



# **External & Internal Audit Policy**

## **Diss Town Council**

Adopted by Full Council on 13/03/2023

Resolution No: FC/

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## 1. Principles

- 1.1 **Diss Town Council, under section 3 of the Accounts and Audit (England) Regulations 2015, must establish a robust internal control system to facilitate effective functions, achieve objectives, and ensure sound financial and operational management, including risk management.**

### *Internal Audit*

- 1.2 Smaller authorities, as per Regulation 5(1) of the Accounts and Audit Regulations 2015, must conduct regular internal audits, aligning with public sector internal auditing standards, to assess the effectiveness of risk management, control, and governance processes.
- 1.3 Internal audit, a vital part of the internal control system, aims to assess the effectiveness of a council's financial and internal controls. It must be independent, with auditors competent to meet the council's business needs.
- 1.4 Internal audit entails periodic independent reviews of a council's internal controls, providing assurance reports to enhance efficiency and effectiveness in controlled activities and procedures.

### *External Audit*

- 1.5 Parish and Town Councils in the UK are required to undergo external audits to ensure transparency, accountability, and compliance with financial regulations. The legislation governing this process is primarily outlined in the Local Audit and Accountability Act 2014 – Accounts and Audit Regulations 2015.
- 1.6 The external auditor is independently appointed and is currently PKF Littlejohn LLP. The external auditor examines the Annual Return and other documents relating to Diss Town Council's internal controls which are specifically requested to give them a limited assurance.

## 2. Practice

- 2.1 It's recommended to conduct two internal audits in the financial year to ensure the ongoing adequacy of internal controls.
- 2.2 Councils should tailor internal audits to their needs, size, and circumstances.
- 2.3 Councils, based on complexity, should define control objectives in standing orders and financial regulations. The audit scope widens with increased organizational complexity.
- 2.4 Councils determine the internal audit's necessary scope and extent, ensuring it aligns with their specific requirements.
- 2.5 Regardless of procurement, local councils must adhere to two key principles in establishing their internal audit: independence and competence.
- 2.6 Independence in internal audit means avoiding involvement in financial decision-making and refraining from offering advice on financial matters.
- 2.7 Essential competencies for internal auditors include basic bookkeeping, understanding internal audit roles, awareness of risk management, and comprehension of accounting requirements within the legal framework.

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### **3. Scope**

- 3.1 Internal audit covers the entire spectrum of the council's activities, ensuring policy implementation, upholding values, legal compliance, process adherence, accurate financial information, and efficient resource management.
- 3.2 The audit scope may expand based on identified weaknesses, including investigations, executive committee requests, and additional work on planned activities.

### **4. Roles and responsibilities**

#### ***Diss Town Council***

- 4.1 To fulfil internal audit responsibilities, Diss Town Council (DTC) conducts annual reviews of its internal control systems, appoints an independent and competent internal auditor, and ensures proportionality to the Council's size and complexity.
- 4.2 The Town Council provides the internal auditor access to the necessary documents and personnel for effective audits.

#### ***Internal Auditor***

- 4.3 The Internal Auditor conducts at least two audits per financial year, providing assurance reports to enhance the Council's controlled activities and procedures.
- 4.4 If unable to complete any section in the Annual Return, the Internal Auditor provides an explanation.
- 4.5 Internal Audit has unrestricted access to review financial and officer controls, compliance with policies, safeguarding of assets, reliability of financial information, integrity of computer systems, risk management, corporate governance, and identified areas for improvement.
- 4.6 The Internal Auditor presents reports to the Town Council summarizing work, significant findings, agreed actions, and recommendations after each audit

#### ***Terms of Engagement***

- 4.7 Internal audit engagements are governed by an appointment letter covering roles and responsibilities, audit planning, terms of reference, reporting requirements, assurances on independence and competence, access to information, engagement period, remuneration, and other relevant matters

