
GOOD	There is a sound system of internal control designed to achieve the council's objectives.  The internal control processes tested are being consistently applied.
ADEQUATE	While there is a basically sound system of internal control, there are weaknesses, which may put some of the council's objectives at risk.
LIMITED	Weaknesses in the system of internal controls are such as to put the council's objectives at risk.  The level of non-compliance puts the council's objectives at risk.
UNSATISFACTORY	Control processes are generally weak, leaving the processes/systems open to significant error or abuse.  Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

## 3. Application & Scope

The scope of this internal audit is focused on assessing the effectiveness of [Whitwick Parish Council's](#) internal controls. Where any such controls are found to be deficient, the internal audit will help lead to improvement in those processes.

By applying the principles of internal auditing, outlined in the current Accounts and Audit Regulations and applying the approach to internal audit testing in the Governance and Accountability for Local Councils, A Practitioners' Guide, Redwood Pryor Ltd makes every effort to ensure that all internal audits are conducted with due professional care, integrity and independence. All conclusions derived from the audit are based upon objective and traceable evidence.

***NB: It would be incorrect to view internal audit as the detailed inspection of all records and transactions of the council in order to detect error or fraud. It is the periodic independent review of a council's internal controls resulting in an assurance report designed to improve effectiveness and efficiency of the activities and operating procedures under the council's control. Managing the council's internal controls should be a day-to-day function of the staff and management and not left for internal audit. (Source: Governance and Accountability for Local Councils-A Practitioners' Guide-2010).***

## 4. Requirements

An internal audit of the internal controls is conducted annually to:

- Determine whether the internal controls conform to planned arrangements
- Determine whether the internal controls are properly implemented and maintained
- Provide information on the results of the internal audit to the parish council, the Clerk to the Council and the Responsible Financial Officer (where the latter is a separate position within the council).

Essential competencies for an internal auditor are:

- Understanding of basic accounting processes
- Understanding of the role of internal audit in reviewing systems.
- Awareness of risk management issues
- Understanding of accounting requirements of the legal framework and powers of local councils

To ensure impartiality and objectivity, the internal auditor must not have any involvement in the financial decision making, management or control of the council.

## 5. Process

Regulation 6 of the Accounts and Audit Regulations 2003 as amended imposes a duty on local councils to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. Internal audit is a key component of the system of internal control. The purpose of internal audit is to review whether the systems of financial and other controls over a councils activities and operating procedures are effective. Internal audit is an on-going function reporting to the council at least once a year and undertaken at least once annually. Internal audits may be completed with a greater frequency if determined by the council or as determined by:

- Corrective actions from previous internal audits
- Statutory/legal requirements
- Audit Commission guidance
- Council decisions
- Council objectives and policy
- Council internal review concerns
- Concerns and recommendations raised by external auditors
- Parishioner complaints
- Employee concerns

## 6. The Audit

### 6.1 Audit Planning

The internal auditor should:

- Establish and communicate an internal audit schedule
- Establish and implement internal audit plan

### 6.2 Audit Preparation

The internal auditor should:

- Review and prepare the internal audit checklist
- Arrange an audit appointment with the Clerk to the Council (Clerk) and/or the Responsible Financial Officer (RFO)
- Issue the audit checklist to the Clerk and/or the RFO

### 6.3 The Audit

The internal auditor should:

- Undertake an initial meeting with the Clerk and/or the RFO to:
  - review the previous internal audit report:
    - Check progress made against recommendations made
    - Identify and review any changes to internal controls
  - Ensure documentation listed on the audit checklist is available for review
- Sample and observe process inputs/outputs e.g. review invoices, expenditure reports etc.
- Record objective evidence to verify process compliance or non-compliance
- Generate audit findings i.e. a draft internal audit report
- Forward a copy of the draft internal audit to the Clerk and/or the RFO for review

### 6.4 Wrap-up Meeting

The internal auditor and the Clerk and/or the RFO should meet again to:

- Review audit conclusions and discuss recommendations for improvement contained in the draft internal audit report
- Decide whether any non-compliances observed should be included in the final internal audit report or resolved immediately
- Address immediately any minor areas of non-compliance
- Agree on corrective actions for other areas of non-compliance and/or recommendations for improvement.

