

Pilning & Severn Beach Parish Council

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Document Control

Version 1

Last agreed date by Full Council: 3rd June 2024

Next Review date: June 2025

Internal Audit Policy

Reviewing the Effectiveness of Internal Audit

1. Purpose of this Policy

- 1.1. Pilning & Severn Beach Parish Council is committed to providing a quality service for the benefit of people who live in, work or visit the parish. The Council considers internal audit a key element of operating good and proper practices in accordance with legislative requirements.
- 1.2 The purpose of this policy is to:
 - Recognise the legal framework in which the Council operates
 - Outline the Council's attitude and commitment to internal audit and
 - Identify responsibilities and arrangements for internal audit associated with Council operations.
- 1.3 The over-riding purpose of internal audit is to support the Council to improve its procedures for financial control of its activities. The scope of this policy is to set out the arrangements and responsibilities for the Internal Auditor. The policy should be read in conjunction with other council adopted policies and regulations, in particular:
 - Risk Management and management
 - Financial Regulations

2. Background to Internal Audit

- 2.1. Internal auditing is an independent, objective assurance activity designed to improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 2.2 The purpose of internal audit is to review and report to the authority on whether its systems of financial and other internal controls over its activities and operating procedures are effective. The internal audit function must be independent from the management of the financial controls and procedures of the authority which are the subject of review. The person or persons carrying out internal audit must be competent to carry out the role in a way that meets the business needs of the authority. It is for each authority to decide, given its circumstances, what level of competency is appropriate, and to keep this issue under review.

3. Legal Framework and Compliance

- 3.1 A smaller authority is required by 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 guidance for public sector standards is set out in the Governance and Accountability Practitioners Guide for Smaller Authorities.

3.2 Internal audit report(s) should inform the authority's responses to Assertions 2 and 6 in the annual governance statement. Internal audit reports should therefore be made available to support and inform members considering the authority's approval of the annual governance statement.

3.3 Assertion 6: Internal Audit

- 'We maintained throughout the year an adequate and effective system of internal audit of the accounting records and control systems.'

3.4 In order to warrant a positive assertion, the council must comply with the following:

- 1) Internal audit: The authority needs to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account internal auditing guidance for smaller authorities.
- 2) Provision of information: The authority needs to ensure it has taken all necessary steps to facilitate the work of those conducting the internal audit, including making available all relevant documents and records and supplying any information or explanations required. (Non-statutory guidance on internal audit can be found in Section 4 of the Governance and Accountability Practitioners Guide 2020).

3.5 To comply with this assertion, the Council has set out the arrangements it will follow in the procurement of an internal audit service including an annual review of the effectiveness of internal audit taking into account the non-statutory guidance set out in the Practitioners Guide.

4. Arrangements and Responsibilities

4.1 Internal Audit Guidance: Extracted from Governance and Accountability Practitioners Guide:

- 1) Internal auditing is an independent, objective assurance activity designed to improve an organisation's operations.
- 2) Internal audit must be independent from the management of financial controls.
- 3) The Council must be assured that the person carrying out the audit is competent to carry out the role to meet the business needs of the council and understands the local government legal framework.
- 4) The Responsible Financial Officer should work in collaboration with the Internal Auditor.
- 5) Managing the Council's internal controls is the day-to-day function of the Council's staff and management and not the responsibility of internal audit.
- 6) Internal audit does not involve the detailed inspection of all records and transactions of the Council in order to detect error or fraud.
- 7) The function of the Internal Auditor is to consider if the Council's financial controls and procedures are adequate.

4.2 Appointment of an Internal Auditor

Pilning & Severn Beach Parish Council will determine how best to meet the statutory requirement for internal audit, having regard to its business needs and circumstances. There are two key principles the Council will follow in sourcing an internal audit provider: independence and competence:

- 1) Independence: Independence requires the absence of any actual or perceived conflict of interest. It means that whoever carries out the internal audit role does not have any involvement in or responsibility for the financial decision making, management or control of the authority, or with the authority's financial controls and procedures.