**Terms of Reference**

**Internal Auditor’s Terms of Reference – Mid Year**

Main Areas of Focus	Specific Point of Audit Review
General Systems	<p>Financial Management</p> <p>Risk Management</p> <p>Adherence to Legislation</p> <p>Standing Orders and Council’s Procedures and Internal Controls</p> <p>Do activities match the Council’s Policies and Values?</p> <p>Identify Fraud and Corruption Risks</p> <p>Review the Effective and Efficient Management of the Council Resources</p>
Payment Controls	<p>Do Councillors who authorise payments see a complete list of payees before they authorise payment of accounts each month?</p> <p>Does the amount of money that they authorise agree with the amount of money recorded in the minutes?</p> <p>Are payments in the cash book supported by invoices, authorised and minuted?</p> <p>Where cheques have been issued for payment, have they been signed in accordance with financial regulations?</p> <p>Has the Council acted lawfully in its decision making and not exceeded its powers?</p>
	<p>Do all employees have contracts of employment with clear terms and conditions?</p> <p>Do salaries paid agree with those approved by the Council</p> <p>Are other payments to employees reasonable and approved by the Council?</p> <p>Have PAYE/NIC been properly operated by the Council’s and employee them?</p>
Bank Reconciliation	<p>Is there a bank reconciliation for each account?</p> <p>Is there a bank reconciliation carried out regularly and in a timely fashion?</p> <p>Has the bank reconciliation been signed off by the Internal Controls Councillor?</p> <p>Are there any unexplained balancing entries in any reconciliation?</p> <p>Is the value of investments held/summarised on the reconciliation?</p>

**Internal Auditor’s Terms of Reference – Year End**

Internal Control	Testing Required
Proper bookkeeping	<p>Is the cashbook maintained and up to date?</p> <p>Is the cashbook arithmetic correct?</p> <p>Is the cashbook regularly balanced?</p>

A. Standing Orders & Financial Regulations adopted and applied  B. Payment Controls	<p>Has the Council formally adopted its Standing Orders &amp; Financial Regulations?</p> <p>Has a responsible officer been appointed with specific duties?</p> <p>Have items on services above the de minimus amount been competitively purchased?</p> <p>Are payments in the cashbook supported by invoices authorised and minuted?</p> <p>Has VAT on payments been identified, recorded and appropriately reclaimed?</p> <p>Is Section 137 expenditure separately recorded and within statutory limits?</p>
Risk Management Arrangements	<p>Does a review of the minutes identify any unusual financial activity?</p> <p>Do minutes record the Council carrying out an annual risk assessment?</p> <p>Is insurance coverage appropriate and adequate?</p> <p>Are internal financial controls documented and regularly reviewed?</p> <p>Has the Council assessed the significant risks to achieving its objectives relative to its management of its finances and has procedures in place to deal with this?</p>
Budgetary Controls	<p>Has the Council prepared an annual budget in support of its precept?</p> <p>Is actual expenditure against the budget regularly reported to the Council?</p> <p>Are there any significant unexplained variances from budget?</p> <p>Is the budget matched to year end outturn to enable consistent comparison of financial performance?</p> <p>Are year-end variances explained?</p>
Income Controls	<p>Is income properly recorded and properly banked?</p> <p>Does the precept recorded agree to the Council Tax authorities' notification?</p> <p>Are security controls over cash and other receipts adequate and effective?</p> <p>Is there a system for regular income collection?</p> <p>Are unpaid invoices chased?</p>
Petty Cash Procedures	DTC do not use petty cash.
Payroll Controls	<p>Do all employees have contracts of employment with clear terms and conditions?</p> <p>Do salaries paid agree with those approved by the Council?</p> <p>Are other payments to employees reasonable and agreed by the Council?</p> <p>Has PAYE and NIC been properly operated by the Council as an employer?</p> <p>Are employee records maintained in respect of changes to contracts?</p>
Asset Controls	<p>Does the Council maintain a register of all material assets owned or in its care?</p> <p>Are the assets and investments register up to date?</p> <p>Do asset insurance valuations agree with those in the asset register?</p>

