

NEWPORT (Shropshire) TOWN COUNCIL

FINANCIAL REGULATIONS

**(Reviewed and approved with no amendments) - Town Council Minute 219/17-18 (a) (3)
14th March 2018**

These Financial Regulations were adopted by the Resource and Finance Committee (under its delegated powers on behalf of the Full Town Council) at its meeting held on Wednesday 5 January 2011).

1. GENERAL

1.1 These financial regulations govern the conduct of financial management by the Council and may only be amended or varied by resolution of the Council. The council is responsible in law for ensuring that its financial management is adequate and effective and that the council has a sound system of financial control which facilitates the effective exercise of the council's functions, including arrangements for the management of risk and for the prevention and detection of fraud and corruption. These financial regulations are designed to demonstrate how the council meets these responsibilities.

1.2 The Responsible Financial Officer (RFO) is a statutory office and shall be appointed by the council. The Clerk has been appointed as RFO for this council and these regulations will apply accordingly. Day-to-day financial administration may be delegated to the Town Council's separately appointed Finance Officer (FO) by the Town Clerk] The RFO, acting under the policy direction of the Council, shall oversee the Council's financial affairs in accordance with proper practices. The RFO shall determine on behalf of the council its accounting records, and accounting control systems. The RFO shall ensure that the accounting control systems are observed and that the accounting records of the council are maintained and kept up to date in accordance with proper practices.

1.3 The FO shall produce financial management information as required by the council.

1.4 At least once a year, prior to approving the annual return, the council shall conduct a review of the effectiveness of its system of internal control which shall be in accordance with proper practices.

1.5 In these financial regulations, references to the Accounts and Audit Regulations shall mean the Regulations issued under the provisions of section 27 of the Audit Commission Act 1998 and then in force.

1.6 In these financial regulations the term 'proper practice' or 'proper practices' shall refer to guidance issued in Governance and Accountability in local Councils in England and Wales – a Practitioners' Guide which is published jointly by NALC and SLCC and updated from time to time.

2. ANNUAL ESTIMATES (BUDGET)

2.1 Each Committee (if any) shall formulate and submit proposals to the Council in respect of revenue and capital including the use of reserves and sources of funding for the following financial year not later than the end of November each year for consideration by the Resource & Finance Committee. The Resource & Finance Committee will then consider the separate recommendations by any committees as well as consider those items that do not fall within a specific committee and provide a proposed budget for recommendation to the Full Town Council.

2.2 Detailed estimates of all receipts and payments including the use of reserves and all sources of funding for the year shall be prepared each year by the RFO in the form of a budget to be considered by the council.

2.3 The Council shall review the budget not later than the end of December each year and shall fix the Precept to be levied for the ensuing financial year. The RFO shall issue the precept to the billing authority and shall supply each member with a copy of the approved budget.

2.4 The annual budgets shall form the basis of financial control for the ensuing year.

2.5 The Council shall consider the need for and shall have regard to a medium term forecast of Revenue and Capital Receipts and Payments which may be prepared at the same time as the annual Budget.

3 BUDGETARY CONTROL

3.1 Expenditure on revenue items may be incurred up to the amounts included for that class of expenditure in the approved budget.

3.2 No expenditure may be incurred that will exceed the amount provided in the revenue budget for that class of expenditure. During the budget year and with the approval of council having considered fully the implications for public services, unspent and available amounts may be moved to other budget headings or to an earmarked reserve as appropriate.

3.3 The FO shall regularly provide the Council with a statement of receipts and payments to date under each head of the budgets, comparing actual expenditure to the appropriate date against that planned as shown in the budget. These statements are to be prepared at least at the end of each financial quarter.

3.4 The Clerk may incur expenditure on behalf of the Council which is necessary to carry out any repair replacement or other work which is of such extreme urgency that it must be done at once, whether or not there is any budgetary provision for the expenditure, subject to a limit of £1500. The Clerk shall report the action to the Council as soon as practicable thereafter.

3.5 Unspent provisions in the revenue budget shall not be carried forward to a subsequent year unless placed in an earmarked reserve by resolution of the council.

3.6 No expenditure shall be incurred in relation to any capital project and no contract entered into or tender accepted involving capital expenditure unless the Council is satisfied that the necessary funds are available, or the requisite borrowing approval has been obtained.

3.7 All capital works shall be administered in accordance with the Council's standing orders and financial regulations relating to contracts.

4. ACCOUNTING AND AUDIT

4.1 All accounting procedures and financial records of the Council shall be determined by the RFO in accordance with the Accounts and Audit Regulations.

4.2 The RFO shall oversee the completion of the annual financial statements of the Council, including the council's annual return, as soon as practicable after the end of the financial year and shall submit them and report thereon to the Council.

4.3 The RFO shall complete the Accounts of the Council contained in the Annual Return (as supplied by the Auditor appointed from time to time by the Audit Commission) and shall submit the Annual Return for approval and authorisation by the Council within the timescales set by the Accounts and Audit Regulations.

4.4 The RFO shall ensure that there is adequate and effective system of internal audit of the Council's accounting, financial and other operations in accordance with proper practices. Any officer or member of the Council shall, if the RFO or Internal Auditor requires, make available such documents of the Council which appear to the RFO or Internal Auditor to be necessary for the purpose of the internal audit and shall supply the RFO or Internal Auditor with such information and explanation as the RFO or Internal Auditor considers necessary for that purpose. Public Accountability responsibilities are detailed at Appendix 1

4.5 The Internal Auditor shall be appointed by and shall carry out the work required by the council in accordance with proper practices. The Internal Auditor, who shall be competent and independent of the operations of the Council, shall report to Council in writing, or in person, on a regular basis with a minimum of one annual written report in respect of each financial year. In order to demonstrate objectivity and independence, the internal auditor shall be free from any conflicts of interest and have no involvement in the financial decision making, management or control of the council. The Internal Auditors Inspection is detailed at Appendix 2.

4.6 The RFO shall make arrangements for the opportunity for inspection of the accounts, books, and vouchers and for the display or publication of any Notices and statements of account required by Audit Commission Act 1998 and the Accounts and Audit Regulations.

4.7 The RFO shall, as soon as practicable, bring to the attention of all councillors any correspondence or report from the Internal or External Auditor, unless the correspondence is of a purely administrative matter.

5. BANKING ARRANGEMENTS AND CHEQUES

5.1 The Council's banking arrangements, including the Bank Mandate, shall be made by the RFO and approved by the Council. They shall be regularly reviewed for efficiency.

5.2 A schedule of the payments required, forming part of the Agenda for the Meeting, shall be prepared by the FO and, together with the relevant invoices, be presented to Council. If the schedule is in order it shall be authorised by a resolution of the Council and shall be initialled by the Chairman of the Meeting. If more appropriate the detail may be shown in the Minutes of the Meeting.

5.3 Cheques drawn on the bank account in accordance with the schedule referred to in paragraph 5.2 or in accordance with paragraph 6.4, shall be signed by two members of Council and countersigned by the Clerk/Deputy Clerk.

5.4 To indicate agreement of the details shown on the cheque or order for payment with the counterfoil and the invoice or similar documentation, the signatories shall each also initial the cheque counterfoil.

6 PAYMENT OF ACCOUNTS

6.1 All payments shall be effected by cheque or other order "(e.g. corporate credit card, standing order or direct debit)" drawn on the Council's bankers.

6.2 All invoices for payment shall be examined, verified and certified by the FO. The FO shall satisfy him/herself that the work, goods or services to which the invoice relates shall have been received, carried out, examined and approved.

6.3 The FO shall examine invoices in relation to arithmetic accuracy and shall analyse them to the appropriate expenditure heading. The FO shall take all steps to settle all invoices submitted, and which are in order, at the next available Council Meeting.

6.4 If a payment is necessary to avoid a charge to interest under the Late Payment of Commercial Debts (Interest) Act 1998, and the due date for payment is before the next scheduled Meeting of Council, where the Clerk and FO certify that there is no dispute or other reason to delay payment, the Clerk may (notwithstanding para 6.3) take all steps necessary to settle such invoices provided that a list of such payments shall be submitted to the next appropriate meeting of Council.

6.5 The RFO may provide petty cash to officers for the purpose of defraying operational and other expenses. Vouchers for payments made shall be forwarded to the RFO with a claim for reimbursement:

- a) The RFO shall maintain as petty cash float of [£200] for the purpose of defraying operational and other expenses. Vouchers for payments made from petty cash shall be kept to substantiate the payment.
- b) Income received must not be paid into the petty cash float but must be separately banked, as provided elsewhere in these regulations.
- c) Payments to maintain the petty cash float shall be shown separately on the schedule of payments presented to Council under 5.2 above.

6.6 If thought appropriate by the council, payment for utility supplies (energy, telephone and water) may be made by variable Direct Debit provided that the instructions are signed by two members and any payments are reported to council as made. The approval of the use of a variable Direct Debit shall be renewed by resolution of the council at least every two years.

6.7 Up to 2 members of staff can be authorised to hold a credit card for the payment of items up to a credit limit of £500 in order to obtain favourable terms (e.g. internet purchases). The authorised members of staff are not to include the RFO or the FO as they are required to complete the first line audit of expenditure, unless the council staff levels reduce to less than 3. The monthly summary statement should be supported by original receipts and checked by either the FO or the RFO to ensure appropriateness of the spend. A breakdown of credit card expenditure should be included with the monthly finance statements presented to the Town Council.

7 PAYMENT OF SALARIES

7.1 As an employer, the council shall make arrangements to meet fully the statutory requirements placed on all employers by PAYE and National Insurance legislation. The payment of all salaries shall be made in accordance with payroll records and the rules of PAYE and National Insurance currently operating, and salaries shall be as agreed by Council.

7.2 The Town Council has outsourced the payment of salaries (and councillors' parish allowance). The FO should obtain and check the summary of payments made in relation to salaries and allocate them to the appropriate nominal ledgers in the Council's accounts to ensure that payments (not by individual but grouped) are visible in the monthly finance statement.

7.3 Payment of salaries and payment of deductions from salary such as may be made for tax, national insurance and pension contributions, may be made in accordance with the payroll records and on the appropriate dates stipulated in employment contracts, provided that each payment is reported to and ratified by the next available Council Meeting.

8 LOANS AND INVESTMENTS

8.1 All loans and investments shall be negotiated in the name of the Council and shall be for a set period in accordance with Council policy.

8.2 The council shall consider the need for an Investment Policy which, if drawn up, shall be in accordance with relevant regulations, proper practices and guidance. Any Policy shall be reviewed at least annually.

8.3 All investments of money under the control of the Council shall be in the name of the Council.

8.4 All borrowings shall be effected in the name of the Council, after obtaining any necessary borrowing approval. Any application for borrowing approval shall be approved by Council as to terms and purpose. The terms and conditions of borrowings shall be reviewed at least annually.

8.5 All investment certificates and other documents relating thereto shall be retained in the custody of the RFO.

9 INCOME

9.1 The collection of all sums due to the Council shall be the responsibility of and under the supervision of the RFO.

9.2 Particulars of all charges to be made for work done, services rendered or goods supplied shall be agreed annually by the Council, notified to the RFO and the RFO shall be responsible for the collection of all accounts due to the Council.

9.3 The Council will review all fees and charges annually, following a report of the Clerk.

9.4 Any sums found to be irrecoverable and any bad debts shall be reported to the Council and shall be written off in the year.

9.5 All sums received on behalf of the Council shall be banked intact as directed by the RFO. In all cases, all receipts shall be deposited with the Council's bankers with such frequency as the RFO considers necessary.

9.6 The origin of each receipt shall be entered on the paying-in slip.

9.7 Personal cheques shall not be cashed out of money held on behalf of the Council.

9.8 The FO shall promptly complete any VAT Return that is required. Any repayment claim due in accordance with VAT Act 1994 section 33 shall be made at least annually coinciding with the financial year end.

9.9 Where any significant sums of cash are regularly received by the Council, the FO shall take such steps as are agreed by the Council to ensure that more than one person is present when the cash is counted in the first instance, that there is a reconciliation to some form of control such as ticket issues, and that appropriate care is taken in the security and safety of individuals banking such cash.

10 ORDERS FOR WORK, GOODS AND SERVICES

10.1 An official order or letter shall be issued for all work, goods and services unless a formal contract is to be prepared or an official order would be inappropriate. Copies of orders shall be retained.

10.2 Order books shall be controlled by the RFO.

10.3 All members and Officers are responsible for obtaining value for money at all times. An officer issuing an official order shall ensure as far as reasonable and practicable that the best available terms are obtained in respect of each transaction, usually by obtaining three or more quotations or estimates from appropriate suppliers, subject to any de minimis provisions in Regulation 11 (I) below.

