

# HAWTHORN PARISH COUNCIL

## Review of the effectiveness of Internal Control

*For the purpose of this document – the RFO is the Clerk.*

### 1 Introduction

Regulation 4 of the Accounts and Audit Regulations imposes a duty on local councils to ensure “that the financial arrangements of the body are adequate and effective and that the body has a sound system of internal control”.

Local councils are required, at least once a year, to conduct a review of the effectiveness of its system of internal control. This takes place in November.

#### **An effective system of control has three elements**

- **Identification of the Potential Risk (Risk Management)**
- **Controls of Procedures in place to mitigate the risks identified (Control Systems)**
- **System for testing the adequacy of internal controls (Internal Audit).**

### 2 Risk Management

The Parish Council updates the Financial Risk Assessment yearly in November.

### 3 Control Systems

The Parish Council reviews its Bank Mandate after each election, (if not needed sooner) and all amendments are authorised by the Parish Council.

Some internal controls are listed in the Financial Regulations document (this is approved yearly at the Annual Meeting of the council); however, the Parish Councils system of controls go beyond the Financial Regulations document and are listed below.

#### 3.1 Cash Book/Bank Reconciliations

- The cash book is kept electronically and maintained up to date from original documents.
- The cash book is reconciled to the bank statement monthly.
- A summary sheet with budget against actual expenditure and income is presented quarterly to the Parish Council.
- All payments are reported at each Parish Council meeting before they are made. Unless the Clerk has dispensation to make the payment outside the meeting, in which case it will be reported at the ~~ft~~ meeting after the payment was made.

#### 3.2 Payment Controls

- Payments are listed in cheque number order in the cash books and in account files.
- All invoices for payment are listed and presented at the council meeting the expenditure is to be authorised for payment.
- All original invoices are available to all parish councillors at the council meeting.
- The bank reconciliation is also circulated to all members each month.
- VAT Repayment Claims - The Clerk ensures that all invoices are addressed to HPC
- The Clerk maintains a VAT account to show that the correct amount of VAT is reclaimed.

#### 3.3 Income Control

- The Clerk ensures that the amount of the precept received is correct in accordance with the precept requested from Durham County Council.
- The Clerk ensures that the precept instalments are received when due.

### **3.4 Payroll Controls**

- The Clerk is paid under PAYE as an employee.
- The Clerks salary is set as per their contract.

### **3.5 Office and Clerks expenses**

The Clerk's Expenses are paid by cheque and the expense summary treated as an invoice for accounting purposes.

### **3.6 Asset Control**

The Clerk maintains a full asset register

## **4 Internal Audit**

### **4.1 Scope:**

The Internal Audit covers the internal control processes identified by the Parish Council as well as matters directly related to the AGAR.

### **4.2 Independence:**

- The Internal Auditor has direct access to the Clerk and reports in their own name to the ~~Council~~
- The auditor has no other role within the Council and the reporting is unbiased and objective.

### **4.3 Competence:**

The internal audit is carried out by an auditor as recommended by CDALC and is formally re-appointed every year at the Annual Meeting of the Council in May.

### **4.4 Relationships:**

The Clerk works directly with the Internal Auditor to arrange times of audit etc.

## **5 Review of the effectiveness of the system of Internal Audit**

The Internal Auditor has access to the: -

- Parish Council's documentation of its internal control processes
- financial risk assessment
- health and safety risk assessments
- insurance schedule
- asset register
- Standing Orders
- Financial Regulations
- Accounts and policies
- Previous Annual Returns
- All relevant information.

The internal audit is also an opportunity for discussion about new ~~developments~~ in the audit service, risk management and corporate governance.

The internal audit is relevant for the completion of the Statement of Assurance at Section 1 of the Annual Return as well as being essential to the completion of the Annual Internal Audit Report.

The Internal Auditor's Report is reviewed at the next Parish Council meeting and any necessary actions resolved.