The internal auditor then prepares and signs off the final version of the internal audit report and forwards to the Clerk and/or the RFO

### **6.5 Follow-up**

The Clerk and/or the RFO is expected to:

- Ensure corrective actions are implemented and are closed-out within the agreed timeframe
- Ensure non-compliances are closed-out within the agreed timeframe

### **6.6 Review**

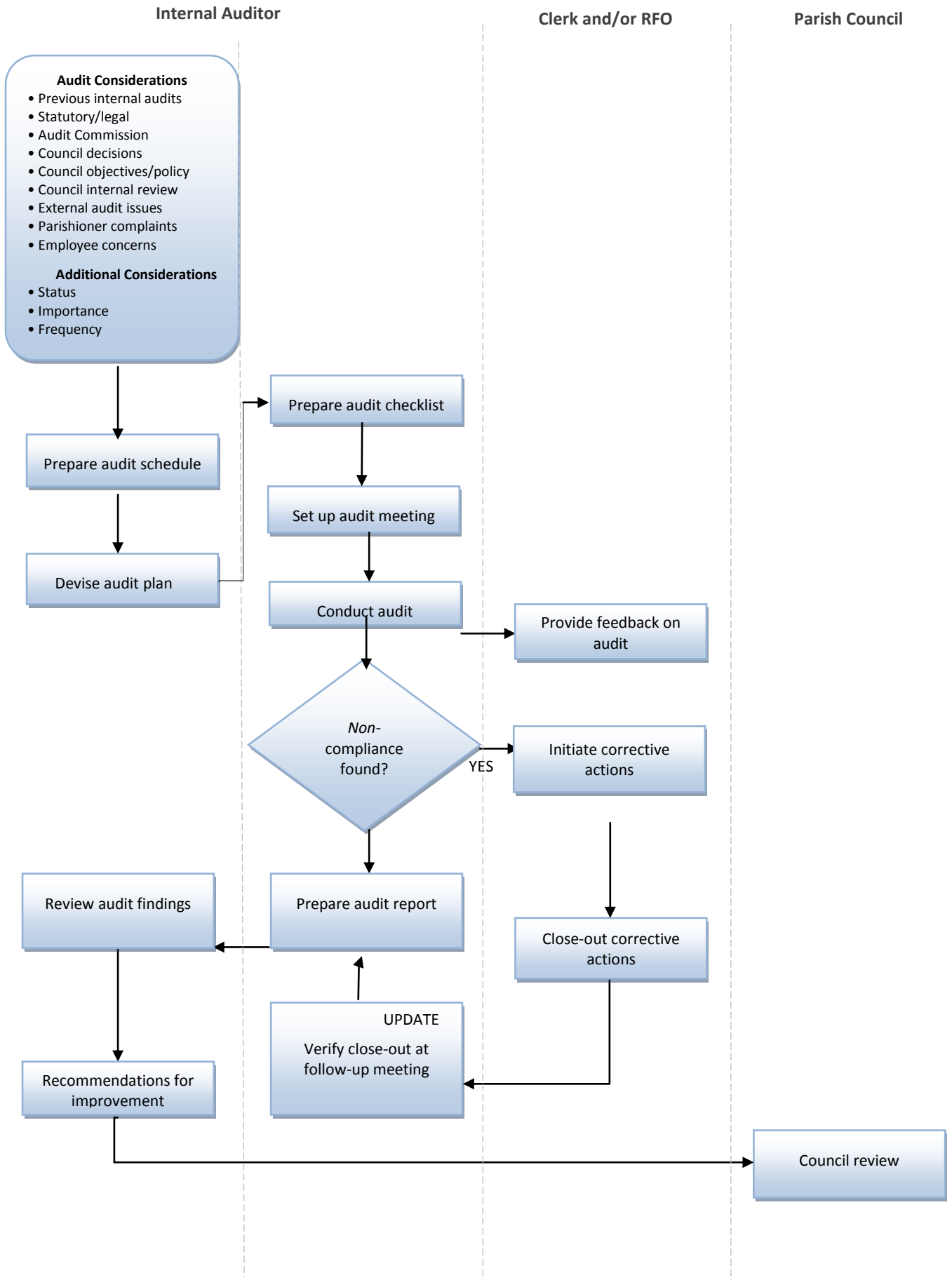
The council is expected to:

- Receive the internal report at a meeting of the council to review
- Consider, agree and minute actions required to address any audit findings
- Use the internal audit report to promote best practice
- Ensure internal controls and records are maintained

## 6.7 Audit Process Summary

	Action	Responsibility	Output
6.1 Planning	Establish and communicate internal audit schedule	internal auditor	
	Establish and implement internal audit plan		
6.2 Preparation	Review and prepare the internal audit checklist	internal auditor	
	Arrange audit appointment		
	Issue the internal audit checklist		audit checklist
6.3 Audit	Initial audit review meeting	internal auditor and Clerk and/or the RFO	
	Sample and observe necessary process inputs/outputs		
	Record objective evidence to verify process compliance		
	Generate audit findings i.e. a draft internal audit report		Draft internal audit report
	Forward a copy of the draft internal audit to the Clerk and/or the RFO for review		
6.4 Wrap-up meeting	Review audit conclusions and discuss recommendations for improvement contained in the draft internal audit report	internal auditor and Clerk and/or the RFO	
	Decide whether any non-compliance observed should be included in the final internal audit report or whether they can be solved immediately		
	Address immediately any minor areas of non-compliance		
	Corrective actions are reviewed by the Clerk and/or the RFO and close out action is agreed		
	The internal auditor prepares and sign off the final version of the internal audit report to Clerk and/or the RFO		final internal audit report
6.5 Follow-up	Ensure corrective actions are closed-out within the agreed timeframe	Clerk and/or the RFO	
	Ensure non-compliances are closed-out within the agreed timeframe		
6.7 Review	Receive the internal report at a meeting of the council to review	the council	final internal audit report
	Consider, agree and minute actions required to address any audit findings		minute(s) of council
	Use the internal audit report to promote best practice		
	Ensure internal controls and records are maintained		

