



HORLEY TOWN COUNCIL INTERNAL CONTROL REVIEW 2018/19

Background

The Accounts and Audit (England) Regulations 2011, *Regulation 4 (2)* requires “the Council to conduct an annual review of the effectiveness of its system of internal control which includes the arrangements for the management of risk.”

An effective system of internal control is split into three parts:

- 1. Risk Assessment**
- 2. Control or procedures in place to mitigate the risks identified**
- 3. System for testing the adequacy of internal controls (Internal Audit)**

Risk Assessment

The Council’s Finance Committee conducted a full risk assessment on 22 January 2019. In that risk assessment, it reviewed financial controls, inter alia:

- Risk of consequential loss of income
- Loss of cash through theft or dishonesty
- Financial controls and records
- Compliance with HM Customs and Excise Regulations
- Sound budgeting to underlie annual precept
- Compliance with borrowing restrictions
- Business continuity
- General Data Protection Regulations (GDPR)
- Protection of physical assets
- Safety of staff and visitors
- Security of buildings, equipment etc.

Control Systems

The Council has manual reconciliations in place to detect error. Duties are segregated between staff for the operation of its banking systems, and in turn two councillors authorise payments in addition to the Clerk (three signatories in total). Members review summaries of receipts and payments, preventing or detecting budget overspends and unauthorised expenditure. Insurance cover is reviewed periodically.

Internal Audit

An independent Auditor is in place to check that the internal controls are in place. The scope of internal audit, independence, competence, planning and reporting are shown overleaf.

Audit Programme Content

The Local Councils Governance and Accountability Guidelines have been taken into account in establishing the range of audit work and level of testing. Audit work has been programmed under the following five areas:

Corporate Governance - This has included a review of the Council's system of administrative control for providing information and instruction to Councillors and staff in relation to their responsibilities and compliance with legal and statutory requirements.

Accounting Practices – The Audit review has assessed the systems for recording and controlling day-to-day accounting transactions. It has included a review of controls covering the recording of income and expenditure, computerised accounting systems, petty cash and budgetary control practices. Attention has also been paid to control procedures relating to periodic income and expenditure and the accounting process associated with reconciling the SCRIBE system to Local Government accounting requirements.

Expenditure - In the main, work has been conducted reviewing the Council's systems of incurring, validating and authorising payments. Other work included an assessment of system controls covering payroll, General Power of Competence expenditure and miscellaneous payments including expenses.

Income - The Council's systems for requesting, receiving and controlling income has been reviewed in relation to accuracy of postings, banking arrangements and debtor control.

Annual Accounts - Work on the 2018/2019 annual accounts will include validation of the accuracy of the final accounting papers and preparation of supporting documentation required by the external auditor.

LIST OF AUDIT PROGRAMMES

Corporate Governance

- A1 - Control environment
- A2 - Legality
- A3 - Risk management and insurance
- A4 - Fraud and corruption
- A5 - Committee papers and Minutes
- A6 - Assets and investments

Accounting Practices

- B1 - Books of accounts
- B2 - Bank reconciliation
- B3 - Petty cash
- B4 - Budgetary control
- B5 - Reserves/cash balances

Expenditure

- C1 - Accounts for payment
- C2 - Payroll
- C3 - General Power of Competence
- C4 - Capital
- C5 - Miscellaneous income and expenses

Income

- D1 - Receipts and banking arrangements
- D2 - Precept and grants
- D3 - Main areas of expected income
- D4 - Miscellaneous income

Annual Accounts

- E1 -Year-end controls
- E2 -Year-end accounts

Other

- F1 - Salary Payments and PAYE in Real Time (RTI)
- F2 - Langshott Allotments and s106 reclaims
- F3 - Café Pavilion Project
- F4 - Community Infrastructure Levy CIL

Annual review of the effectiveness of internal control and the management of risk 2018/19

| Expected Standard | Evidence of Achievement | Yes or No | Areas for Development |
|----------------------------|---|----------------------------------|---------------------------------|
| 1. Scope of internal audit | <p>Terms of reference for internal audit were approved by Full Council on 27.11.07</p> <p>Internal audit work takes into account both the Council's risk assessment and wider internal control arrangements</p> <p>Internal audit work covers the Council's anti-fraud and corruption arrangements</p> | <p>Yes</p> <p>Yes</p> <p>Yes</p> | <p>No development necessary</p> |
| 2. Independence | <p>Internal audit has direct access to those charged with governance (see Financial Regulations)</p> <p>Reports are made in own name to management</p> <p>Internal Audit does not have any other role within the Council</p> | <p>Yes</p> <p>Yes</p> <p>Yes</p> | <p>No development necessary</p> |
| 3. Competence | <p>There is no evidence of a failure to carry out internal audit work ethically, with integrity and objectivity</p> | <p>Yes</p> | <p>No development necessary</p> |
| 4. Relationships | <p>All responsible officers (Clerk/RFO and Finance Chairman) are consulted on the internal audit plan.</p> <p>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)</p> <p>The responsibilities of council members are understood; training of members is carried out as necessary</p> | <p>Yes</p> <p>Yes</p> <p>Yes</p> | <p>No development necessary</p> |

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| 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 following the adoption of the Risk Assessment and Management Paper 2018-2019. | Yes | No development necessary |

Horley Town Council has considered the effectiveness of the Internal Audit control including the arrangements for the management of risk. The review took place by the Internal Audit Review Sub-Committee on 8 February 2019 and the paper was approved at the Full Council meeting to be held on 12 February 2019.

Adopted by Horley Town Council 12 February 2019

Next Review Date: February 2020