Our Ref: MARK/ALT001

The Clerk to the Council
Alton Town Council
Town Hall
Market Square
Alton
Hampshire
GU34 1HD

2nd October 2024

Dear Pat

Re: Alton Town Council
Internal Audit Year Ended 31 March 2025 – Interim Audit report

Executive summary

Following completion of our interim internal audit on 2nd October 2024 we enclose our report for your kind attention and presentation to the council. The audit was conducted in accordance with current practices and guidelines and testing was risk based. Whilst we have not tested all transactions, our samples have where appropriate covered the entire year to date.

Our report is presented in the same order as the assertions on the internal auditor report within the published Annual Governance and Accountability Return (AGAR). The start of each section details the nature of the assertion to be verified. Testing requirements follow those detailed in the audit plan previously sent to the council, a copy of which is available on request. The report concludes with an opinion as to whether each assertion has been met or not at this point in the year. Some assertions are tested only at the final internal audit, and this is reflected where appropriate in the report. **Recommendations for action are shown in bold text and are summarised in the table at the end of the report.**

Our sample testing did not uncover any errors or misstatements that require reporting to the external auditor at this time, nor did we identify any significant weaknesses in the internal controls such that public money would be put at risk.

It is clear the council takes governance, policies and procedures seriously and I am pleased to report that overall, the systems and procedures you have in place are fit for purpose and whilst my report may contain recommendations to change these are not indicative of any significant failings, but rather are pointers to improving upon an already well-ordered system. The systems in place are a model of good practice.

It is therefore our opinion that the systems and internal procedures at Alton Town Council are well established and followed.

Regulation

The Accounts and Audit Regulations 2015 require smaller authorities, each financial year, to conduct a review of the effectiveness of the system of internal control and prepare an annual governance statement in accordance with proper practices in relation to accounts. In addition to this, a smaller authority is required by Regulation 5(1) of the Accounts and Audit Regulations 2015 to "undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."

Internal auditing is an independent, objective assurance activity designed to improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The purpose of internal audit is to review and report to the authority on whether its systems of financial and other internal controls over its activities and operating procedures are effective.

Internal audit's function is to test and report to the authority on whether its specific system of internal control is adequate and working satisfactorily. The internal audit reports should therefore be made available to all Members to support and inform them when they considering the authority's approval of the annual governance statement.

Independence and competence

Your audit was conducted by Mark Mulberry of Mulberry Local Authority Services Ltd, who has over 30 years' experience in the financial sector with the last 14 years specialising in local government.

Your auditor is independent from the management of the financial controls and procedures of the council and has no conflicts of interest with the audit client, nor do they provide any management or financial assistance to the client.

Engagement Letter

An engagement letter was previously issued to the council covering the 2024/25 internal audit assignment. Copies of this document are available on request.

Planning and inherent risk assessment

The scope and plan of works including fee structure was issued to the council under separate cover. Copies of this document are available on request. In summary, our work will address each of the internal control objectives as stated on the Annual Internal Audit Report of the AGAR.

It is our opinion that the inherent risk of error or misstatement is low, and the controls of the council can be relied upon and as such substantive testing of individual transactions is not required. Testing to be carried out will be "walk through testing" on sample data to encompass the period of the council year under review.

Table of contents

A. BOOKS OF ACCOUNT

Internal audit requirement

Appropriate accounting records have been properly kept throughout the financial year.

Tested at first interim

B. FINANCIAL REGULATIONS, GOVERNANCE AND PAYMENTS

Internal audit requirement

This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved, and VAT was appropriately accounted for.

Audit findings

Tested at first interim

C. RISK MANAGEMENT AND INSURANCE

Internal audit requirement

This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.

Audit findings

FR 2.4. At least once a year, the council must review the effectiveness of its system of internal control, before approving the Annual Governance Statement.

FR 2.5. The accounting control systems determined by the RFO must include measures to: • ensure that risk is appropriately managed; • ensure the prompt, accurate recording of financial transactions; • prevent and detect inaccuracy or fraud; and • allow the reconstitution of any lost records; • identify the duties of officers dealing with transactions and • ensure division of responsibilities.

The council has a detailed risk assessment process in place. I reviewed a sample of the risk assessments. These contain risks broken down by category, the specific risk identified, an assessment of the likelihood, and severity of the risk occurring and the control measures in place.

The external equipment/play areas are reviewed and maintained bi-weekly by an external contractor and reports provided to the council. The council keeps a monthly score record to provide clarity on which items need repair or replacement. This is discussed with the clerk on a regular basis. There were a couple of high score items, which indicate poorer condition; however, there is a project in place to update the MUGA which will resolve this.

The council also has a system of internal financial controls which were reviewed on the 19th of April 2024 this will be taken to the next council meeting on the 9th of October.

This type of approach is suitable for a council of this size and demonstrates that the council takes its risk management responsibilities seriously.

I confirmed that the council has a valid three year insurance policy in place with Zurich which expires in March 2025. The policy includes Public Liability £10,000,00 and Employers Liability cover of £10 million each and a published Fidelity Guarantee of £250,00.

The council has systems in place to review the "*effectiveness of its system of internal control, before approving the Annual Governance Statement".* This will be in a tabular format mirroring the statement for ease of reference. The controls the council has are, but not limited to, bank reconciliations, review by councillors, budget reporting, control account reconciliation & hierarchical control.

I am under no doubt the council manages risk and insurance in accordance with regulation. This assertion has been met.

D. BUDGET, PRECEPT AND RESERVES

Internal audit requirement

The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.

Audit findings

FR 4.1 Before setting a precept, the council must calculate its council tax requirement for each financial year by preparing and approving a budget, in accordance with The Local Government Finance Act 1992 or succeeding legislation.

The council set a precept of £851,976.11 for 2024/25 on the 10th of January 2024 minute ref 72. I confirmed receipt to the council records.

The Clerk confirmed that the 2025/26 budget setting process is underway with deadlines set & achievable. The first drafts have been prepared and will be taken to budget workshop on the 11th of December.

The Clerk presents monthly budget performance information to full council, where detailed scrutiny of performance against budget is carried out. This provides councillors with sufficient financial information to make informed decisions.

I reviewed the September Income & Expenditure which shows budgeted income of £1.4 against £1.7m of expenditure. This shows a potential deficit of £267k – this is planned to come from earmarked reserves. To date the council has £520k surplus, however this is because the precept has just come in and there is still six months of expenditure to recognise. I have confirmed that any surplus funds for projects will at the end of the year be transferred to earmarked reserves to ensure correct expenditure in future years.

At the date of the interim internal audit, the council held circa £1,560,345 in earmarked reserves, spread across a range of clearly identifiable projects. I checked the purpose of the earmarked reserves with the Clerk who confirmed that all the projects are still on the council's agenda for delivery.

The council also holds circa £559k in the general reserve at the time of the internal audit.

The Joint Panel on Accountability and Governance (JPAG) Practitioner's guide states *'the generally accepted recommendation with regard to the appropriate minimum level of a smaller authority's general reserve is that this should be maintained at between three and twelve months of net revenue expenditure'* (para 5.33).

The general reserve balance is within range.

E. INCOME

Internal audit requirement

Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.

Audit findings

Apart from the precept, the council receives other income from hire, allotments, interest & grants. Fees and charges are reviewed annually at the end of the financial year. The last time fees and charges were reviewed was 15th of March 2024 minute ref 126.

The council has budgeted for £1.4m of income of which precept is £850k, S106 288K, rents £169k and Interest £50k, with fees and charges making up the balance.

The precept has been received in full and verified to the precept application in the minutes, to date no S106 monies have been drawn down, and £40,948 of interest has been received. Approximately £88k of rents have been received which is 50% of the budget amount.

From a review of the accounting records, income appears to be recorded with sufficient narrative detail to identify the source and allocated to the most appropriate nominal code.

There is no evidence of netting of income and expenditure.

I have reviewed a sample of sales invoices drawn at random and a sample of invoices to charities. **I remind council that it is important to obtain a certificate of exemption from the charity in order to be able to zero rate the sales invoice to them. In the absence of a valid certificate of exemption VAT must be charged on invoices to charities. The certificates should be retained in the Vat permanent folder. I have provided the Assistant Clerk with the links to the HMRC website for pro form exemption certificates.**

F. PETTY CASH

Internal audit requirement

Petty cash payments were properly supported by receipts, all petty cash expenditure was approved, and VAT appropriately accounted for.

Audit findings

The council maintains a minimal petty cash float and records the entries in a separate cashbook. A review of the entries shows that the petty cash is used appropriately for incidental expenditure, and the amounts are inconsequential to the overall finances of the council.

I tested the petty cash and agreed it back to the cashbook and the cash analysis.

G. PAYROLL

Internal audit requirement

Salaries to employees and allowances to members were paid in accordance with this authority's approvals, and PAYE and NI requirements were properly applied.

Audit findings

The council processes payroll in house, using payroll software. I reviewed the payslips for September 2024 and the payroll deductions are correct. There are no councillor allowances.

The council has correctly disclaimed the employment allowance.

PAYE & NI and pensions are correctly paid on time.

I selected the new starter to verify the payroll to the contract and council approval. I was able to verify to contract, and the NJC scale.

H. ASSETS AND INVESTMENTS

Internal audit requirement

Asset and investments registers were complete and accurate and properly maintained.

To be tested at a later interim visit

I. BANK AND CASH

Internal audit requirement

Periodic and year-end bank account reconciliations were properly carried out.

Audit findings

Financial regulation 2.2 states 'At least once in each quarter, and at each financial year end, a member other than the Council Chairman or a cheque signatory shall be appointed to verify bank reconciliations (for all accounts) produced by the RFO. The member shall sign and date the reconciliations and the original bank statements (or similar document) as evidence of this. This activity, including any exceptions, shall be reported to and noted by the full council.

Bank reconciliations are completed monthly and presented to council at every meeting for review. I reviewed the reconciliations presented for the interim audit and was able to confirm the balances to the bank statements and found no errors.

I noted that the reconciliation and bank statement have been signed in accordance with the Financial Regulations.

J. YEAR END ACCOUNTS

Tested at first interim

K. LIMITED ASSURANCE REVIEW

Tested at first interim

L: PUBLICATION OF INFORMATION

Tested at first interim

M: EXERCISE OF PUBLIC RIGHTS - INSPECTION OF ACCOUNTS

Tested at first interim

N: PUBLICATION REQUIREMENTS

Tested at first interim

O. TRUSTEESHIP

Internal audit requirement

Trust funds (including charitable) – The council met its responsibilities as a trustee.

Audit findings

The council has no trusts.

Achievement of control assertions at interim audit date

Based on the tests conducted during the interim audit, our conclusions on the achievement of the internal control objectives are summarised in the table below. A further review and update of this opinion will be conducted at the final audit.

	INTERNAL CONTROL OBJECTIVE	**YES**	**NO**	**NOT COVERED**
A	Appropriate accounting records have been properly kept throughout the financial year	✓		
B	This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved, and VAT was appropriately accounted for	✓		
C	This authority assesses the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these	✓		
D	The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.	✓		
E	Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for	✓		
F	Petty cash payments were properly supported by receipts, all petty cash expenditure was approved, and VAT appropriately accounted for	✓		
G	Salaries to employees and allowances to members were paid in accordance with this authority's approvals, and PAYE and NI requirements were properly applied.	✓		
H	Asset and investments registers were complete and accurate and properly maintained.			✓
I	Periodic bank account reconciliations were properly carried out during the year.	✓		
J	Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, supported by an adequate audit trail from underlying records and where appropriate debtors and creditors were properly recorded.	✓		
K	If the authority certified itself as exempt from a limited assurance review in 2022/23, it met the exemption criteria and correctly declared itself exempt. *(If the authority had a limited assurance review of its 2022/23 AGAR tick "not covered")*			✓ N/A
L	The authority published the required information on a website/webpage up to date at the time of the internal audit in accordance with the relevant legislation	✓		
M	The authority, during the previous year (2022-23) correctly provided for the period for the exercise of public rights as required by the Accounts and Audit Regulations *(evidenced by the notice published on the website and/or authority approved minutes confirming the dates set).*	✓		
N	The authority has complied with the publication requirements for 2022/23 AGAR.	✓		
O	Trust funds (including charitable) – The council met its responsibilities as a trustee.			✓ N/A

Should you have any queries please do not hesitate to contact me.

Yours sincerely

<u>Mark Mulberry</u>
Mulberry Local Authority Services Ltd

Interim Audit 2024/25 - Points Carried Forward

Audit Point	Audit Findings	Council comments
Financial Reg 6.5	*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.* **Audit Results** Only 1 cheque has been issued in the last 6 months for reimbursement of expenses. **I remind council to ensure the cheque stub is initialled twice.**	On-going no cheques issue
Governance	*Confirm by sample testing that councillors sign statutory office forms.* I confirmed by sample testing that councillors sign “Acceptance of Office” forms. The council website provides details of councillors and their individual Register of Members’ Interests Forms can be found on the district website. **It is noted that the new councillor will need to sign a declaration to receive information by electronic means.**	Completed
VAT	I have reviewed a sample of sales invoices drawn at random and a sample of invoices to charities. **I remind council that it is important to obtain a certificate of exemption from the charity in order to be able to zero rate the sales invoice to them. In the absence of a valid certificate of exemption VAT must be charged on invoices to charities. The certificates should be retained in the Vat permanent folder. I have provided the Assistant Clerk with the links to the HMRC website for pro form exemption certificates.**	