## 6.8 Internal Audit Process Map



<b>WHITWICK PARISH COUNCIL</b>	<b>YEAR ENDING</b>	<b><u>Internal Audit Report</u></b>	WPC-IAR
	<b>31 March</b>		Version 2.0
	<b>2013</b>		Page 1 of 2

Internal Audit Report Number	Date Issued	Prepared by
WPC.IAR.2013	21/04/13	Richard Willcocks

#### Aims & Objectives

The council has a statutory duty to complete an Annual return at the end of each financial year. As part of the Annual Return the Parish Council's internal audit function is required to provide assurance that relevant procedures and controls were operating effectively for the financial year ending 31 March 2013. The purpose of this exercise is to meet those statutory requirements and provide Whitwick Parish Council with an appropriate level of assurance in support of the 2013 Annual Return.

#### Scope of Audit

The internal audit exercise involves such testing of the evidence of and evidence of compliance with the 11 statements contained in Section 4 of the Annual Return, as applicable to the range and financial materiality of the Councils' activities. The statements refer to:

- Maintenance of proper financial records
- Compliance with the Council's Standing Orders, Financial Regulations and proper accounting for VAT
- Adequacy of risk management arrangements
- Effective budgeting and budgetary control
- Identification of income due and timely collection and banking of such monies
- Proper administration of petty cash
- Proper administration of salaries of employees and expenses paid
- Maintenance of an accurate and reliable asset register
- The completion of regular bank reconciliations
- The correct basis and accurate preparation of year-end accounts
- Whether the Council has met its responsibilities as a trustee.

The outcomes of the recommended testing required for assurance purposes is shown in the Internal Audit Findings Report.

#### Results

Overall the council has good controls in place, covering the key financial systems, with appropriate books of account being kept throughout the year. Expenditure payments were supported by invoices, approved and VAT properly applied. Expected income was fully received, properly recorded and promptly banked. The payroll was operated correctly and statutory deductions and returns made on time to HMRC.

The previous year's internal audit was the first following the formation of the council. Whilst most of the internal controls were more than satisfactory a number of recommendations were made last year which would be considered as 'Opportunity For Improvement' (OFI's), rather than addressing areas of major concern. It is therefore pleasing to report that the Clerk, supported by the Assistant Clerk have reviewed and implemented all of these recommendations. The one recommendation made below is also considered to be an OFI, which need only to be considered for action when online payments are actually introduced.

In summary, this report again reflects very positively on the quality and standard of work of both the Clerk and the Assistant Clerk.

Overall Internal Audit Assurance Rating: **GOOD**

#### Recommendations

Internal Audit Compliance Testing Ref	It is recommended that:	Priority	Responsibility
1.1	That with the implementation of payments by online banking, the procedure outlined in section 5.3 is clearly adhered to ensure the continued safeguarding of public money.	High	RFO Council

<b>WHITWICK PARISH COUNCIL</b>	<b>YEAR ENDING</b>	<b><u>Internal Audit Report</u></b>	WPC-IAR
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#### Acknowledgments

The help and co-operation of Phil Ellis, Clerk and Lorraine Ellis, Assistant Clerk, is much appreciated by the internal auditor.

Report Prepared By	Signature	Position	Date
		Internal Auditor	
Report Reviewed By	Signature	Position	Date
		Responsible Financial Officer	
Report Received By Council	Signature	Position	Date



