

# Warwickshire and West Midlands Association of Local Councils

(Affiliated to the National Association of Local Councils)

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## AUDIT GOOD PRACTICE NOTE STEP BY STEP GUIDE FOR A LIGHTER TOUCH AUDIT

### 1. THE BASIC AUDIT

- Most small councils are subject to the “Basic Audit”, which is based upon an Annual Return only for councils with income or expenditure below £100,000. However, the External Auditor is required to undertake an intermediate Audit on 5% of these, when supporting documentation may be examined.
- From April 2018, Parish Councils with a budget of less than £25,000 will be able to declare themselves exempt from an external audit – a declaration form will need to be submitted each year.
- Responsible Finance Officers (RFO’s) should ensure that simple receipts and payments accounts have columns for voucher and minute references and each entry has supporting documentation kept in an orderly fashion. Entries may be recorded on paper and/or computer; there is no set format.
- To help prevent unnecessary audit fees, the RFO should provide an explanation of any variances above 10% between one year and another in the summary figures entered in Section 1 of the Annual Return.

### 2. THE ANNUAL RETURN

#### Section 1 – Statement of Accounts contains:

- Summary of receipts and payments for the current year and the previous year;
- End of year simple bank reconciliation;
- Appended explanation of any variances of 10% or more in individual entries between years.

#### Section 2 – Annual Governance confirms:

- Council acknowledges responsibility;
- Council approves accounts;
- Financial Regulations in place;
- Risk assessment undertaken;
- Appointment of internal auditor;
- Effective system of internal audit in place (having carried out a review of its effectiveness);
- Opportunity given for public access to accounts.

#### Section 3 – External Auditor’s Certificate & Opinion confirms:

- The Annual Return is in accordance with requirements;
- Whether or not there are any matters of concern.

#### Section 4 – Confirmation that the Internal Auditor has:

- Acted independently;
- Examined internal control systems and undertaken certain tests;
- Reported any findings to the Council.

### **3 WHO IS RESPONSIBLE FOR WHAT? THE COUNCIL is responsible for:**

- Ensuring that proper financial records are kept and checking actual records quarterly or half yearly depending on the level of activity of the council;
- Approving the accounts and Annual Return;
- Adopting regular financial reports and budget;
- Appointing an RFO (usually the clerk) and an independent and competent Internal Auditor;
- Adopting Financial Regulations;
- Regular risk assessment;
- Setting an adequate precept;
- Paying all audit fees;
- Considering Internal and External Auditors' reports.

### **RESPONSIBLE FINANCE OFFICER (usually the clerk) is responsible for:**

- Day to day recording and management of all the Council's financial transactions, including cash flow, cheques, insurances, V.A.T., PAYE, NI;
- Preparing financial reports and draft budgets;
- Submitting the precept;
- Monitoring compliance with Financial Regulations;
- Maintaining the register of assets and schedule of risks;
- Preparing balanced year end accounts and Section 1 of the Annual Return.

### **INTERNAL AUDITOR is required for Section 4 of the Annual Return and is responsible for:**

- Examining the internal control systems;
- Undertaking certain tests on the accounts as required by the Council;
- Reporting findings to the Council.
- N.B. the Internal Auditor does NOT advise the Council, only makes recommendations.

### **EXTERNAL AUDITOR (PKF Littlejohn LLP) is responsible for:**

- Auditing the Annual Return in accordance with the regulations;
- Reporting any findings to the Council;
- Investigating accounts matters raised by electors.

## **4 FINANCIAL REGULATIONS**

- These are rules for the proper control of the Council's financial affairs.
- The Council is required to adopt them;
- They should be regularly reviewed by the Council;
- A model is available from WALC.

## **5. ASSET REGISTRATION AND SCHEDULE OF RISKS**

These are the Council's supporting internal control documents which the Internal Auditor is required to inspect.

- The asset register lists the Council's assets with valuations, from benches to community centres.
- For managing risk, the Council should review regularly its "what if?" schedule of risk, from unexpected charges (requiring a contingency fund) to fire risk (covered by insurance).

## **6. THE TIMETABLE : ACCOUNTS TO AUDIT**

The order of events does not vary. The following is for the Date of Audit, as set by the External Auditor at the beginning of June. If this date is later, then the months may change accordingly.

- March – RFO requests bank statements and investment accounts to be made up to 31 March. The Council appoints an internal auditor (if it has not already done so).
- April – RFO closes the accounts and undertakes the reconciliation. The Council approves the accounts. The External Auditor advises the Date of Audit and sends a blank Annual Return Form.
- May – The Internal auditor completes Section 4 of the Annual Return. The Council receives the Internal Auditor's report and considers any recommendations. The RFO completes Sections 1 and 2 of the Annual Return, prepares an explanation of any variances and presents the Annual Return to the Council for adoption and signing. The Clerk posts the statutory Notice of Audit approximately 5 weeks before the Date of Audit (i.e. at least 14 days before the start of the 20 clear working day period during which electors may inspect accounts) and returns the confirmation slip to the External Auditor.
- June – Date of Audit beginning of June when : Annual Return and explanation of variances must be sent to the External Auditor; the public inspection period ends; electors may question the auditor. By 30 June Council approval of the end of year accounts must be obtained.
- July – The External Auditor sends the Annual Return with completed Section 3, which the Clerk submits to the Council. The Clerk displays a copy of Sections 1-3 of the Annual Report together with the statutory Completion of Audit Notice.

By 30 September – Publication of Statement of Accounts, Annual Governance Statement and External Auditor's Certificate and Opinion.

By January in preparation for setting the next year's precept, the RFO should prepare a simple comparative budget chart including a draft budget for the next financial year for adoption by the Council.

## **7. TIPS FOR MEETING DEADLINES**

- Obtain a bank statement as soon as possible after 31 March;
- Keep account books up-to-date;
- Internal audit can be carried out during the year, not at the year end;
- Move Annual Parish Meeting to as late as possible – legislation requires that it is held between 1 March and 1 June.

## **8. COMMON PITFALLS**

The following are the most common problems encountered by the External Auditor when checking Annual Returns. In future, you may be charged for additional work in addressing these omissions and inconsistencies.

- Inadequate or no explanation of variances.
- Internal Auditor has not deleted appropriate words in Section 4 conclusion.
- Figures in Section 1 do not add up.
- RFO has not signed Section 1.
- Words at Section 1 – Receipts & Payments or Income & Expenditure – are not deleted.
- Section 1 is not dated.
- No bank reconciliation has been included.
- The Chairman has not signed Section 1.
- Section 1 includes figures which cannot be correct in the light of other information provided.
- The Internal Auditor has not addressed all necessary aspects of the report.
- Council Minute references are not included at Section 2.
- The bank reconciliation does not add up.
- Section 2 is not dated.

## **9. AUDIT FEES**

External Audit fees are set according to a national scale. Additional fees may be charged in the following situations:

- Inadequate explanations or incomplete Annual Returns.
- Electors raise issues requiring investigation.
- 5% intermediate audits unveil matters requiring investigation.

Provision should be made in the Council's contingency fund for additional audit fees.

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- NALC Model Financial Regulations for Councils – available on web site members section finance
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