

## RYE TOWN COUNCIL

### INTERNAL AUDITOR TERMS OF REFERENCE

#### BACKGROUND & CONTEXT

Local councils have a duty, under the Accounts and Audit Regulations 2003 (as amended), to maintain an adequate and effective system of internal audit of their accounting records and of their systems of internal control in accordance with the proper practices in relation to internal control\*.

\* Reg 6(1), Accounts & Audit (Amendment)(England) Regulations 2003 as amended.

The Council will re/appoint an internal auditor annually who satisfies the principles of independence and competence. The appointee will receive a letter of appointment which sets out the terms of their appointment. The appointee will be remunerated. The appointment itself and the rate of remuneration will be minuted.

Every year, the Council will conduct a review of the effectiveness of its system of internal audit\* The Council will consider, at an appropriate time, the findings of the review and incorporate them within its relevant financial procedures documentation.

\* Reg 6, Accounts & Audit (Amendment)(England) Regulations 2003 as amended.

#### OVERALL PURPOSE OF THE INTERNAL AUDIT

- Generally: to review the Council's accounting procedures and controls and report on their compliance with the Accounts & Audit Regulations 2003 (as amended)
- To test and report (in writing) to the Council on whether its financial controls are adequate and effective, identifying any areas of weakness or concern
- To assist the Council in fulfilling its responsibility to maintain arrangements for the prevention and detection of fraud or error
- To carry out two internal audit exercises per annum: the first in October- November, the second as soon as possible after the year end (but no later than the second week of June).
- To suggest areas for improvement
- To complete Section 4 of the Annual Return

#### SCOPE OF THE AUDIT

In pursuance of the above the internal auditor shall be guided by the relevant legislation and financial regulations pertaining to the sector, the latest NALC/SLCC *Practitioner's Guide (England)*, best practice, and the Council's Internal Audit Plan - the content of which shall be agreed by both the internal auditor and the Council annually.

## RYE TOWN COUNCIL

### INTERNAL AUDIT PLAN 2010-11

Notes *This Plan is applicable to the accounts, controls and procedures of both the Town Hall and Rye Heritage Centre.*

*The Plan will be reviewed annually and amended to incorporate specific issues detected during the preceding 12 months.*

#### 1 BASIC CHECK LIST (half year exercise – Oct-Nov)

##### a) The Annual Return

- Is there a Minute showing that that the Council has formally approved the end of year accounts?
- Does the Minute accord with the information given in Section 1 of the Annual Return?
- Has the Council given members of the public the opportunity to inspect and raise questions on the accounts?
- Has the Council approved the Annual Return by the specified date (30 June)?
- Have significant variances in the Annual Return (Section 1) figures been explained?
- Was the Asset Register up-to-date and did the total concur with the figure entered in Section 1, Box 9 of the Annual Report?
- Has the Town Council published Sections 1, 2 and 3 of the Annual Return?

##### b) Budgetary process and controls

- Is progress against the budget regularly monitored and an explanation provided for significant variations?

##### c) Proper book-keeping

- Have appropriate records of account been properly kept – and are they accurate and up-to-date?

##### d) Payment controls

- Do Members regularly see a complete list of payees?
- Does all expenditure agree with the budget, Council decisions/authorisation or delegated authorisation?
- Are payments in the cash book supported by (authorised) invoices?
- Is VAT correct in the cash book, linked to invoices, and been reclaimed?
- Are Section 137 payments identified in the cash book separately and is the total expenditure within the prevailing statutory limit?
- Has the Council acted lawfully in its decision making and not exceeded its powers?

**e) Income controls**

- Has scheduled income (precept, grants, fee income etc) been fully received, based on correct fees (where relevant), properly recorded and promptly banked?
- Has other income been properly recorded and promptly banked?
- Are security controls over cash and 'near cash' (eg vouchers and stamps) adequate and effective?

**f) Petty cash procedures**

- Are all petty cash payments recorded, supported by receipts and have reimbursements been made?
- Where relevant, has VAT been recorded and reclaimed?

**g) Bank reconciliations**

- Are all bank statements – including investment statements – available?
- Are bank reconciliations carried out regularly?
- Are there any unexplained entries in any reconciliation?

**h) Payroll controls**

- Do salaries paid agree with the pay scales approved by the Council?
- Are tax, National Insurance and pension requirements properly applied?

**i) Risk management**

- Has the Council assessed the significant risks to achieving its objectives (Annual Risk Assessments), including the management of its finances – and confirmed that it has procedures in place to deal with the risks identified?

**j) Asset controls**

- Is the Assets Register up-to-date?

**k) Improvements**

- Has the Council acted on any recommendations made by the internal or external auditors?

## **2 BASIC CHECK LIST (year end exercise – by second week of June)**

### **a) Budgetary process and controls**

- Is there an adequate process for determining and approving the budget?
- Have monies been allocated in the budget to cover contingencies and are these sufficient?
- Have reserves been allocated and are they at appropriate levels?
- Is progress against the budget regularly monitored and an explanation provided for significant variations?
- Is there a minute recording the adoption of the budget/precept?

### **b) Year end controls**

- Have year end accounts been prepared on the correct basis (ie income & expenditure), agreed with the cash book, are supported by an adequate audit trail from underlying records, and debtors and creditors properly recorded?