WHITWICK PARISH COUNCIL	YEAR ENDING	INTERNAL AUDIT COMPLIANCE TESTING	IAR13
	31 March		Version 1
	2013		Page 1 of 15

### Legend

**A** = Opportunity for Improvement      **B** = Minor Non-compliance      **C** = Major Non-compliance

Compliant:	Adherence with the requirements of the audit question. No major or minor non-conformances found
Opportunity for Improvement (OFI):	<p>A situation or condition of internal control that may be weak, cumbersome, redundant, overly complex, or in some other manner, may, in the opinion of the internal auditor, offer an opportunity for the council to improve its current status.</p> <p>OFI's do not necessitate any immediate remedial action on the part of the council; however, the council should give them serious consideration in view of the internal auditor's knowledge and exposure to similar controls and processes.</p> <p>An OFI may be an improvement to the internal control system or could prevent future problems.</p>
Minor Non-compliance:	<p>A non-compliance that, based on the judgment and experience of the internal auditor, is not likely to result in the failure of the internal control system or reduce its ability to ensure effective control is maintained.</p> <p>It may be either:</p> <p>A failure in some part of the council's internal control and assurance relative to a specified requirement.</p> <p>A single observed lapse in following one item of testing of the council's internal controls.</p>
Major Non-compliance:	<p>The absence or total breakdown of an internal control process necessary to meet a specified requirement.</p> <p>A number of minor non-compliances against one requirement can represent a total breakdown of an internal control process and thus be considered a major non-conformity.</p> <p>Any non-compliance that would result in the probable delivery of a non-conforming service or action by the council. Conditions that may result in the failure of or materially reduce the usability of the council's services for their intended purpose.</p> <p>A non-compliance that, in the judgment and experience of the internal auditor, is likely to either to result in the failure of an internal control process or to materially reduce its ability to assure effective internal control.</p>

**NB: ALL REFERENCES TO PERIODS IN THE SECTIONS BELOW REFER TO THE FINANCIAL YEAR ENDING 31 MARCH, BEING REVIEWED, UNLESS OTHERWISE STATED.**

## 1. Proper Book Keeping

Question No.		Compliant			Audit Evidence	Comments
		YES	NO			
			A	B	C	
1.1	<b><u>Is the cashbook maintained and up to date?</u></b> <i>It is essential that the basic cash book is kept up to date.</i>	✓				The Clerk to the Council (Clerk) and the Assistant Clerk are responsible for maintaining the day-to day accounts functions. The accounts are maintained so as to be up to date for each meeting of the council (approx. 8/year).
1.2	<b><u>Is the cashbook arithmetic correct?</u></b> <i>Although the arithmetic may be automatic on a computer based system it is necessary to check that additions and balancing are correct.</i>	✓			The year end and monthly accounts summaries provided from the Microsoft Excel based cashbook/accounts system.	
1.3	<b><u>Is the cashbook regularly balanced?</u></b> <i>Cashbook balances should be regularly verified against a bank statement or the actual cash in the petty cash tin.</i>	✓				

## 2. Standing Orders, Financial Regulations & Payment Controls

Question No.	Audit Question	Compliant			Audit Evidence	Comments
		YES	NO			
			A	B	C	
2.1	<b><u>Has the Council formally adopted standing orders and financial regulations?</u></b> <i>Standing Orders and Financial Regulations identify the general rules applicable at council or committee meetings and are the first steps in establishing a financial system.</i>	✓				The combined Standing Orders and Financial regulations document (SOFR), first adopted on 28/07/11 and available to view on the council's website.  The SOFR is maintained by the Clerk and is based on NALC guidelines and adapted to suit the specific needs of the council. <b>A recommendation from the previous internal audit report (2012) that the SOFR should be reviewed annually, updated as necessary and approved and minuted by the council has now been implemented.</b>

Question No.	Audit Question	Compliant				Audit Evidence	Comments
		YES	NO				
			A	B	C	N.B. Provide references to documentation reviewed where necessary	
2.2	<b><u>Has a Responsible Financial Officer been appointed with specific duties?</u></b> <i>The council must arrange for the proper administration of its financial affairs and that one of its officers has responsibility for those affairs. This officer is normally the Responsible Financial Officer (RFO)</i>	✓				The current (initial) job description for the Clerk, which recognises the specific Responsible Financial Officer (RFO) duties.	Both the Clerk, Phil Ellis and the Assistant Clerk, Lorraine Ellis, were initially appointed on an interim basis on 22/06/11 and re-appointed on 2 year fixed term contracts from April 2012.
2.3	<b><u>Have items or services above a de-minimis amount been competitively purchased?</u></b> <i>Financial Regulations or Standing Orders should detail purchasing procedure and authorisation levels and that these are adhered to in practice.</i>	✓				Financial Regulations.	The de-minimis limit recorded in the Financial Regulations for the competitive purchase of items and services is £100. Competitive tenders are required for all purchases over £10,000. A minimum of 2 quotes or tenders are required for purchases over the de-minimis limit. <b>Following recommendations made in the previous internal audit it was noted that:</b> <b>1. The de-minimis limit for competitive purchases was increased to £300</b> <b>2. The de-minimis limit at which competitive tenders had to be obtained was increased from £10,000 to £50,000.</b>
2.4	<b><u>Are payments in the cashbook supported by invoices, authorised &amp; minuted?</u></b> <i>The supporting paperwork should confirm that there is a fully approved invoice and authorisation for payment.</i>	✓				Invoice file reviewed and checked through to entry into the cashbook.  Payment listing to council.  Minutes.	All pending expenditure payments are presented to the next council meeting for approval, amendment or deletion. The relevant cheques for these payments are also presented for signature by 2 approved council members. All payments are then recorded in the council minutes and signed off at the next council meeting.

