

Appendix E to Kingsley Parish Council Standing Orders

Audit of Internal Controls and Risk Assessment

1 General

1.1 The audit will comprise:

- 1.1.1 An audit of the system of internal control
- 1.1.2 An assessment of the risks to Governance and Accountability
- 1.1.3 An assessment of the effectiveness of the internal audit

2 Audit of the System of Internal Control

2.1 The key items in the system of internal control operated by the Council have been identified as:

Item	Confirmed / no evidence
2.2 The Council and the Clerk should review the Standing Orders, Financial Regulations and Risk Assessments annually	Confirmed
2.3 The Council appoint a Responsible Financial officer who is also the Clerk	Confirmed
2.4 The Clerk has a proper contract of employment	Confirmed
2.5 The minutes are kept in a properly authorised loose leaf file which allows the inclusion of supporting documents.	Confirmed
2.6 A budget is prepared for agreement at November Council Parish meeting of each year as part of the process of setting the precept and a copy of the agreed budget included in the minute file.	Confirmed
2.7 An earmarked reserve is considered for funds for contingent liabilities to include potential professional fees in relation to planning applications.	Confirmed
2.8 Management accounts are prepared regularly identifying significant variances from budget, forecast or against prior year as appropriate	Confirmed

Item	Confirmed / no evidence
2.9 The precept is paid directly into the bank and all other cheque receipts are promptly banked	Confirmed
2.10 There is no cash income or payments, including no petty cash; all transactions go through the bank	Confirmed
2.11 The Council is not obliged to accept the lowest of any tender, quote or estimate, but is responsible for obtaining value for money	Confirmed
2.12 The Council is required to invite quotations from 3 suppliers for Tender Required Expenditure (TRE). Currently TRE applies to any expenditure above £250 for normal expenditure and above £500 for urgent or emergency expenditure.	Confirmed
2.13 The Clerk may incur expenditure on behalf of the Council which is necessary to carry out any repair, replacement or other work which is of such extreme urgency that it must be done at once, whether or not there is any budgetary provision for the expenditure, subject to a limit of £50. The RFO shall report the action to the Council as soon as practicable thereafter.	Confirmed
2.14 The Chairman or vice-chairman and the Clerk may agree to incur expenditure on behalf of the council which is necessary to carry out any repair, replacement or other work which is of such extreme urgency that it must be done at once subject to a limit of expenditure for which tenders are not required.	Confirmed
2.15 An official order or letter is issued for all work, goods and services unless a formal contract is to be prepared	Confirmed
2.16 The decisions as to which contractors are to be used are minuted at Parish Council meetings	Confirmed

Item	Confirmed / no evidence
2.17 The clerk shall prepare a schedule of the payments to be authorized at a Council meeting and this will form part of the agenda for the meeting. The clerk will provide the relevant invoices for the payments to be authorized at the meeting. If the schedule is in order it shall be authorized by a resolution of the Council. The Clerk will maintain and circulate prior to a Council meeting, a schedule of all payments made or to be paid since the start of the financial year; it will list the name of the payee, the amount of the payment and the date of the meeting at which it was authorized.	Confirmed
2.18 Cheques drawn on the bank account for payment of invoices must be signed by two members of the Council, authorised signatories, neither of which is the Clerk.	Confirmed
2.19 Two Councillors initial the cheque counterfoil	Confirmed
2.20 Cheque numbers are recorded in the minutes against payments authorised.	Confirmed
2.21 The Clerk can make payment by BACS in accordance with the schedule referred to in the paragraph 2.17 above. The clerk will bring the payment instructions to the meeting for each payment to be evidenced and signed by two Council members as approved. The Clerk retains the signed instructions in the Council records. The Clerk will, where possible, date the payment instructions to be made after the Council meeting; however when this is not possible (ie when payments are due to be made before a Council meeting) the Clerk can make the payments and they can be approved at the next Council meeting after the payment has been made.	Confirmed
2.22 Every receipt or payment in the cash book has supporting documentation (e.g. invoice) which is cross-referenced to the cheque number for payments	Confirmed
2.23 The cash book is regularly updated and reconciled to the bank statements	Confirmed
2.24 Bank reconciliations should be done, circulated and approved by the Chairman at the Council's meeting on a monthly basis.	Confirmed