10.4 The RFO shall verify the lawful nature of any proposed purchase before the issue of any order, and in the case of new or infrequent purchases or payments, the RFO shall ensure that the statutory authority shall be reported to the meeting at which the order is approved so that the Minutes can record the power being used.

11. CONTRACTS

11.1 Procedures as to contracts are laid down as follows:

- a. Every contract shall comply with these financial regulations, and no exceptions shall be made otherwise than in an emergency provided that this regulation need not apply to contracts which relate to items (i) to (vi) below:
 - i. for the supply of gas, electricity, water, sewerage and telephone services;
 - ii. for specialist services such as are provided by solicitors, accountants, surveyors and planning consultants;
 - iii. for work to be executed or goods or materials to be supplied which consist of repairs to or parts for existing machinery or equipment or plant;
 - iv. for work to be executed or goods or materials to be supplied which constitute an extension of an existing contract by the council;
 - v. for additional audit work of the external auditor up to an estimated value of £500 (in excess of this sum the Clerk and RFO shall act after consultation with the Chairman and Vice Chairman of council); and
 - vi. for goods or materials proposed to be purchased which are proprietary articles and / or are only sold at a fixed price.

- b. Where the council intends to procure or award a public supply contract, public service contract or public works contract as defined by The Public Contracts Regulations 2015 (“the Regulations”) which is valued at £25,000 or more, the council shall comply with the relevant requirements of the Regulations¹.
- c. The full requirements of The Regulations, as applicable, shall be followed in respect of the tendering and award of a public supply contract, public service contract or public works contract which exceed thresholds in The Regulations set by the Public Contracts Directive 2014/24/EU (which may change from time to time)².
- d. When applications are made to waive financial regulations relating to contracts to enable a price to be negotiated without competition the reason shall be embodied in a recommendation to the council.
- e. Such invitation to tender shall state the general nature of the intended contract and the Clerk shall obtain the necessary technical assistance to prepare a specification in appropriate cases. The invitation shall in addition state that tenders must be addressed to the Clerk in the ordinary course of post. Each tendering firm shall be supplied with a specifically marked envelope in which the tender is to be sealed and remain sealed until the prescribed date for opening tenders for that contract.
- f. All sealed tenders shall be opened at the same time on the prescribed date by the Clerk in the presence of at least one member of council.
- g. Any invitation to tender issued under this regulation shall be subject to Standing Orders[], 3 [insert reference of the council’s relevant standing order] and shall refer to the terms of the Bribery Act 2010.
- h. When it is to enter into a contract of less than £25,000 in value for the supply of goods or materials or for the execution of works or specialist services other than such goods, materials, works or specialist services as are excepted as set out in paragraph (a) the Clerk or RFO shall obtain 3 quotations (priced descriptions of the proposed supply); where the value is below [£3,000] and above [£500] the Clerk or RFO shall strive to obtain 3 estimates. Otherwise, Regulation 10.3 above shall apply.
- i. The council shall not be obliged to accept the lowest or any tender, quote or estimate.

¹ The Regulations require councils to use the Contracts Finder website to advertise contract opportunities, set out the procedures to be followed in awarding new contracts and to publicise the award of new contracts

² Thresholds currently applicable are:

- a. For public supply and public service contracts 209,000 Euros (£164,176)
- b. For public works contracts 5,225,000 Euros (£4,104,394)

³ Based on NALC’s model standing order 18d in Local Councils Explained © 2013 National Association of Local Councils

Should it occur that the council, or duly delegated committee, does not accept any tender, quote or estimate, the work is not allocated and the council requires further pricing, provided that the specification does not change, no person shall be permitted to submit a later tender, estimate or quote who was present when the original decision making process was being undertaken.

12. PAYMENTS UNDER CONTRACTS FOR BUILDING OR OTHER CONSTRUCTION WORKS

12.1 Payments on account of the contract sum shall be made within the time specified in the contract by the RFO upon authorised certificates of the architect or other consultants engaged to supervise the contract (subject to any percentage withholding as may be agreed in the particular contract).

12.2 Where contracts provide for payment by instalments the RFO shall maintain a record of all such payments. In any case where it is estimated that the total cost of work carried out under a contract, excluding agreed variations, will exceed the contract sum of 5% or more a report shall be submitted to the Council.

12.3 Any variation to a contract or addition to or omission from a contract must be approved by the Council and Clerk to the Contractor in writing, the Council being informed where the final cost is likely to exceed the financial provision.]