Question No.	Audit Question	Compliant			Audit Evidence	Comments	
		YES	NO				N.B. Provide references to documentation reviewed where necessary
			A	B	C		
2.5	<b><u>Has VAT on payments been identified, recorded and reclaimed?</u></b> <i>VAT should be identified appropriately for reclaim and VAT returns submitted on a reasonable and regular time scale.</i>	✓			Invoice file reviewed to check VAT entered correctly.	The council is able to recover VAT through the Local Authorities and Similar Bodies Scheme (VAT section 33). A claim for repayment of VAT is made as and when there is a significant amount to reclaim which is normally annually. <b>A recommendation from the previous internal audit that VAT receipts should be obtained for applicable petty cash expenditure has been implemented.</b>	
2.6	<b><u>Is S137 expenditure separately recorded and within statutory limits?</u></b> <i>There is a statutory requirement to maintain a separate account for S137 expenditure and to keep with the cash limit based on a per capita rate for the total on the electoral role.</i>	✓			A separate account in the cashbook to record S137 expenditure. <b>NB: This was implemented following a previous internal audit recommendation.</b>	For the current audit year the current maximum allowable spend on S137 expenditure was approx. £22,900, based on an approx. electoral role of 3,300 and a per capita spend of £6.80. The total S137 spend in the current year was £17, for an Armistice Day wreath.	

### 3. Risk Management Arrangements

Question No.	Audit Question	Compliant			Audit Evidence	Comments	
		YES	NO				
			A	B			C
					N.B. Provide references to documentation where necessary		
3.1	<u>Does a review of the minutes identify any unusual financial activity?</u> <i>All significant financial activity, both regular and otherwise should be minuted by the council.</i>	✓			Scan of minutes of council, both on-line via the village web site and the Minutes file.	There are no formal sub-committees of the council. No unusual activity was found in the minutes reviewed. There were no confidential minutes, other than those which related to staffing matters.	

Question No.	Audit Question	Compliant				Audit Evidence	Comments
		YES	NO				
			A	B	C	N.B. Provide references to documentation where necessary	
3.2	<p><b><u>Do the minutes record the Council carrying out an annual risk assessment?</u></b></p> <p><i>An annual risk assessment will identify the risks associated with what the council does and the services it provides and the steps taken to successfully manage the consequences.</i></p>	✓				Review of current risk assessment.	The initial risk assessment dates from 08/06/11 and a recommendation from the previous internal audit report that annually this document should be reviewed, updated as necessary and the review process minuted has been implemented.
3.3	<p><b><u>Is insurance cover appropriate and adequate?</u></b></p> <p><i>Insurance is one of the key components of managing risk.</i></p>	✓				Review of detailed audit schedule	The insurance is renewed annually on 1 <sup>st</sup> July. For 2012 quotes were obtained from Zurich, the existing insurers and also brokers Came & Co, in order to get best value, in line with a recommendation from the previous internal audit report. Came & Co place the insurance through Aviva. The level and range of insurance cover appears to be adequate for the size of the council.
3.4	<p><b><u>Are internal financial controls documented and regularly reviewed?</u></b></p> <p><i>Documented internal controls should be in addition to those stipulated in the Standing Orders and Financial Regulations.</i></p>	✓				Standing Orders & Financial Regulations	Internal financial controls are not documented specifically, but the majority of the financial controls applied are covered under the Standing Orders and Financial Regulations.

#### 4. Budgetary controls

Question No.	Audit Question	Compliant			Audit Evidence	Comments
		YES	NO			
			A	B	C	
4.1	<b>Has the council prepared an annual budget in support of its precept?</b> <i>There should be verification that a budget has been properly prepared by the council and adopted in setting the precept</i>	✓			Copy of detailed budget for 2012/13	This 2 <sup>nd</sup> annual budget was prepared ‘in-house’ by the Clerk and approved by the council on 19/01/12 with a precept of £31,050.
4.2	<b>Is actual expenditure against budget regularly reported to the Council?</b> <i>The regular reporting of expenditure and variances from budget is a key part of the proper control of public money. Budgetary control should ensure adequate, but not excessive, reserves or balances.</i>	✓			Review of financial statements	During 2012/13 quarterly financial statements were presented to council for review.
4.3	<b>Are there any significant unexplained variances from budget?</b> <i>Reasons for significant (+/-10%) variance from budget should be reported to council.</i>	✓			Review of financial statements	During 2012/13 the council has accumulated balances for community priorities, earmarked reserves (elections) and contingencies. When key aspects of the community priorities have been completed the council will carry out an in-year review of budget allocations.