### **c) Proper book-keeping**

- Have appropriate records of account been properly kept – and are they accurate and up-to-date?

### **d) Payment controls**

- Do Members regularly see a complete list of payees?
- Does all expenditure agree with the budget, Council decisions/authorisation or delegated authorisation?
- Are payments in the cash book supported by (authorised) invoices?
- Is VAT correct in the cash book, linked to invoices, and been reclaimed?
- Are Section 138 payments identified in the cash book separately and is the total expenditure within the prevailing statutory limit?
- Has the Council acted lawfully in its decision making and not exceeded its powers?

### **e) Income controls**

- Has scheduled income (precept, grants, fee income etc) been fully received, based on correct fees (where relevant), properly recorded and promptly banked?
- Has other income been properly recorded and promptly banked?
- Are security controls over cash and 'near cash' (eg vouchers and stamps) adequate and effective?

### **f) Petty cash procedures**

- Are all petty cash payments recorded, supported by receipts and have reimbursements been made?
- Where relevant, has VAT been recorded and reclaimed?

**g) Bank reconciliations**

- Are all bank statements – including investment statements – available?
- Are bank reconciliations carried out regularly?
- Are there any unexplained entries in any reconciliation?

**h) Payroll controls**

- Do salaries paid agree with the pay scales approved by the Council?
- Are tax, National Insurance and pension requirements properly applied?

**i) Risk management**

- Has the Council reviewed its fidelity insurance, ensuring it is adequate in comparison to Council funds and the precept?
- Has the Council reviewed its Financial Regulations, including the Council's Standing Orders relating to the purchase of goods and services?

**j) Asset controls**

- Is the Assets Register up-to-date?

**k) Reviews**

- Has the Council reviewed its system of internal control and re/issued a statement of internal control?
- Has the Council reviewed the effectiveness of its system of internal audit?

**l) Improvements**

- Has the Council acted on any recommendations made by the internal or external auditors?

## Review of the Effectiveness of Rye Town Councils' Internal Audit year ending 31 March 2010

Expected standard	Evidence of achievement	Y/N	Areas for development
<b>1</b> Scope of internal audit	<p>a) Terms of reference for internal audit were (re)approved by Council on 12.10.09 and 21.6.10</p> <p>b) Internal audit work takes into account both the Council's risk assessment and wider internal control arrangements</p> <p>c) Internal audit work cover the Council's anti-fraud and corruption arrangements</p>	<p>Y</p> <p>Y</p> <p>Y</p>	
<b>2</b> Independence	<p>a) Internal Auditor has direct access to those charged with governance</p> <p>b) Reports are made in own name to management</p> <p>c) Internal audit does not have any other role within the Council</p>	<p>Y</p> <p>Y</p>	
<b>3</b> Competence	There is no evidence of a failure to carry out internal audit work ethically, with integrity and objectivity.	Y	
<b>4</b> Relationships	<p>a) The Clerk/RFO is consulted on the internal audit plan</p> <p>b) Respective responsibilities for the Clerk/RFO and internal audit are defined in relation to internal control, risk management and fraud and corruption measures (job descriptions and engagement letter)</p> <p>c) The responsibilities of Council Members are understood; training of Members is carried out as necessary</p>	<p>Y</p> <p><b>Part</b></p>	<p>Internal audit engagement letter should be more specific in relation to defining respective responsibilities</p> <p>But Members should be encouraged to attend periodic SALC Legal &amp; Finance training days</p>
<b>5</b> Audit planning & reporting	<p>a) The annual internal audit plan properly takes account of all the risks facing the Council and has been approved by the Council on 12.10.09 and 21.6.10</p> <p>b) Internal audit has reported in accordance with the plan on 14.6.10</p>	<p>Y</p> <p><b>Part</b></p>	<p>No mid year visit</p>

Characteristics of 'effectiveness'	Evidence of achievement	Y/N	Areas for development
Internal audit work is planned	Planned internal audit work is based on risk assessment and designed to meet the Council's needs	Y	
Understanding the whole organisation, its needs and objectives	The annual audit plan demonstrates how audit work will provide assurance for the Council's Annual Governance Statement	Y	Immediate previous – and current – internal auditors were parish/town clerks
Be seen as a catalyst change	Internal audit supports the Council's work in delivering improved services to the community	Y	
Add value and assist the organisation in achieving its objectives	The Council makes positive responses to the internal audit's recommendations and follows up action where this is called for	Y	
Be forward looking	<ul style="list-style-type: none"> <li>a) In formulating the annual audit plan, national agenda changes are considered.</li> <li>b) Internal audit maintains awareness of new developments in the services, risk management and corporate governance</li> </ul>	Y Y	Internal audit has been provided with an electronic copy of the 2010 issue of <i>The Practitioner's Guide</i>
Be challenging	<ul style="list-style-type: none"> <li>a) Internal audit focuses on the risks facing the Council</li> <li>b) Internal audit encourages the Clerk/Members to develop their own responses to risks, rather than relying solely on audit recommendations</li> </ul>	Y Y	
Ensure the right resources are available	<ul style="list-style-type: none"> <li>a) Adequate resource is made available for internal audit to complete its work</li> <li>b) Internal audit understands the Council and the legal and corporate framework in which it operates</li> </ul>	Y Y	Immediate previous – and current – internal auditors were parish/town clerks

Date of review: 21.6.10