MULBERRY
LOCAL AUTHORITY SERVICES LTD
Eastgate House
Dogflud Way, Farnham
Surrey, GU9 7UD
t 01252 929 590
e office@mulberrylas.co.uk
w www.mulberrylas.co.uk

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

7th January 2026

Dear Tom,

Re: Alton Town Council
Internal Audit Year Ended 31 March 2026 – Interim Audit report 2

Executive summary

Following completion of our interim internal audit on 7th January 2026 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.

It is therefore our opinion that the systems and internal procedures at Alton Town Council are a model of good practice.

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 2025/26 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

		TEST AT INTERIM	TEST AT INTERIM	TEST AT INTERIM	TEST AT FINAL
A	BOOKS OF ACCOUNT	✓			
B	FINANCIAL REGULATIONS, GOVERNANCE AND PAYMENTS	✓		✓	
C	RISK MANAGEMENT AND INSURANCE		✓		
D	BUDGET, PRECEPT AND RESERVES		✓	✓	✓
E	INCOME		✓		
F	PETTY CASH	✓	✓	✓	✓
G	PAYROLL		✓		✓
H	ASSETS AND INVESTMENTS			✓	✓
I	BANK AND CASH	✓	✓	✓	✓
J	YEAR END ACCOUNTS	✓			✓
K	LIMITED ASSURANCE REVIEW	✓			
L	PUBLICATION OF INFORMATION	✓			
M	EXERCISE OF PUBLIC RIGHTS – INSPECTION OF ACCOUNTS	✓			✓
N	PUBLICATION REQUIREMENTS	✓			
O	TRUSTEESHIP	N/A	N/A	N/A	N/A
	ACHIEVEMENT OF CONTROL ASSERTIONS AT INTERIM AUDIT DATE				
	INTERIM AUDIT POINTS CARRIED FORWARD				

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.

Due to the size of the council, the council has limited segregation of duties within the finance function; however, as a compensating control it has robust hierarchical review and monitoring by councillors and staff. The processing of purchase orders and supplier invoices are undertaken by separate individuals.

In advance of a full council meeting all councillors receive a list of payments made in the preceding month that exceed £500 in value, together with a list of changed direct debits. The physical invoices to which the payments list relates are scanned in PDF and sent to the councillors responsible for authorising the physical payments that month. Authorisers are rotated each month.

The supplier invoices are appropriately annotated and filed in payment order then alphabetically. The council has procedures for ensuring goods and services are received prior to physical payment. It is worth noting the council is not so large that formal goods in and or manager approval is required as the majority of transactions route through the finance office.

The on-line bank system is populated twice a month by the assistant clerk/finance officer. The originator of a transaction is unable to authorise the same transaction. Two councillors are then required to log on using their own log-ons to authorise the release of the funds. This is a dual authorisation system.

The integrated nature of the Rialtas financial reporting package means that the VAT entries are generated from the purchase ledger and cashbook and as such there is no variance between the ledgers and the VAT returns. The council submits quarterly VAT returns and there is no history of late returns. Previous testing has shown VAT returns to have been produced within a short time period after the quarter end.

The council has a single credit card in the name of the council. This is kept in the locked petty cash tin in the safe. The monthly spend limit is £5,000 and this is collected monthly by DD by the issuing bank. The Clerk is responsible for the credit card, and all payments require a dual authorisation which goes to the Clerk's phone. The card can only be used from the finance office due to the authorisation requirements. Invoices for payment are dealt with in the same manner as all other invoices.

I have reviewed the purchase invoice file for October 2025 and was able to confirm all payments over £500 were detailed on the payments list issued to councillors and that both the list and invoices also agreed to the physical payment on the bank statement. There were no errors. In fact, the records are so neat that the payments list and bank statement run in the same order, which made testing very easy. There is no benefit for internal audit to test every month, given no single error was found in the entire October month.

I am satisfied this control objective has been met.

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.

Tested at second Interim

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.

The council in its meeting on the 10th of December properly agreed the 2026/27 budget then the precept, which was set at £946,920. The precept was properly calculated after accounting for movement on earmarked reserves.

The council resolved at the same time to streamline and amalgamate its £1.5m of earmarked reserves.

The precept application has been written and signed by the Chair and Clerk and submitted to district.

I am satisfied this control objective has been met.

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.

The council has a number of income streams and invoices are raised using the Rialtas financial reporting package, which provides detail on the VAT codes used, (Outside Scope – OTS, Exempt – E, Zero rated - Z and standard rated – S). I believe that whilst there is no VAT at stake there is some confusion as to which VAT code to use in which circumstances. (see invoices 12713, 14 & 15 as examples).

I set out below some guidance the council may find useful. **I therefore recommend the council review the VAT settings on the sales ledger in accordance with the guidance below.**

General rule in VAT notice 742

As set out in para 2.4 – 2.6 & 3.1 agreements between the Council and its tenants/lessees/hirers granting rights over land and licences to occupy land, including leases and letting are VAT-exempt and should use VAT code E.

Commercial rents

The council let several properties on long leases and short-term leases. Under the above general rule these are all VAT-exempt. However, where the property/land is VAT opted to tax this will be a standard rated – VAT code S.

Recharges to lessees

The council routinely recharges certain costs to its tenants/lessees in accordance with their leases.

- Para 11.2 of VAT notice 742 states that insurance recharges are to be treated as per Commercial Rents i.e. VAT-exempt.
- Para 11.7.6 states that recharges of gas and electricity should be either
    - (a) VAT-exempt if un-metered or
    - (b) VAT-rated as per the suppliers electricity bills (reduced or standard-rated) if separately metered.