2) Competence: There is no requirement for a person providing the internal audit role to be professionally qualified, but essential competencies to be sought from any internal audit service include:

- understanding basic book-keeping and accounting processes;
- understanding the role of internal audit in reviewing systems rather than undertaking detailed checks that are more appropriately the responsibility of management;
- awareness of relevant risk management issues; and
- understanding proper practices in relation to governance and accounting requirements within the legal framework and powers of smaller authorities, as set out in the Governance and Accountability Practitioners Guide for Smaller Authorities.
- Awareness of relevance of VAT and PAYE/NIC as applied to the authority. (Note this is outsourced)
- Additional Evidence to Competency might also include the possession of professional indemnity insurance cover.

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4.3 Internal Audit Programme of Work

Pilning & Severn Beach Parish Council will determine the internal audit scope of work to be undertaken by the internal auditor. If no such programme of work is agreed by the Council, then the minimum reporting requirement for internal audit will be met by completing the annual internal audit report within the Annual Governance and Accountability Return. The Internal auditor may also report in greater detail to the Council for example providing a written internal audit report.

4.4 The Council may consider the following list of the key systems and processes they can ask internal audit to review from time to time as part of its work:

- proper book-keeping including the cash book;
- standing orders and financial regulations;
- payment controls;
- income controls;
- budgetary controls;
- petty cash procedure;
- payroll controls;
- asset control;
- bank reconciliations;
- year-end procedures;
- risk management arrangements.

4.4 Review of the Effectiveness of Internal Audit

On an annual basis, Pilning & Severn Beach Parish Council will carry out a review of the effectiveness of the overall internal audit arrangements. As part of the review, this may include the appointment of an internal auditor. The review should balance the Councils internal audit needs and usage. It should provide sufficient assurance for the Council that standards are being met and that the work of internal audit is effective. The review is designed to assure Pilning & Severn Beach Parish Council that it has maintained the standards of an adequate and effective internal audit of its risk management, control and governance processes.

4.5 The review will include, as a minimum, making an assessment of each of the following:

- the scope of internal audit;
- independence;
- competence;
- relationships with the clerk and the authority; and

- audit planning and reporting.

4.6 The Council will consider the 'Internal Audit Meeting Standards' checklist to carry out a review of the effectiveness of internal audit (see Appendix A).

Internal Audit Review Checklist
Part 1: Meeting Standards

Expected Standard	Evidence of Achievement	Yes or No	Areas for Development
1. Scope of internal audit	Terms of reference for internal audit were (re)approved by full council on [date]. Internal audit work takes into account both the council's risk assessment and wider internal control arrangements. Internal audit work covers the council's antifraud and corruption arrangements.		
2. Independence	Internal audit has direct access to those charged with governance (see Financial Regulations). Reports are made in own name to management. Internal audit does not have any other role within the council/board.		
3. Competence	All responsible officers (Clerk and RFO) are consulted on the internal audit plan. (Evidence is on audit files). Respective responsibilities for officers and internal audit are defined in relation to internal control, risk management and fraud and corruption matters (job descriptions and engagement letter). The responsibilities of council members are understood; training of members is carried out as necessary. (See Member training plan).		
5. Audit Planning and Reporting	The annual internal audit plan properly takes account of all the risks facing the council and has been approved by the council [date]. Internal audit has reported in accordance with the plan on [date].		



Internal Audit Review Checklist
Part 2: Characteristics of Effectiveness

Characteristics of 'effectiveness'	Evidence of Achievement	Yes or No	Areas for Development
1. Internal audit work is planned	Planned internal audit work is based on risk assessment and designed to meet the council's needs.		
2. 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.		
3. Be seen as a catalyst for change	Internal audit supports the council's work in delivering improved services to the community.		
4. Add value and assist the organisation in achieving its objectives	The council makes positive responses to internal audit's recommendations and follows up with action where this is called for.		
5. Be forward looking	In formulating the annual audit plan, national agenda changes are considered. Internal audit maintains awareness of new developments in the council's services, risk management and corporate governance arrangements.		
6. Be forward looking	Internal audit focuses on the risks facing the council. Internal audit encourages managers/members to develop their own responses to risks, rather than relying solely on audit recommendations.		
7. Ensure the right resources are available	Adequate resource is made available for internal audit to complete its work. Internal audit understands the council and the legal and corporate framework in which it operates.		