YOUR NEW BEST FRIEND
Internal Audit in Local Councils

Prior to the introduction of the Limited Assurance Audit regime internal audit could be carried out by nominated councillors or independently. This 'Lighter Touch' regime, incorporated within the Accounts and Audit Regulations 2003, required that internal audit be carried out INDEPENDENTLY by people or persons who had no other role in the council's accounting and/or financial procedures and processes. There were very few such people or organisations around at the time. However, that was some years ago and now there are quite a number of experienced professionals who have the expertise to advise, mentor and guide a council towards best practice and safe procedures. Many County Associations, membership of which is strongly recommended, maintain and publish lists of internal auditors operating in their area, and a few actually offer the service directly.

The primary purpose of internal audit is to independently and critically review, assess and report on the council's financial and control systems, not merely to check the Annual Return.

Your internal auditor should be your critical friend, available to answer any doubts a council may have about its roles, responsibilities and procedures. This includes, but is not limited to, ensuring that VAT and HMRC statutory requirements are understood and adhered to, systems are in place to avoid mistakes (or even fraud), appropriate policies have been adopted and all filing deadlines and requirements are being met. This should not be a box ticking exercise, the external auditors rely on the work of your internal auditor in assessing the limits of their own review work.

How do you find, and assess the suitability and competency of your new best friend? Recommendations are ideal, but if you are starting from scratch perhaps start with an informal interview. Check that the company (or individual) really understands the job. Are they familiar with councils, with the Practitioner's Guide to the Accounts and Audit Regulations, have an understanding of the special VAT rules, RTI, pension enrolment, the Transparency Code and much more? If they are experienced in internal audit in the private sector, but have little prior knowledge of local authorities would they be willing (and eager) to learn? Are they easily available if there is a new project that the council may need to discuss? The council may also wish to ask if they have Professional Indemnity Insurance in place, although there is no requirement for this in the Regulations.

So, you have found your new best friend. What do you expect them to do? More important, what does the external auditor expect them to do? The internal auditor should draw up, and the council should agree an audit plan to ensure nothing is overlooked. The plan may span two or three years so that the various areas are scrutinised in rotation. The plan should cover your standing orders, financial regulations, minutes, banking and accounting systems, risk assessments, insurance, PAYE and VAT. Remember that the external auditor is placing reliance on the work that the internal auditor is doing.

Once appointed, it is essential that regular written reports are received from the internal auditor, reviewed by officers, reported to and considered by council, perhaps via a committee if appropriate, and any recommendations acted upon and duly recorded in the minutes as necessary.

On a cautionary note, it may not necessarily be best practice to accept the lowest quote for the work. A good internal auditor could save the council a great deal of money by helping to put into place practices which are secure and robust so that there is no question of a qualified audit or headlines in the local paper reporting that a council has failed to meet its responsibilities and/or fulfilled its obligations to residents, electors and taxpayers.

Finally, it is good practice to regularly review the appointee, say annually, or at least once every three to five years, and either re-affirm the appointment or re-appoint as appropriate.