Effectiveness of Internal Audit

Thurston Parish Council

Paper: Effectiveness of Internal Audit - Agenda Item 5b
Reason: To carry out a review of the effectiveness of internal audit for the year ending 31 March 2027
Period covered: 1 April 2026 to 31 March 2027
Presented to Council: Policy and Resources Committee
Date: 11 November 2026
Author: Responsible Financial Officer (RFO)

Background

1. 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.'
2. Proper practices states that internal auditing is an independent, objective assurance activity designed to improve an organisation's operations.
3. 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.
4. The key principles an authority should follow in sourcing an internal audit provider are independence, competence and proportionate:
    a. The internal audit function must be independent from the management of the financial controls and procedures of the authority which are the subject of review.
    b. The person or persons carrying out internal audit must be competent to carry out the role in a way that meets the business needs of the authority. It is for each authority to decide, given its circumstances, what level of competency is appropriate, and to keep this issue under review.
    c. When securing an internal audit service, the parish council should make sure that it is proportionate to the needs, size and the circumstances of the authority.
5. The scope of the Internal Audit being proposed is found at Appendix A.

Internal Audit Review Checklist

the following questions if answered in the affirmation will ensure that the Council is meeting the standards of audit provision:

Expected Standard	Evidence of achievement	Commentary
Independence	Internal audit has direct access to those charged with governance. Internal audit does not have any other role within the council and is independent of the financial controls and procedures of the council which are the subject of review	Proposed internal auditor has no involvement in, or responsibility for the financial decision making, management or control of the parish council's financial controls and procedures.
Competence	There is no evidence of a failure to carry out internal audit work ethically, with integrity and objectivity. Internal audit work reviews systems and covers risk management and duties applicable to the parish council and the legal and corporate framework in which it operates.	Proposed internal auditor is regarded as competent within the field of internal audit. There is no requirement to rotate auditors but there is a requirement for the appointment to be reviewed every year.

Proportionate	Internal audit is appropriate to test the existence and adequacy of internal controls and will be carried out on an annual basis. Internal audit will provide assurance for the council's Annual Governance Statement.	The work undertaken is deemed to prove of benefit to the annual governance process. The internal audit review is evidence based and will include a review of previous audits, appropriate action plans, results of any investigations, monitoring reports and reports from the external auditor.
Effective	At least annually, Council should carry out a review of the effectiveness of its overall internal audit arrangements. Any review should balance the authority's internal audit needs and usage. It should be designed to provide sufficient assurance for the authority that standards are being met and that the work of internal audit is effective.	As part of the review, the internal audit will produce a report to the council which will highlight areas for improvement or development. The review will be evidence based with information gathered throughout the year. The review will take place prior to Council's consideration of the Annual Governance Statement of the Annual Governance and Accountability Return (May 2027).

Recommendation:
The committee to confirm that it has carried out a review of the effectiveness of the council's overall internal audit arrangements in regard to personal independence, financial independence and professional independence and confirms the adequacy and effectiveness of its system of internal control.

Action:
Once confirmed, the review should be reported to full Council at the earliest opportunity.

Appendix A - scope of Internal Audit being proposed

The Internal Audit will focus upon the key systems of internal control in operation to provide assurance to the Parish Council that satisfactory overall financial and regulatory arrangements are in place.

The End-of-Year Internal Audit can be undertaken following the completion of the 2026-2027 Accounts and has provisionally been arranged for the end of April 2027.

The audit will enable the completion of the Annual Internal Audit Report within the Annual Governance and Accountability Return (AGAR) for the year 2026 - 2027.

1. Governance, Standing Orders, Financial Regulations and other Regulatory Issues
    a) Was the Annual Parish Council meeting held in accordance with the appropriate legislation in place at the time? Were Membership and Terms of Reference for the Council's Committees reviewed and approved?
    b) Has the Council recently reviewed and formally adopted up-dated Standing Orders and Financial Regulations? Are they the NALC model documents, and have they been tailored to meet the particular requirements of the Council?
    c) Confirm that a Responsible Financial Officer is in post with specific duties agreed under contract.
    d) Has the Council's 3-Year Business Plan been reviewed and updated?
    e) Confirm that the Councillors' Code of Conduct has been adopted and is being correctly applied.
    f) Is the General Power of Competence continuing to be correctly applied within the Council?
    g) Confirm that the Council is registered as a Fee Payer/Data Controller under Data Protection legislation. Is a Data Protection Policy, and other appropriate policies, in place to evidence compliance with GDPR requirements? Have appropriate Privacy Notices been published? Have any significant issues arisen regarding compliance with the GDPR
        d. g. any data security breaches?
    h) Do the Council's Minutes (for Full Council and for its Committees) provide a clear record of the actions and decisions taken?
    i) Has the Council appropriate Policies, Procedures and Protocols in place? Are they frequently reviewed and updated? Is a Schedule for Review of Policies in place?
    j) Has the Council appropriate measures in place to meet the requirements of the new Assertion 10 in the Annual Governance Statement e.g. a .gov.uk domain address, adopted an IT Policy and published a Website Accessibility Statement?