Item	Confirmed / no evidence
2.25 Accounts are operated on a receipts and payments basis using a spreadsheet with cross-casting formulas to ensure arithmetical accuracy	Confirmed
2.26 Where a review of the layout of accounts by Chairman, Vice-Chairman and Clerk require changes to be made, a reconciliation is produced to relate to new layout to the old	Confirmed
2.27 Bank balances are minuted every month at the parish meeting	Confirmed
2.28 Bank interests should be discussed annually to get best option	Confirmed
2.29 S137 expenditure is tracked separately in the accounts	Confirmed
2.30 PAYE is being operated by the Council and the Clerk	Confirmed
2.31 The Clerk prepares the annual VAT return	Confirmed
2.32 PAYE returns are filed online	Confirmed
2.33 Preparation of the annual year end accounts and audit is undertaken by the Clerk	Confirmed
2.34 The annual return is signed by the Clerk to certify that it presents fairly the financial position of the Council at the end of year to which it relates	Confirmed
2.35 The accounts are approved by Chairman and members of the Parish Council by 30th June of each year.	Confirmed
2.36 A notice is displayed on the Parish Council notice board for a period of at least 14 days before the date on which the accounts will be made available to public inspection	Confirmed
2.37 Confirmation of appointment of internal auditor is made by Council at a council meeting	Confirmed
2.38 The Council has prepared a register of assets and has proper insurance cover	Confirmed

3 RISK ASSESSMENT

- 3.1 Risks faced by the Council are identified and tabulated with the follows following information for each identified risk:
- 3.1.1 Risk Area
 - 3.1.2 Nature of Risk
 - 3.1.3 Consequence if risk occurs (High / Medium / Low)
 - 3.1.4 Likely hood of risk occurring (High / Medium / Low)
 - 3.1.5 Management of risk – to mitigate consequence and /or likelihood of occurrence
 - 3.1.6 Required actions
 - 3.1.7 Review date (to review effects of required actions)
- 3.2 The three tables are used to help the Council classify the key risks that it faces.
- 3.3 Table 1 describes risks in areas where there may be scope to use insurance to help manage risk. The key risks include, but are not necessarily limited to:
- 3.3.1 Injury to an individual as a result of use of playground equipment; use of Council owned land at Upper and Lower Green; use of St Nicholas Chapel or Cemetery; use of land leased by the Council namely the Allotments and the Cricket Pitch; use of the bus shelter and benches owned by the Council
 - 3.3.2 Damage to property owned by the Council
 - 3.3.3 Loss caused by theft or dishonesty
- 3.4 Table 2 describes risks in areas where there may be scope to work with others to help manage risk. This particularly refers to where services are bought in by the Council from specialist external bodies and contractors. Examples of this that are considered relevant to the Council, given its small size and limited financial commitments, include insurance provision and maintenance of buildings, grounds and equipment such as St Nicholas Chapel, the cemetery and the playground. The key risks include, but are not necessarily limited to:
- 3.4.1 Selection of contractor
 - 3.4.2 Agreement of statement of work to be carried out
 - 3.4.3 Agreement of method of work, with particular emphasis on health and safety
 - 3.4.4 Arrangements for financial payments
 - 3.4.5 Sign-off that works are complete to specification
 - 3.4.6 Guarantees
- 3.5 Table 3 describes risks in areas where there may be a need to self-manage risk. Such risks felt to be relevant to the Council include:
- 3.5.1 The risk that proper financial records are not maintained or that the Council's spending is not within legal powers

- 3.5.2 The risk that requirements under employment law and regulations of the Inland Revenue and Customs and Excise are not met
- 3.5.3 The risk that inadequate budgeting may lead to an inadequate precept, restricting the Council's ability to deliver its intended provision of services and key objectives
- 3.5.4 The risk that Council business is not reported on a timely and accurate basis in the Minutes
- 3.5.5 The risk that electors may not be granted their proper rights of inspection of the Council's financial records
- 3.5.6 The risk that the register of members' interests is not properly maintained

4 Review of Effectiveness of Internal Audit

- 4.1 It was noted that it is important for councils to consider whether the internal audit is proportionate to the needs, the size and the circumstances of the council and that previously Kingsley Parish Council had made use of local residents as internal auditors. The Parish Council has decided that an internal auditor from HALC should undertake the audits for 2010 and 2011. HALC stopped providing these services in 2012 and so Eleanor Green from "Do the Numbers" was asked to undertake the internal audit for the Council for 2012.
- 4.2 The review has considered how the scope of the internal audit is set by reference to Governance and Accountability Guide
- 4.3 The Statement of Accounts (Section 1 of the Annual Return)
 - 4.3.1 The annual return is the Council's statutory statement of account and Section 1 contains key financial information. The RFO should be in a position to sign Section 1 as the officer able to demonstrate the Council's compliance and accurate recording of financial requirements over the year.
 - 4.3.2 Accounts are operated on a receipts and payments basis using a spreadsheet document with cross casting formulas to ensure arithmetical accuracy.
 - 4.3.3 Any change in the way that the accounts are presented must be reported on the annual return by adding the word "RESTATED" at the top of the prior year column in section 1 and explained by means of a note to the auditor.
 - 4.3.4 Variations in expenditure and income (variations from zero or 10 to 15 % or as specified by the external auditor) are not per se problematic but any significant variations in figures from the previous year must be explained to demonstrate their legitimacy as must any variation between boxes 7 and 8.
 - 4.3.5 Reserves should be risk-assessed, realistic and approved by the Council. Hence where reserve levels significantly exceed precept an explanation should be provided.
 - 4.3.6 Bank reconciliations must accompany the return. One important safeguard is the bank reconciliation. Regularly checking the accuracy of bank statements and comparing them to the cash book figures allows errors and irregularities

to be picked up, is an important part of the annual return process and also makes sure the Council can identify what actual funds are available at a given point in time.

- 4.3.7 The Chairman is required at the meeting at which the approval is given to sign the statement to confirm that the accounts have been approved by the Council in accordance with the Regulations.
 - 4.3.8 The accounts should be approved by 30th June.
 - 4.3.9 All sections of the annual return should be completed including writing "NIL" or "0" in any section that does not appear to apply.
 - 4.3.10 All figures in the annual return should agree to the primary financial records of the Council. The RFO must be able to show how the figures in the annual return reconcile to those in the cashbook.
 - 4.3.11 Members of the Council should expect to see this reconciliation when they are asked to approve the accounts in the annual return.
- 4.4 The Annual Governance Statement (Section 2 of the Annual Return)
- 4.4.1 At a full council meeting, councils have to make declarations in Section 2 and approve Section 1, owing to their role in safeguarding public money which they should be spending wisely and efficiently
 - 4.4.2 These statements include that the accounts and financial practices are approved, proper and lawful, that the council has appropriate and adequate internal controls and standing orders, that internal audit and external audit arrangements are in place to prevent fraud etc and the council reviews these measures at least annually, that the council has not acted ultra vires, that the legally required opportunities to examine the accounts have been advertised, that satisfactory risk management and financial impact assessment is in place, that audit reports have been audited and that information on trusts and other relevant financial facts are revealed.
- 4.5 The External Auditor's Certificate and Opinion (Section 3 of the Annual Return)
- 4.5.1 The external auditor opens the external audit process by appointing a date for the exercise of elector rights. It closes with the issue of their certificate to the Council. There are two important sections to the external auditor's report which should be noted. Top box comments contain any matters which might qualify the opinion whereas the lower box contains matters which do not affect the opinion but should nevertheless be audited by the council. An unqualified opinion is required for the purpose of the Quality Council Scheme. There are requirements relating to displaying the completed annual return and closure of the audit.
 - 4.5.2 There are deadlines specified for approval, submission and publication of accounts etc and councils must comply with these through careful timetabling and action.
- 4.6 The Report from Internal audit (Section 4 of the Annual Return)

- 4.6.1 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 council's activities and operating procedures are effective.
 - 4.6.2 The internal auditor should be competent and independent from other parts of the internal control i.e. it should not be carried out by someone within the council. It scrutinises, on an annual basis, the systems and controls in place. It is not a detailed assessment of all the procedures and documents which is what the council should ensure is in place on a regular basis to ensure any fraud or errors are identified. Councillors often act, not as the internal auditor, but as an internal controller who checks procedures and documentation regularly.
 - 4.6.3 The work of internal audit should be subject to an engagement letter on first appointment by the Council, setting out the terms of the appointment.
- 4.7 The internal audit is considered in respect of whether it added value to the Council's operations and could be judged to be effective. The external audit does not involve any scrutiny of the underlying books and records and relies purely on analytical review with reasons for variances provided by the Clerk/RFO. Given this limitation, it was felt that the scrutiny of these records and the review of the internal controls by a competent internal auditor is very important to the Council's assurance that it maintains an adequate system of internal control designed to prevent fraud and corruption and that it produces accurate year end accounts.