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## Appendix 9 – An approach to internal audit testing

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- 1 The council will determine the scope and coverage of the work to be carried out by internal audit in accordance with proper practices guidance. Internal audit testing of internal controls will be sufficient for the proper completion of the annual internal audit report. The annual internal audit report should provide an adequate level of assurance for the council to complete assertions 2 and 6 in its annual governance statement.
- 2 In completing the annual report at section 4 of the annual return, internal audit will have planned and carried out the work necessary to give the assurances called for. The ten key control tests in the annual report represent the minimum level of internal audit coverage required. Additional testing and reporting should be tailored to local circumstances.
- 3 Internal audit work always requires the application of judgement and should only be carried out following risk assessment. The scope and frequency of testing should reflect that assessment, and therefore should always be in proportion to the likelihood of fraud, error or misstatement that could occur. It should be directly related to the size and level of business activity of the council.
- 4 The following schedule suggests an approach to the testing of key internal controls to provide assurance that the minimum level of coverage has been met.

<b>Internal Control</b>	<b>Suggested testing</b>
Proper bookkeeping	<ul style="list-style-type: none"> <li>• Is the cashbook maintained and up to date?</li> <li>• Is the cashbook arithmetic correct?</li> <li>• Is the cashbook regularly balanced?</li> </ul>
a) standing orders and financial regulations adopted and applied; and b) payments controls	<ul style="list-style-type: none"> <li>• Has the council formally adopted standing orders and financial regulations?</li> <li>• Has a Responsible finance officer been appointed with specific duties?</li> <li>• Have items or services above the de minimus amount been competitively purchased?</li> <li>• Are payments in the cashbook supported by invoices, authorised and minuted?</li> <li>• Has VAT on payments been identified, recorded and reclaimed?</li> <li>• Is s137 expenditure separately recorded and within statutory limits?</li> </ul>
Risk management arrangements	<ul style="list-style-type: none"> <li>• Does a review of the minutes identify any unusual financial activity?</li> <li>• Do minutes record the council carrying out an annual risk assessment?</li> <li>• Is insurance cover appropriate and adequate?</li> <li>• Are internal financial controls documented and regularly reviewed?</li> </ul>

**Continued**

Internal Control	Suggested testing
Budgetary Controls	<ul style="list-style-type: none"> <li>• Has the council prepared an annual budget in support of its precept?</li> <li>• Is actual expenditure against the budget regularly reported to the council?</li> <li>• Are there any significant unexplained variances from budget?</li> </ul>
Income Controls	<ul style="list-style-type: none"> <li>• Is income properly recorded and promptly banked?</li> <li>• Does the precept recorded agree to the Council Tax authority's notification?</li> <li>• Are security controls over cash and near-cash adequate and effective?</li> </ul>
Petty cash procedures	<ul style="list-style-type: none"> <li>• Is all petty cash spent recorded and supported by VAT invoices/receipts?</li> <li>• Is petty cash expenditure reported to each council meeting?</li> <li>• Is petty cash reimbursement carried out regularly?</li> </ul>
Payroll Controls	<ul style="list-style-type: none"> <li>• Do all employees have contracts of employment with clear terms and conditions?</li> <li>• Do salaries paid agree with those approved by the council?</li> <li>• Are other payments to employees reasonable and approved by the council?</li> <li>• Have PAYE/NIC been properly operated by the council as an employer?</li> </ul>
Assets controls	<ul style="list-style-type: none"> <li>• Does the council maintain a register of all material assets owned or in its care?</li> <li>• Are the assets and Investments registers up to date?</li> <li>• Do asset insurance valuations agree with those in the asset register?</li> </ul>
Bank Reconciliation	<ul style="list-style-type: none"> <li>• Is there a bank reconciliation for each account?</li> <li>• Is a bank reconciliation carried out regularly and in a timely fashion?</li> <li>• Are there any unexplained balancing entries in any reconciliation?</li> <li>• Is the value of investments held summarised on the reconciliation?</li> </ul>
Year-end procedures	<ul style="list-style-type: none"> <li>• Are year end accounts prepared on the correct accounting basis (Receipts and Payments or Income and Expenditure)?</li> <li>• Do accounts agree with the cashbook?</li> <li>• Is there an audit trail from underlying financial records to the accounts?</li> <li>• Where appropriate, have debtors and creditors been properly recorded?</li> </ul>