2. Accounting Procedures and Proper Book-keeping
    a) Is the Council's RBS Rialtas Accounting System/Cashbook being properly maintained and up to date?
    b) Is the Accounting System regularly balanced and reconciled to the bank statements?
    c) Is the Accounting System appropriate and fit for purpose comparative to the Council's requirements and the transactions regularly passing through the Accounts?
    d) Is there a clear audit trail from the underlying financial records to the Accounts?
    e) Are the financial information and data being produced from the accounting system and delivered to Parish Councillors adequate and relevant to the Council's needs?

f) Have re-claims for VAT paid been submitted to HMRC regularly and promptly?
g) Are details of the General Reserves, Earmarked Reserves and Restricted Reserves identified and correctly recorded in the accounts?
h) Was a Community Infrastructure Levy (CIL) Report for the year 2025-26 submitted to the District Council by the due date of 31 December 2026? Has a CIL Report been prepared for the year 2026-27?

3. Bank Reconciliation
    a) Confirm that a Bank Reconciliation for each bank account has been carried out regularly and timely. Is the reconciliation being performed each month?
    b) Has the Bank Reconciliation as of 31 March 2027 been performed correctly? Can the Bank Reconciliation be confirmed from Bank Statements and investment records and have any unpresented payments or receipts (if appropriate) been correctly identified in the Reconciliation?
    c) Are there any unexplained balancing entries in any reconciliation?
    d) Do the Council and its Committees (as appropriate) receive regular reports of bank balances and reconciliations? Are the details Minuted?

4. End of Year Procedures
    a) Are year-end accounts prepared on the correct accounting basis (Receipt and Payments or Income and Expenditure)? Confirm correctness of entries in year-end accounts on a sample basis.
    b) Are the details of the Earmarked Reserves and General Reserves correctly recorded in the accounts at the year-end?
    c) Is there a clear audit trail from underlying financial records to the End-of-Year accounts?
    d) If appropriate, does the PWLB principal outstanding at the year-end agree with PWLB's notification and information listed on the PWLB website?
    e) Are there any outstanding legal, regulatory or contractual issues that may impact upon the Council and may require to be reflected in the accounts?
    f) Has the End-of-Year AGAR for 2026-27 been completed correctly? Have Sections 1 and 2 been (or have yet to be) approved, signed and dated? Does Section 2 (Accounting Statements) balance correctly? Can each entry be confirmed as correct?

5. Budgetary Controls
    a) Has the Council prepared an annual budget in support of the Precept in respect of both 2026-27 and 2027-28 years of account?
    b) Are budget papers suitably detailed to ensure that Councillors have sufficient information to make informed decisions?
    c) Has the Precept amount been agreed in Full Council and clearly Minuted?
    d) Are there any significant unexplained variances from budget?
    e) Has actual expenditure against the 2026-27 Budget been regularly reported to and considered by the Council?
    f) Are Reserves (both General and Earmarked) regularly monitored? Is the level of overall Reserves adequate to provide for any unforeseen costs? Does the level of General Reserves meet best financial practice?

6. Internal Financial Controls, Payments Controls and Audit Procedures

A sample of payments made during the period April 2026 to March 2027 will be selected in order to examine/confirm the following:

a) Is there a clear audit trail to clearly demonstrate that Payments in the Cashbook are supported by invoices, properly authorised and Minuted?
b) Are Electronic Payments and other Internet Banking transactions, including transfers, properly recorded and approved? Is the Electronic Payment document confirming the date/time, payee and amount of the payment held with the invoice?
c) Has the VAT element on payments been correctly identified, recorded and reclaimed?
d) Have the appropriate Standing Orders and Financial Regulations been met?
e) Do the Council's Minutes provide a clear record of the payments made by including a list of the payments approved by Council at each meeting?
f) Is the statutory basis for the payment identified?
g) Have items or services above the de minimus amount been competitively purchased?
h) Is a Petty Cash system in operation? If so, are associated books and an adequate control system in place. Are written instructions in place for its use?
i) Are arrangements in place for the use of a corporate Credit/Debit Card. Are written instructions in place for its use and have they been formally approved by the Council and details included in Financial Regulations?
j) Are purchases by Petty Cash and/or Debit/Credit card evidenced/supported by invoices/vouchers? Confirm/test-check the current arrangements relating to the use of the card. Are the transactions reported to the Council?
k) Has the previous Internal Audit Report for the year 2025-26 been presented to the Council and Minuted? Have any recommendations or areas of concern raised by the Internal Auditor been considered/addressed or an Action Plan in place?