Bank Reconciliation	<p>Is there a bank reconciliation for each account?</p> <p>Are bank reconciliations carried out regularly and in a timely fashion?</p> <p>Are there any unexplained balancing entries in any reconciliation?</p> <p>Is the value of investments held summarised on the reconciliation?</p> <p>Has a year-end reconciliation been carried?</p>
Year End Procedures	<p>Are year-end accounts prepared on an income and expenditure basis?</p> <p>Do accounts agree with the cash book?</p> <p>Is there an audit trail for underlying financial records to the accounts?</p> <p>Has debtors and creditors been properly recorded?</p> <p>Has the Council met its responsibilities as trustees?</p>
Improvements	<p>Has the Council acted on the recommendations and comments of the internal and external auditors?</p>

## INTERNAL AUDIT SERVICE FOR DISS TOWN COUNCIL

## AUDIT PROGRAMME – 2023/24

I certify that I have carried out the tests detailed below in accordance with the suggested approach contained in the March 2019 edition of “Governance and Accountability in Local Councils in England and Wales – A Practitioners Guide”

Signed.....

Date.....

1 Internal Control	2 Tests	3 Tick if Yes	4 Comments/Recommendations
Previous Internal / External Audit Report	Do the minutes record that Council has considered the Internal Audit / External Report for the previous year and the matters arising addressed?		
Proper bookkeeping	Is the cashbook maintained and up to date?		
	Is the cashbook arithmetically, correct?		
	Is the cashbook regularly balanced?		
Standing Orders and Financial Regulations	Has a Responsible Financial Officer been appointed?		
	Are Standing Orders and Financial Regulations reviewed annually to ensure that they are appropriate for the Council?		
	Have items or services above a de minimis amount been competitively purchased?		
Payment Controls	Do Councillors see a complete list of payments made each month?		
	Are payments in the cash book supported by invoices, authorised and minuted?		
	Are cheques signed in accordance with financial regulations?		
	Has the Council acted lawfully in its decision making and not exceeded its powers?		
	Have VAT on payments been identified, recorded and appropriately reclaimed?		
	Is Section 137 expenditure separately recorded and within statutory limits?		
	Is the General Power of Competence (if relevant) appropriately used and recorded in the minutes?		
	Does a scan of the minutes identify any unusual activity?		
Risk Management Arrangements	Do the minutes record the Council carrying out an annual risk assessment?		
	Is insurance cover appropriate adequate and regularly reviewed?		
	Are internal financial controls documented and regularly reviewed?		
	Has the Council assessed the significant risks to achieving its objectives relative to the management of its finances and has procedures in place to deal with it?		
Budgetary Controls	Has the Council prepared an annual budget in support of its precept?		
	Is actual expenditure against the budget regularly reported to Council?		

	Are there any significant unexplained variances from budget?		
	Is the budget matched to year end outturn to enable consistent comparison of financial performance?		
	Are year-end variances from budget explained?		
Income Controls	Is income properly recorded and promptly banked?		
	Does the precept recorded agree to the District Council's notification?		
	Are security controls over cash adequate and effective?		
Petty Cash Procedures	Petty Cash is not used by Diss Town Council.		
Payroll Controls	Do all employees have contracts of employment with clear terms and conditions?		
	Do salaries paid agree with those approved by Council?		
	Are other payments to employees reasonable and approved by Council?		
	Has PAYE/NIC been properly operated by the Council as an employer?		
Asset Controls	Does the Council keep an Asset Register of all material assets owned?		
	Is the Register up to date?		
	Do asset insurance valuations agree with those in the Register?		
Bank Reconciliation	Is there a bank reconciliation for each bank account?		
	Is the bank reconciliation carried out regularly on the receipt of statements?		
	Are there any unexplained balancing entries in any reconciliation?		
	Has the bank reconciliation been reported to the committee on quarterly basis?		
	Has a year-end reconciliation been carried out?		
	Is the value of investments held summarised on the reconciliation?		
Year-End Procedures	Are year-end accounts prepared on the correct accounting basis?		
	Do accounts agree with the cashbook?		
	Is there an audit trail from underlying financial records to the accounts?		
	Where appropriate, have debtors and creditors been properly recorded?		
	Have the Council met its responsibilities as trustees?		
Improvements	Has the Council acted on the recommendations and comments of the internal and external auditors?		

Other Recommendations Arising out of Internal Audit Programme: