REVIEW OF INTERNAL AUDIT PROCEDURES AND APPOINTMENT OF INTERNAL AUDITOR

1.0 Background

1.1. In March 2019 the Council reviewed the scope of Internal Audit procedures required for incorporation into a request for quotation to appoint an Internal Auditor.

1.2. The document is reproduced below for the Council to review.

1.3. The Council subsequently appointed the current Internal Auditor in July 2019 for a 3 year contract subject to satisfactory completion of year 1. The cost for Year 1 was £850 split equally between the interim and final Audits.

1.4. Following the recent visit the Clerk has discussed with the Internal Auditor about the incorporation of an additional visit during the year to enable more transactional checking.

RECOMMENDATIONS
(i) To review the Internal Audit procedures as detailed below.
(ii) To recommend whether to continue with the appointment of the current Internal Auditor for Years 2 and 3.

Internal Audit Contract - Keynsham Town Council
2019/2020, 2020/2021 and 2021/2022 Financial Years

As a smaller authority, Keynsham Town Council is required under Regulation 5(1) of the Accounts and Audit Regulations 2015 to 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.'

The Town Council is therefore seeking to engage an Internal Auditor for the 2019/2020 financial year and subject to satisfactory progress, also to offer the subsequent 2020/2021 and 2021/2022 financial years to review and report to the Council whether its systems of financial and other internal controls over its activities and operating procedures are effective and in accordance with the most recently published statutory and non-statutory guidance as issued by the Joint Panel on Accountability and Governance (currently March 2018)

Key Principles

- The Town Council needs the successful applicant to show that they are independent from the management of financial controls and procedures of the Council.
- The person or persons carrying out internal audit must also evidence that they are competent to carry out the role.

Essential competencies would include:

- understanding bookkeeping and accounting processes including income/expenditure accounting utilising Rialtas Omega software;
- understanding the role of internal audit in reviewing systems;
- awareness of relevant risk management issues; and

- understanding accounting requirements within the legal framework and powers of Category 2 local councils;
- Experience of Internal Audit of Town Councils with expenditure exceeding £500k.

Scope of Audit
As a Category 2 authority with expenditure over £25k but below £6.5m, Keynsham Town Council is obliged to complete an Annual Governance and Accountability Return (AGAR).

The Council's Internal Auditor will be required to complete the Internal Audit report in the Council's AGAR which requires assurances in 10 separate areas.

1) Appropriate accounting records have been properly kept throughout the financial year.
2) The authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.
3) The authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.
4) The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.
5) Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.
6) Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.
7) Salaries to employees and allowances to members were paid in accordance with this authority's approvals, and PAYE and NI requirements were properly applied.
8) Asset and investments registers were complete and accurate and properly maintained.
9) Periodic and year-end bank account reconciliations were properly carried out.
10) Accounting statements prepared during the year were prepared on the correct accounting basis(receipts and payments or income and expenditure), agreed to the cash book, supported by an adequate audit trail from underlying records and where appropriate debtors and creditors were properly recorded.

The scope of the Internal Audit should therefore include (but not be limited to) a review of the following:
a) The Town Council's Standing Order and financial regulations.
b) The Town Council's arrangements to safeguard public money safely and efficiently including procedures and controls for recording and administration of
- payment of accounts,
- income receipts,
- cash handling including petty cash,
- debt collection.

c) Town Council Accounting Records and Bank Reconciliations.
d) Precept determination and budgetary control.
e) Salaries and PAYE.
f) VAT.
g) Fixed assets and equipment.
h) Investments, loans and long term liabilities.
i) Town Council general and ear-marked reserves.
j) Assessment and Management of Risk including Insurance Cover.
k) Corporate Governance (Committee and Council minutes to ensure decisions are taken lawfully).

l) Year End procedures.

Reporting and timetable

The Town Council's Financial Year runs from 1st April to 31st March. The Internal Auditor is expected to provide an interim report at approximately month 7 and a final report following year end in sufficient time to enable the Town Council to approve the report and AGAR at its Annual Town Council meeting in mid-May.

The report should include:

• Description and scoping of the risk areas covered;
• Prioritisation of any recommendations;
• A conclusion about the overall adequacy and effectiveness of the council's internal control arrangements; and
• Management's draft response including a recommended action plan identifying individual responsibilities and timing.