7. Payroll Controls
   a) Confirm the procedures in operation for the provision of Payroll Services (in-house or outsourced).
   b) Do all employees have Contracts of Employment with clear terms and conditions?
   c) Have there been any changes in staffing, staff appointments and rates of salaries paid since the 2024/25 End-of-Year Internal Audit? If so, have all changes been agreed by the Council? Have PAYE and NIC been properly operated by the Council as an employer?Have P60 End-of-Year Certificates been prepared?
   d) Has the Council been advised of the current NJC salary scales and approved any increases in salaries? Do salaries paid agree with those approved by the Council?
   e) Are payments other than salary payments to employees reasonable and approved by the Council?
   f) Are appropriate staffing policies (e.g. Lone Working, Grievance, Sickness and Absence Policies) in place and regularly reviewed?
   g) Are workplace pension requirements being met and correctly applied? Have the Pensions Regulator's requirements been met in full (e.g. any necessary re-declarations made)?

8. Income Controls

A sample of income items received during the period April 2025 to March 2026 will be selected in order to examine/confirm the following:

   a) Is income properly recorded in the accounting system (and promptly banked where appropriate)? Does documentary evidence exist to confirm that the correct amount of income has been invoiced/received?

b) Are security controls over cash and cheques adequate and effective? Are debtors encouraged to make payment electronically?
c) Are invoices promptly issued and followed up as necessary? Is the follow-up procedure adequate and effective? What is the current balance of debt outstanding?
d) Are all income sources, fees and charges reviewed each year to confirm appropriate and adequate rates are being charged? Have these issues been adequately dealt with in the budget process and are being monitored?
e) Are receipts reported routinely to the Council and Minuted?

9. Internal Control and the Risk Management arrangements
    a) Are internal control systems documented and regularly reviewed? Is a Statement of Internal Controls in place?
    b) Is an overall Risk Management Policy in place? Are the risk assessment documents being used in appropriate cases/incidents? Do they adequately cover risks (financial and other) faced by the Council and detail the mitigating actions in place?
    c) Are Quarterly Internal Control Reports prepared by a designated Councillor and reported to Full Council in order to regularly confirm that internal controls are effective?
    d) Are key risk areas (e.g. play areas) adequately covered by risk assessments and reports regularly made to the Council? Are annual RoSPA inspections undertaken on all play areas owned by the Council?
    e) Do Minutes record the Council carrying out an annual or regular risk assessment and review of internal control systems? Are arrangements in place to meet the Accounts and Audit Regulations requirement that the Full Council must formally consider internal control arrangements (including risk management arrangements) in each year of account?
    f) Following the Recommendation put forward in the 2024/25 Internal Audit Report, has the Council taken action to comply with the approved Investment Strategy by examining the risks involved in holding sums with one bank and look to the placing of funds within a range of accounts to secure maximum protection under the Financial Services Compensation Scheme (FSCS)?
    g) Has insurance cover been reviewed by the Council and a new policy entered into for the year 2026-27? Is insurance cover (e.g. Employer's Liability and Public Liability) appropriate and adequate? Does the Fidelity Guarantee (Councillor/Employee Dishonesty) cover meet current best practice?

10. Asset Control and Valuations
    a) Does the Council's Asset Register display all material assets owned by the Council or in its care? Is the Asset Register up to date and includes all acquisitions since 1 April 2025?
    b) Are valuations consistent, year-on-year, to meet current valuation requirements?
    c) Is the Asset Register regularly reviewed by the Council (at least annually)?
    d) Have the items listed in the Register been agreed with those in the insurance schedules to ensure that appropriate cover is in force? Have all new acquisitions been included within the cover, where appropriate?

11. External Audit
    a) Has the Certificate and Report from the External Auditors for the year 2024/25 been presented to the Council?

b) Have all matters raised by the External Auditor been agreed/addressed by the Council or an Action Plan put in place?

12. Publication of Information
    a) Has the Council met the statutory deadlines for the publication of documents on a publicly accessible website for the 2025-26 accounts? Are the requirements under the Transparency Code 2015 being met?

13. Responsibilities as a Sole Trustee
    a) Is the Council meeting its responsibilities as a sole trustee of the Thurston Recreation Ground Trust Charity? Are reports regarding the Charity provided to the Council?
    b) Has the required Annual Update been submitted to the Charity Commission within the designated time-limit?

14. Other Matters
    a) Are there any areas in which the Clerk/RFO (or Council staff) require additional training or support?
    b) Are there any other areas which the Clerk/RFO or Parish Councillors have requested Internal Audit to examine during this End-of-Year Internal Audit Review?