## 5. Income Controls

Question No.	Audit Question	Compliant		Audit Evidence		Comments	
		YES	NO				
			A	B	C		N.B. Provide references to documentation where necessary
5.1	<b><u>Is income properly recorded and promptly banked?</u></b> <i>Responsibilities should be clearly identified for the receipt and recording of cash and for banking as soon as possible.</i>	✓				Receipts reviewed and checked through to entry into the cashbook.	Outside of the precept the council has minimal other income, apart from bank interest received and the periodic VAT reclaim. In 2012/13 there was no other significant interest received. For any such income a receipt will be issued and the monies banked correctly.
5.2	<b><u>Does the precept recorded agree to the Council Tax authority's notification?</u></b> <i>The precept is the normally largest item of a council's income and should be recorded separately in the cash book/accounts.</i>	✓				Precept notification from North West Leics District Council. Bank statements and cash book entries.	The precept was received in 2 instalments in April and September. The total precept received for 2012/13 was £31,000.
5.3	<b><u>Are security controls over cash and near-cash adequate and effective?</u></b> <i>Cash income requires greater control through issuing of receipts and the segregation of duties of raising invoices and receiving/banking cash. There should be an effective system of control of investments.</i>	✓				Email from the bank confirming the cheque signatories.  Email correspondence from the bank relating to the bank mandate (see Comments)	The Clerk is responsible for receiving, balancing, authorising and banking any cash and cheques received. A bank mandate has been prepared by the council nominating 4 council members as signatories, with any 2 from 4 required to sign cheques. The Clerk is not a cheque signatory but is recognised by the bank for administrative purposes. The council signatories on the bank mandate submitted are still all council members at 31/03/13. Requests have been made to HSBC bank for an updated copy of the bank mandate but an email reply states that ' <i>the system does not allow us to print the mandates off</i> '.

## 6. Petty Cash Procedures

Question No.	Audit Question	Compliant			Audit Evidence	Comments
		YES	NO			
			A	B	C	
6.1	<b><u>Is all petty cash spent recorded and supported by VAT invoices/receipts?</u></b> <i>There should be an established system of petty cash control rather than ad-hoc reimbursement.</i>				Financial Regulations	<b>Not applicable.</b> The council does not operate any petty cash floats. Any small expenditure items incurred will normally be paid personally by the Clerk and reimbursed through a business expense claim. <b>NB: Section 6.5 of the Financial Regulations states that ‘The Council will maintain a small cash float’.</b>
6.2	<b><u>Is petty cash expenditure reported to each Council meeting?</u></b> <i>The council should have a system for the regular approval of petty cash expenditure.</i>					
6.3	<b><u>Is petty cash reimbursement carried out regularly?</u></b> <i>It is recommended that in addition to regular reimbursement there should be an occasional independent check of the cash balances and agreement to the up-to-date records.</i>					



## 7. Payroll Controls

Question No.	Audit Question	Compliant			Audit Evidence	Comments
		YES	NO			
			A	B	C	
7.1	<b><u>Do all employees have contracts of employment, with clear terms and conditions?</u></b> <i>Contracts of employment should be issued to and signed by all employees and amended as necessary. A job description can be included as part of the contract of employment.</i>	✓			Fixed term contracts of employment for the 2 council employees; the Clerk and the Assistant Clerk.	The Clerk and the Assistant Clerk were both appointed on 2 year fixed term contracts commencing April 2012. The contracts were for fixed hours; the Clerk 10 hours per week and the Assistant Clerk 8.5 hours per week.
7.2	<b><u>Do salaries paid agree with those approved by the council?</u></b> <i>Council should agree the salary to be paid to all new employees and all salary amendments for existing employees. Actual salaries paid should also be approved by the council.</i>	✓			Payroll file (from HMRC Online Tools payroll system).	The Online Tools payroll software was implemented in July 2011. The Clerk is responsible for preparing the monthly payroll and the salary cheques. Council approve salaries for payment. Salaries are approved within the setting of the annual budget and are based on a fixed monthly salary plus any contractually agreed adjustments.
7.3	<b><u>Are other payments to employees reasonable and approved by the council?</u></b> <i>It should be established whether a person is employed by the council or can be regarded as a contractor. Improper payment of wages and salaries, together with a lack of proper deduction of PAYE and NI is one of the greatest areas of risk for council.</i>	✓			Contracts of Employment.  Council minutes.	Minute 228(a) of the January 2013 council meeting amended the Clerks contract of employment in respect of reimbursement of expenses incurred to ensure compliance with HMRC guidelines. As a result of this the Clerk now receives £18 per month allowance for working from home, receives a pay as you go mobile phone, is paid £0.45p per mile for business use of own car and reimbursed for out of pocket expenses e.g. stationery.
7.4	<b><u>Has PAYE/NIC been properly operated by the Council as an employer?</u></b> <i>PAYE and NIC should be correctly deducted from gross pay and paid over to HMRC by the stipulated date, to ensure penalties do not arise. Changes to PAYE/NIC procedures by HMRC should be implemented correctly and timely.</i>	✓			Payroll file.	Monthly and year-end PAYE/NI deductions and returns were submitted online to HMRC. There were no errors recorded. From April 2012 the council appears to be in a position to submit Real Time Information (RTI) online as required by HMRC for all employers.

