

## REVIEW OF EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

### APPENDIX A - Meeting the Standards

| Expected Standard               | Evidence of Achievement   | Response |
|---------------------------------|---|----------|
| 1. Scope of internal audit      | Internal Audit Tests (Auditor provided with a pro-forma to complete called 'Internal Audit Plan')   | Yes      |
| 2. Independence                 | <ul style="list-style-type: none"> <li>- Internal Auditor has direct access to those charged with governance.</li> <li>- Reports are made in own name to management/Council via a report.</li> <li>- Auditor does not have any other role within the council.</li> </ul>  | Yes      |
|                                 |   | Yes      |
|                                 |   | Yes      |
| 3. Competence                   | No evidence that internal audit work has not been carried out ethically, with integrity and objectivity.  | Yes      |
| 4. Relationships                | <ul style="list-style-type: none"> <li>- RFO is consulted on the internal audit plan and on the scope of each audit.</li> <li>- Responsibilities for officers and internal audit are defined in relation to internal control, risk management.</li> <li>- The responsibilities of Council Members are understood; training of members is carried out as necessary.</li> </ul> | Yes      |
|                                 |   | Yes      |
|                                 |   | Yes      |
| 5. Audit Planning and reporting | <ul style="list-style-type: none"> <li>- The Internal Audit Plan properly takes account of corporate risk.</li> <li>- The plan has been approved by the Council.</li> <li>- Internal Auditor has reported in accordance with the plan.</li> </ul>   | Yes      |
|                                 |   | Yes      |
|                                 |   | Yes      |

### APPENDIX B - Characteristics of Effectiveness

| Characteristics of 'effectiveness'                         | Evidence of Achievement   | Response |
|--|---|----------|
| Internal audit work is planned                             | Planned Internal audit work is based on risk assessment and designed to meet the body's governance assurance needs.   | Yes      |
| Understanding the Council's needs and objectives           | The annual audit plan demonstrates how audit work will provide assurance in relation to the body's annual governance statement.   | Yes      |
| Be seen as a catalyst for change                           | Supportive role of audit for corporate developments such as corporate governance review, risk management and ethics.  | Yes      |
| Add value and assist the Council to achieve its objectives | Demonstrated through positive Council response to recommendations and follow up action where called for.  | Yes      |
| Be forward looking   | Changes on national agenda are considered when the Internal Audit guidance is reviewed. Internal audit maintains awareness of new developments in the services, risk management and corporate governance.                                     | Yes      |
| Be challenging   | Internal audit focuses on risks and encourages managers/members to develop their own responses to risks, rather than relying solely on audit recommendations. The aim of this is to encourage greater ownership of the control environment.   | Yes      |
| Ensure the right resources are available                   | <ul style="list-style-type: none"> <li>- Adequate resource is made available for internal audit to complete its work.</li> <li>- Internal auditor understands the body and the legal and corporate framework in which it operates.</li> </ul> | Yes      |
|  |   | Yes      |

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### AUDIT PLAN INTERNAL AUDITOR

| Internal Control  | Suggested test  | Response |
|---|---|----------|
| Proper bookkeeping  | <ul style="list-style-type: none"> <li>- Is the cashbook maintained and up to date?</li> <li>- Is the cashbook arithmetic correct?</li> <li>- Is the cashbook regularly balance?</li> </ul>   |          |
| a) Standing Orders and Financial Regulations<br>b) Payment controls | <ul style="list-style-type: none"> <li>- Has the Council formally adopted standing orders and financial regulations?</li> <li>- Has a Responsible Financial Officer been appointed with specified duties?</li> <li>- Have items or services above a de minimis amount been competitively purchased?</li> <li>- Are payments in the cashbook supported by invoices, authorised and minuted?</li> <li>- Has VAT on payments been identified, recorded and reclaimed?</li> <li>- Is s137 expenditure separately recorded and within statutory limits?</li> </ul> |          |
| Risk management arrangements  | <ul style="list-style-type: none"> <li>- Does a scan of minutes identify any unusual financial activity?</li> <li>- Do the minutes record the council carrying out an annual risk assessment?</li> <li>- Is insurance cover appropriate and adequate?</li> <li>- Are internal financial controls documented and regularly reviewed?</li> </ul>  |          |
| Budgetary controls  | <ul style="list-style-type: none"> <li>- Has the Council prepared an annual budget in support of its precept?</li> <li>- Is actual expenditure against the budget regularly reported to the Council?</li> <li>- Are there any significant unexplained variances from budget?</li> </ul>   |          |
| Income controls   | <ul style="list-style-type: none"> <li>- Is income properly recorded and promptly banked?</li> <li>- Does the precept recorded in the cashbook agree to the District Council's notification?</li> <li>- Are security controls over cash adequate and effective?</li> </ul>  |          |
| Petty cash procedures   | <ul style="list-style-type: none"> <li>- Is all petty cash spent recorded and supported by VAT invoices/receipts?</li> <li>- Is petty cash expenditure reported to each Council meeting?</li> <li>- Is petty cash reimbursement carried out regularly?</li> </ul>   | N/A      |
| Payroll controls  | <ul style="list-style-type: none"> <li>- Do salaries paid agree with those approved by the Council?</li> <li>- Are other payments to the Clerk reasonable and approved by the Council?</li> <li>- Has PAYE/NIC been properly operated by the Council as an employer?</li> </ul>   |          |
| Asset controls  | <ul style="list-style-type: none"> <li>- Does the Council keep an asset register of all material assets owned?</li> <li>- Are the Asset/Investments registers up to date?</li> <li>- Do asset insurance valuations agree with those in the asset register?</li> </ul>   |          |
| Project Management Practices  | <ul style="list-style-type: none"> <li>- Review projects against Project Management Plans</li> </ul>  |          |
| Bank reconciliation   | <ul style="list-style-type: none"> <li>- Is there bank reconciliation for each amount?</li> <li>- Is bank reconciliation carried out regularly on the receipt of statements?</li> <li>- Are there any unexplained balancing entries in any reconciliation?</li> </ul>   |          |
| Year end procedures   | <ul style="list-style-type: none"> <li>- Are year-end accounts prepared on the correct accounting basis (R&amp;P)?</li> <li>- Do accounts agree with the cash book?</li> <li>- Is there any audit trail from underlying financial records to the accounts?</li> </ul>   |          |

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