13 STORES AND EQUIPMENT

13.1 The officer in charge of each section shall be responsible for the care and custody of stores and equipment in that section.

13.2 Delivery Notes shall be obtained in respect of all goods received into store or otherwise delivered and goods must be checked as to order and quality at the time delivery is made.

13.3 Stocks shall be kept at the minimum levels consistent with operational requirements.

13.4 The RFO shall be responsible for periodic checks of stocks and stores at least annually.]

14 ASSETS, PROPERTIES AND ESTATES

14.1 The Clerk shall make appropriate arrangements for the custody of all title deeds of properties owned by the Council. The FO shall ensure a record is maintained of all properties owned by the Council, recording the location, extent, plan, reference, purchase details, nature of the interest, tenancies granted, rents payable and purpose for which held in accordance with Accounts and Audit Regulations.

14.2 No property shall be sold, leased or otherwise disposed of without the authority of the Council, together with any other consents required by

law, save where the estimated value of any one item of tangible movable property does not exceed £100.

14.3 The FO shall ensure that an appropriate and accurate Register of Assets and Investments is kept up to date. The continued existence of tangible assets shown in the Register shall be verified at least annually, possibly in conjunction with a health and safety inspection of assets.

15 INSURANCE

15.1 Following the annual risk assessment (per Financial Regulation 17), the FO shall effect all insurances and negotiate all claims on the Council's insurers in consultation with the Clerk.

15.2 The Clerk shall give prompt notification to the FO of all new risks, properties or vehicles which require to be insured and of any alterations affecting existing insurances.

15.3 The FO shall keep a record of all insurances effected by the Council and the property and risks covered thereby and annually review it.

15.4 The FO shall be notified of any loss liability or damage or of any event likely to lead to a claim, and shall report these to Council at the next available meeting.

15.5 All employees of the Council shall be included in a suitable fidelity guarantee insurance which shall cover the maximum risk exposure as determined by the Council.

16 CHARITIES

16.1 Where the Council is sole trustee of a Charitable body the Clerk and FO shall ensure that separate accounts are kept of the funds held on charitable trusts and separate financial reports made in such form as shall be appropriate, in accordance with Charity Law and legislation, or as determined by the Charity Commission. The Clerk and FO shall arrange for any Audit or Independent Examination as may be required by Charity Law or any Governing Document.]

17 RISK MANAGEMENT

17.1 The council is responsible for putting in place arrangements for the management of risk. The Clerk, with the FO shall prepare, for approval by the council, risk management policy statements in respect of all activities of the council. Risk policy statements and consequential risk management arrangements shall be reviewed by the council at least annually.

17.2 When considering any new activity, the Clerk, with the FO shall prepare a draft risk assessment including risk management proposals for consideration and adoption by the council.

18 REVISION OF FINANCIAL REGULATIONS

18.1 It shall be the duty of the Council to review the Financial Regulations of the Council from time to time. The Clerk shall make arrangements to monitor changes in legislation or proper practices and shall advise the council of any requirement for a consequential amendment to these financial regulations.

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Notes.

Where the word “regularly” is used in the text it is for the individual Council to set the required interval, monthly, quarterly, or half-yearly.

The value inserted in any of the paragraphs may be varied by the Council and should be reviewed regularly and confirmed annually by the Council.

The appropriate approved list referred to in paragraph 11.1 (b) shall be a list drawn up by the Clerk and approved by Council but shall be based on the list maintained by the Unitary Authority for such works.

APPENDIX 1 to Financial Regulations

1. Public Accountability – Responsibilities

1.1. General

- 1.1.1.** A member or officer of the Council must not, under cover of his/her position or office of employment, accept any fee or reward, other than his/her proper remuneration without the express permission of Council.
- 1.1.2.** A member or officer of the Council must not accept any bribe or personal inducement in connection with the Council's business.
- 1.1.3.** A member or officer must not use Council property, assets or materials for other than the purposes of the Council.
- 1.1.4.** A member or officer must not subordinate his/her duty to the Council to his/her private interest or put himself/herself in a position where his/her duty and private interests conflict.
- 1.1.5.** Members should ensure that they follow the Members National Code of Conduct.

1.2 Gifts and Hospitality

- 1.2.1** Officers should follow the advice given in the Code of Conduct adopted by the Council

1.3 Relations with Clients and Contractors

- 1.3.1** Members or officers must not use any Council premises, resources or facilities for the execution of private work. No stationery or publicity material is to indicate that the person is a Member or Council employee nor should the address or any telephone number of the Council be stated. Members and Officers should pay due notice to the relevant section of the Local Government Act 1972.
- 1.3.2** Officers must not work for any current or prospective supplier or contractor to the Council.

APPENDIX 2 to Financial Regulations

2. The Internal Auditors Inspection

2.1 The internal auditor will report to the council on the adequacy of systems of control (Section 4 of the annual return) and paying particular attention to:

2.2 Proper book keeping:

2.2.1 The basic cash book must be kept up to date and balances regularly verified against a bank statement. This record will also agree with the supporting vouchers, invoices or receipts.

2.3 A maximum limit is placed on cash kept at The Guildhall under secure provision or in transit and is reviewed in line with insurance limits.

2.4 Financial regulations:

2.4.1 The internal auditor's annual report to the council will include any recommendations for improvement in the financial regulations arising as a result of his or her work during the year.

2.5 The amount of work may well vary, and more extensive testing of compliance may be needed from time to time, but as a minimum the internal auditor will test the following on a sample basis:

2.5.1 Purchase order procedures:

2.5.1.1 That the correct number of estimates, quotes or full tenders depending on estimated value of contract have been obtained, that proper purchase authority by council, a committee or officers (under clear delegated powers) is in place; and

2.5.2 Purchase payments:

2.5.2.1 That the supporting paperwork confirms that there is a fully approved invoice and authorisation for payment; and that VAT is identified appropriately for reclaim

2.5.3 Section 137:

2.5.3.1 That an analysis of payments made under Section 137 of the Local Government Act 1972 is kept and that cash limit is not exceeded. The RFO should consider whether the power is being properly used.

2.5.4 Financial risk arrangements:

2.5.4.1 That sufficient checks are in place to manage risk and that these are reviewed regularly.

2.5.5 Budgetary controls:

2.5.5.1 The internal auditor will verify that a budget has been properly prepared and adopted in setting the precept and that regular reports to council on expenditure and variances from budget are made.

2.5.5.2 The internal auditor will also ensure adequate but not excessive balances are in place.

2.5.6 Income controls:

2.5.6.1 The internal auditor will look for evidence that all income is properly and promptly received, including the issue of receipts. The internal auditor should also verify that the council has in place appropriate credit control systems to ensure regular income collection. The internal auditor should ensure that the management of council funds is in line with financial regulations.

2.5.7 Petty cash procedure:

2.5.7.1 The internal auditor will be looking to see that there is an established system in place rather than an ad hoc reimbursement and that the council has a system for the regular approval of petty cash expenditure by the RFO, currently on a monthly basis insuring the imprest of £200.00 is not exceeded.

2.5.8 Payroll controls:

2.5.8.1 The internal auditor will be seeking reassurances that the system for payroll is delivering the correct payments for wages and salaries and that PAYE/NIC is correctly deducted from the gross pay and paid to the Inland Revenue.

2.5.8.2 The internal auditor should check that there is evidence that pay scales for each employee are approved either in the minutes when reviews occur, or as part of the Contract of Employment.

2.5.9 Asset control:

2.5.9.1 The internal auditor will ensure that an asset register is maintained and reviewed on a regular basis, including acquisitions and disposals, and that the assets are physically checked. This verification should include confirmation that insurance cover is sufficient.

2.5.10 Bank reconciliation:

2.5.10.1 The internal auditor will ensure that bank reconciliation's are properly carried out on receipt of each bank statement. It may be appropriate for the year end balances and their reconciliation to be checked in detail.

2.5.11 Year-end procedures:

2.5.11.1 The internal auditor should ensure that the RFO has overseen the production of the year-end financial statements, using the appropriate accounting basis, that the figures can be followed through on working papers and that any adjustments, transfers, contras etc., are fully explained or justified.

2.5.11.2 Internal audit would not expect to check all figures but would probably verify a small sample and the totals, assets and liabilities should be properly valued. Internal audit will scrutinise the lists of creditors and other balances to ensure that the system is working adequately and that transactions in the one year that may relate to another have been identified. Internal audit should also check that payments of interest and principal in respect of loans are in accordance with an agreed schedule.