## 8. Asset Controls

Question No.	Audit Question	Compliant		Audit Evidence		Comments	
		YES	NO				
			A	B	C		
			N.B. Provide references to documentation where necessary				
8.1	<p><b><u>Does the council maintain a register of all material assets owned or in its care?</u></b></p> <p><i>Dependent on the size of the council the asset register can be either hand written, typed or computer produced. For investments, the register should record details of cost, values and expected income.</i></p>	✓				Asset Register (Excel)	<p>The Clerk is responsible for maintaining the Asset Register.</p> <p>The council does not hold any investments.</p> <p>A recommendation from the previous year’s internal audit to apply a minimum value of £50 for an asset to be listed on Asset Register was implemented.</p> <p>A separate list of items below £50 is maintained for control purposes.</p>
8.2	<p><b><u>Are the assets and investment registers up to date?</u></b></p> <p><i>There should be evidence that the continuing existence of owned and managed assets is checked on a regular basis.</i></p>	✓				Asset Register	<p>The Asset Register was up to date as at the year end.</p>
8.3	<p><b><u>Do asset insurance valuations agree with those in the asset register?</u></b></p> <p><i>Asset values recorded in the register should confirm that insurance cover is adequate and sufficient.</i></p>	✓				Asset Register  Insurance schedule	<p>For each asset listed in the Asset Register both the original cost and the current insurance value are listed. The latter will be up dated annually in line with the current insurance valuation.</p>

## 9. Bank Reconciliation

Question No.	Audit Question	Compliant				Audit Evidence	Comments
		YES	NO				
			A	B	C	N.B. Provide references to documentation where necessary	
9.1	<b><u>Is there a bank reconciliation for each account?</u></b> <i>A key feature of the council's financial controls will be the reconciliation of the balances shown in the bank statements (for all current and deposit accounts) with those calculated in the council's financial records.</i>	✓				Bank statements.  Bank reconciliations.	The council holds 2 bank accounts: HSBC Community (current) account. 401801/61468006, opened 15/07/11. Bank statements received monthly. HSBC Community Savings account. 401801/61468014, opened 10/08/11. Bank statements received monthly. The Assistant Clerk is responsible for preparing the bank reconciliations. The Clerk is responsible for checking and authorising the bank reconciliations.
9.2	<b><u>Is a bank reconciliation carried out regularly and in a timely fashion?</u></b> <i>It is strongly recommended that on receipt of a bank statement, there should be a reconciliation of the appropriate cash book/account record.</i>	✓				Bank statements.  Bank reconciliations.	Both bank accounts are reconciled monthly on receipt of the statement. <b>This follows a recommendation in the previous year's internal audit report.</b>
9.3	<b><u>Are there any unexplained balancing entries in any reconciliation?</u></b> <i>As part of internal control council should review the bank reconciliations and sign off the reconciliation form and bank statements</i>	✓				Bank statements.  Bank reconciliations.	No unexplained balancing entries were identified on the reconciliation
9.4	<b><u>Is the value of investments held summarised on the reconciliation?</u></b> <i>For investments held (excluding bank &amp; building society accounts) the reconciliation should include a note of the historic cost. This will enable the council to effectively monitor investment funds performance.</i>						Not applicable no investments held.

### 10. Year-end Procedures

Question No.	Audit Question	Compliant			Audit Evidence	Comments	
		YES	NO				
			A	B	C		N.B. Provide references to documentation where necessary
10.1	<b><u>Are year-end accounts prepared on the correct accounting basis?</u></b> <i>Where gross income or expenditure has exceeded £200,000 for 3 continuous years, the council should report (on S1 of the Annual Return) on an income and expenditure basis from the 3<sup>rd</sup> year on. Councils operating below the £200,000 threshold may choose to report either on an income and expenditure basis or on a receipts and payments basis.</i>	✓				Receipts and Payments Accounts summary and detailed listing.	Day to day and year end accounts are prepared on a Receipts and Payments basis.
10.2	<b><u>Do accounts agree with the cashbook?</u></b> <i>Final accounts reported to council should agree to the accounts reported in S1 of the Annual Return and be should be reconcilable to the year-end cash book/accounts trial balance.</i>	✓				Receipts and Payments Accounts summary.  Annual Return section 1.	The Clerk is responsible for reconciling the cash book and year end accounts. The data entered onto section 1 of the Annual Return agreed to the year-end Receipts and Payments Accounts summary.
10.3	<b><u>Is there an audit trail from underlying financial records to the accounts?</u></b> <i>An effective audit trail will show that basic data in the cash book/accounts can be followed through to the production of the final accounts.</i>	✓				Receipts and Payments Accounts summary and detailed listing	The Excel based accounting system provides a satisfactory audit trail to the underlying financial records.