In practice all buildings that have not been opted to tax are VAT-exempt, which means that the council is possibly unable to reclaim the VAT on its suppliers invoices and must bear the cost of any input VAT, subject to the deminimus threshold of £7,500. (see partial exemption below)

If the council then recharges the supplier cost in accordance with the lease, for (a – an un metred supply) it will recharge the gross cost; for (b - a separately metred supply) it will recharge net plus the associated 5%/20% output VAT.

Room Hire

The council rents out rooms to hirers for hours/days in various Council buildings. Where the venue is opted to tax, these hires are standard-rated for VAT purposes. For all other venues under the above general rule they are VAT-exempt.

Pitch hire

As per the above general rule and bullet 8 of para 2.6, granting traders such pitches are VAT-exempt.

Allotments

In respect of allotments, the provision of allotments by a local authority is typically treated as a non-business activity. This is because the service is provided under a statutory obligation and does not operate in the same way as a private, commercial venture. As a non-business activity, the local authority does not charge VAT on rents received from plot holders; accordingly, these supplies are outside the scope of VAT. VAT code OTS

More generally, activities for which charges are made but which are governed by a specific legal regime that does not apply to the private sector may also be treated as non-business activities. The provision of allotments and cemeteries (though not crematoria) falls within this category, although certain supplies within cemeteries may still constitute business activities.

However, please note that if the land has been opted to tax, the supply will become taxable. VAT code S

In terms of the legal basis, this is covered by the Small Holdings and Allotments Act 1908 (paragraph 23), which places a duty on local authorities to provide allotments where demand exists.

Partial Exemption

Where a local authority has mixed supplies of exempt and standard rated items, it is classed as partially exempt. This means potentially some of the input tax reclaimed during the year will have to be repaid to HMRC at the end of the council year.

At the end of the council year the council must carefully review the costs it has incurred on its exempt supply items to ensure the VAT reclaimed in total is below the deminimus threshold of £7,500 per annum. If the VAT reclaimed is above £7,500 then it must be paid back to HMRC on the next VAT return by adjusting box 4. Please note the £7,500 is a threshold not an allowance. **I recommend an exercise is undertaken to list all the costs incurred on exempt supply items to ascertain the amount of VAT reclaimed.**

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 VAT was appropriately reclaimed.

I am satisfied this control objective has been met.

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.

Tested at second Interim

H. ASSETS AND INVESTMENTS

Internal audit requirement

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

The council maintains an asset register within the Rialtas financial reporting package. The package requires the population of key fields and from this it is easy to identify additions and disposals. The register is up to date and current. Due to the integrated nature of the package, it is possible to verify the balance per the AGAR to the register.

I reviewed the register and can confirm assets are properly shown at historic or proxy cost. The register allows for insurance and replacement value to be entered as necessary.

I tested all the assets added to the register and can confirm they were correctly added at net of VAT cost.

In testing the assets, I was also able to confirm these was properly approved and ordered in accordance with financial regulations. The council undertakes periodic reviews of fixed assets and records this. **I recommend these review dates be added to the register.**

The council has not issued any loans.

The council has PWLB borrowing. The capital and interest payments are properly recorded in the accounts and payments agree to the PWLB statement. The end of year balances on the AGAR are correct and agree to the end of year statement.

I am satisfied this control objective has been met.

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 October, November & December and was able to confirm the balances to the bank statements and found no errors.

I noted that the reconciliations have been signed in accordance with the Financial Regulations.

I am satisfied this control objective has been met.

J. YEAR END ACCOUNTS

Internal audit requirement

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.

Tested at first Interim

K. LIMITED ASSURANCE REVIEW

Internal audit requirement

IF the authority certified itself as exempt from a limited assurance review in 2024/25, it met the exemption criteria and correctly declared itself exempt. (If the authority had a limited assurance review of its 2024/25 AGAR tick "not covered")

Audit findings

The council did not class itself as exempt – this test does not apply.

L: PUBLICATION OF INFORMATION

Internal audit requirement

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

Tested at first Interim

M: EXERCISE OF PUBLIC RIGHTS - INSPECTION OF ACCOUNTS

Internal audit requirement

The authority has demonstrated that during summer 2025 it correctly provided for the exercise of public rights as required by the Accounts and Audit Regulations.

Tested at first Interim

N: PUBLICATION REQUIREMENTS

Internal audit requirement

The authority has complied with the publication requirements for 2024/25. Under the Accounts and Audit Regulations 2015, authorities must publish the following information on the authority website / webpage.

Tested at second 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, and testing for this internal control objective is not applicable.

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

Mark Mulberry
Mulberry Local Authority Services Ltd

Interim Audit 2025/26 - Points Carried Forward

Audit Point	Audit Findings	Council comments
Governance	I recommend the council draw up a new IT policy to encompass assertion 10 and undertake a data audit to identify where data is stored and how protected. I have signposted the deputy clerk to a local council where this can be seen in practice.	
Risk	I would recommend that the linked reserves strategy is updated as this is dated 2016. In addition to this, I would recommend the production of a policies calendar to ensure all policies are reviewed in time.	
Payroll	I recommend the PAYE & NI is set up to be collected by direct debit and to not show the granular data on the NI payment request in the purchase invoice folder – this can be retrospectively redacted.	completed
Publication - website	I recommend a review of the layout of the financial page on the website.	

Audit Point	Audit Findings	Council comments
Income & VAT	**I therefore recommend the council review the VAT settings on the sales ledger in accordance with the guidance below.** **I recommend an exercise is undertaken to list all the costs incurred on exempt supply items to ascertain the amount of VAT reclaimed.**	
Fixed Assets	**I recommend the asset review dates be added to the register on Rialtas.**	