Question No.	Audit Question	Compliant			Audit Evidence	Comments
		YES	NO			
			A	B	C	
10.4	<b><u>Where appropriate, have debtors and creditors been properly recorded?</u></b> <i>A system should be in place for identifying outstanding amounts (receivable and payable) and then for deciding on their materiality for inclusion in the income and expenditure accounts.</i>	✓				Verbal assurance.  Although not recorded in the Receipts and Payments Accounts (i.e. cash based accounts), no outstanding debtors or creditors were identified at the year end.

### 11. Safeguarding Public Money (as per JPAG guidance 20120725)

Question No.	Audit Question	Compliant				Audit Evidence	Comments
		YES	NO				
			A	B	C	N.B. Provide references to documentation where necessary	
11.1	<b><u>Does the council have safe and efficient arrangements to safeguard public money?</u></b> <i>Following the repeal of s150(5) of the Local government Act 1972, councils applying effective controls may safely take advantage of modern payments methods while protecting public assets in their care.</i>		✓			Internal audit review.  Minutes	See section 9 above. It is noted in the minutes that approval has been given to pay staff salaries by BACS transfer rather than cheque as from April 2012. See recommendation in the internal audit report.
11.2	<b><u>Does the council review regularly the effectiveness of their arrangements to protect money?</u></b> <i>The council is responsible for putting arrangements in place to safeguard public funds and may delegate this role to a council officer e.a. the RFO.</i>	✓				Bank reconciliation statements.	Bank reconciliation statements are presented to the council on a quarterly basis for review, approval and minuting.

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Question No.	Audit Question	Compliant				Audit Evidence	Comments
		YES	NO				
			A	B	C	N.B. Provide references to documentation where necessary	
11.3	<b><u>Are controls over money embedded in Standing Orders and Financial Statements?</u></b> <i>The council must identify and protect income and expenditure and the money represented by each.</i>					Standing Orders.  Financial Regulations.	See: Standing Orders ; Sect 4.4  See Financial Regulations, all sections.
11.4	<b><u>Are 2 council member signatures required for cheques and other orders for payment?</u></b> <i>Council must not relinquish the ‘2 member’s signatures’ rule until safe and efficient arrangements have been put in place.</i>	✓				Financial regulations.  Internal audit review.	See Financial Regulations section 5.4.  See section 2.4 above
11.5	<b><u>Does the council approve the setting up and any changes to accounts with banks and other financial institutions?</u></b> <i>Whilst the council has delegated the responsibility for financial administration to the Clerk or the RFO it must approve all changes to banking arrangements.</i>	✓				Internal audit review.  Financial Regulations	See section 5.3 above.  Section 5.1 of the Financial Regulations states that ‘the Council’s banking arrangements shall be made by the RFO and approved by the Council’.
11.6	<b><u>If corporate credit cards are held are they operated within defined limits and cleared monthly by direct debit from the main bank account?</u></b> <i>Councils should avoid the use of credit cards if possible as they are difficult to control and present unnecessary risks to public funds.</i>						<b>Not applicable.</b> The council does not hold any corporate credit cards. The Clerk may on occasions use his own personal credit card to make small value purchases in lieu of a petty cash float. See section 6.1 above.

Question No.	Audit Question	Compliant			Audit Evidence	Comments	
		YES	NO				
			A	B	C		N.B. Provide references to documentation where necessary
11.7	<p><b><u>Does the council approve every bank mandate, all authorised signatures, authority limits and amendments to mandates?</u></b></p> <p><i>Where multiple accounts are held authorised signatories should not be concentrated for any length of time among just a few council members but allocated widely. Authorised signatories should be rotated.</i></p>	✓				Internal audit review.	See section 5.3 above. A bank mandate signed by 4 members of council has been submitted to the bank. No amendments have been necessary since this original mandate was submitted but any changes would need to be approved by the council

## 12. Other Matters

Question No.	Audit Question	Compliant			Audit Evidence	Comments
		YES	NO			
			A	B	C	
12.1	<p><b><u>Is the council a trustee, or involved in the administration of any charity.</u></b></p> <p><i>If a charity is an ecclesiastical charity or a charity for the relief of poverty, councils are prohibited from acting as trustees of such charities. In all other cases there should be no conflict of interest between the roles of the council as charity trustee and its statutory role e.g. a contractual relationship between the charity and the council, or where the council in it'd statutory role will receive any undue benefit.</i></p>					<b>Not applicable.</b> The council is not a trustee of nor involved in the administration of any charity.