

Internal Audit Guide 2026/27



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Introduction

Welcome to our internal audit guide for the 2026/27 financial year.

This document is intended to provide information on how we conduct our internal audits, including how the process works and what you should expect during the audit visits.

Internal audit is an on-going function, undertaken regularly throughout the financial year, to test the continuing existence and adequacy of an authority's internal controls.

It results in an annual assurance report to the authority designed to support improvements in the effectiveness and efficiency of the activities and operating procedures under the control of the authority.

We recommend that authorities have a minimum of two internal audits per year, with an interim audit taking place mid-year and a final audit completed after the financial year-end.

For larger councils, more than one interim audit may take place during the year due to the size and nature of more complex financial and governance arrangements.

The interim audit(s) will generally focus on the governance and accountability functions of the council, with testing based on checking compliance with the statutory requirements applicable to local authorities as detailed in the Smaller Authorities Proper Practices Panel (SAPPP) Practitioners' Guide 2026, along with checking the robustness of the authorities own internal process and procedures.

Year-end audits will focus on the accurate completion of the Annual Governance and Accountability Return (AGAR) and supporting documentation being submitted to the External Auditor, along with reviewing progress against any identified issues at the interim visit(s).

At the conclusion of each internal audit, we provide the authority with a detailed written report which outlines our findings. This may include recommendations, where applicable, for improvement of internal processes to achieve positive responses to the internal control objectives, and/or guidance and support relating to recognised best practice methods in the sector.

Engagement letter

All authorities appointing us to conduct their internal audit will receive our engagement letter. This sets out the basis of our professional engagement, confirms our independence from the authority and describes our respective responsibilities. Please contact us if your understanding of the terms of our appointment is not in accordance with the engagement letter.

If you are within a longer-term engagement period with us, your original letter issued at the date of appointment covers this financial year. If you are appointing, or reappointing us for 2026/27, then a new engagement letter will be issued to your authority.

Please ensure you electronically sign the engagement letter, as we cannot start any work until this has been completed.

If you require another copy of your engagement letter, please contact anna@mulberrylas.co.uk

Fees

We base our fees on an hourly rate which is detailed in your engagement letter. The hourly rate is fixed for the duration of your engagement period, allowing councils to benefit from entering longer-term arrangements with us.

Where any on-site visits are conducted, travel costs are charged at the prevailing HMRC rate (currently 55p per mile). Wherever possible, when attending on-site we will attempt to combine visits with another nearby authority to share the travel costs.

Invoices will be issued to an authority after completion of each internal audit visit.

We do not charge for travel time, although if we attend on-site and the visit is then cancelled or postponed, we reserve the right to charge for travel time in that instance.

All our fees and charges are subject to VAT as the prevailing rate.

How long will an internal audit take?

It is not possible to specify the exact duration of an internal audit, as it is dependent on several factors including whether the authority has prepared the requested information for the visit, the scale and complexity of an authority's financial and governance arrangements and the findings from our sample testing undertaken during visits.

The requirements for internal audit are also regularly updated, with the potential for additional testing being added (such as Governance Assertion 10 in 2025/26).

Wherever possible, we aim to conduct any testing of website information during our preparation in advance of the actual scheduled audit to maximise the time available on-site.

While we recognise that every authority is different, the guidance below provides an estimate for a full year's internal audit work (including preparation) for an authority:

Precept	Anticipated duration
Under £25,000	4-6 hours per annum
Between £25,000 and £200,000	6-12 hours per annum
Between £200,000 and £2 million	8-15 hours per annum
Over £2 million	15-25 hours per annum

For those authorities having an interim audit(s), the time is not evenly split due to the more extensive testing that takes place during interim audits, with the year-end audit then being shorter, subject to being able to confirm the AGAR details and supporting information required to be submitted to the External Auditor.

If you elect to have just one audit at the year-end, then this will take longer as the procedural and process checking normally completed at interim audits will have to be conducted along with the AGAR checking.

Location of the internal audit

We aim to carry out a minimum of one audit visit on-site during the year to allow greater opportunity to effectively test the robustness of processes and procedures, and to discuss in person any issues or questions with the appropriate officers.

Where no significant areas of concern are highlighted, subsequent audit visits for the remainder of the year may be arranged remotely if preferred by the authority.

On-site audits

An on-site internal audit is our preferred method for conducting the interim visits due to the volume of transactional information which may be required for review.

For on-site visits, your assigned auditor will contact you in advance and agree a date, time and venue for the meeting. Please ensure that you have prepared the information required for the visit as this will save time on the day and subsequently minimise the cost to the council.

Lists of information required to be published on the authority website, required minute reference numbers and other documents for interim and final internal audits are listed on our website and can be accessed here www.mulberrylas.co.uk/internal-audit

If you have gathered the requested information in an electronic format, there is no need to print this in hard copy.

Assuming all information is available at the time of the audit, we aim to complete our written report within 48 hours of the visit and send this to the authority for consideration.

Remote audits

If you have arranged for a remote internal audit, your assigned auditor will contact you to agree a date and time for a remote meeting or telephone call to take place to discuss the findings of the internal audit. We respectfully request that the required information is provided electronically to your assigned auditor **at least one week in advance of the agreed date and time**, to allow them the opportunity to complete their review prior to the scheduled discussion.

During the conversation, additional information may be requested, and this should then be provided to your assigned auditor as soon as possible.

The internal audit report will then be finalised, pending receipt of any additional information requested, and issued to the authority.

Who will carry out the work?

We have a team of internal auditors, all of whom have extensive experience working within the local authority sector.

Your authority will have been assigned an internal auditor to complete the year's auditing work, although there may be occasions where different members of our team complete the interim and year-end audits.

As detailed in the Practitioner's Guide (4.11), *'There is no requirement to rotate auditors, but the independence of the appointed person or firm should be reviewed every year with regard to personal independence, financial independence, and professional independence.'*

If you have any unique circumstances relating to your authority which may require additional consideration, please let us know and we will ensure the most suitable member of our team is assigned.

Audit Plan

Our audits are conducted in accordance with the SAPPP Practitioners' Guide, which sets out in section 4 the expected work of internal auditors in relation to each of the internal control objectives covered by the Annual Internal Audit Report (AIAR) contained within the AGAR.

AGAR certificate reference	Internal Audit action for expected controls
A. Appropriate accounting records have been kept properly throughout the year AND I. Periodic bank account reconciliations were properly carried out during the year	• Ensure the correct roll forward of the prior year cashbook balances to the new financial year • Check a sample of financial transactions in cashbooks to bank statements, etc. The sample size dependent on the size of the authority and nature of accounting records maintained • Ensure that bank reconciliations are prepared routinely, are subject to independent scrutiny and sign-off by members • Verify the accuracy of the year-end bank reconciliation detail and ensure accurate disclosure of the combined cash and bank balances in the AGAR, Section 2, Line 8 • Where the authority has bank balances in excess of £100,000 it has an appropriate investment strategy

B. This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved, and VAT was appropriately accounted for	• Review the procedures in place for acquisition of formal tenders and quotes, ensuring they are in line with the Standing Orders and Financial Regulations which should be based on the latest version. • Ensure that consistent values are in place for the acquisition of formal tenders between Standing Orders and Financial Regulations (frequently different limits are recorded in the two documents) • Review the procedures for receipt of invoices, agreement of invoice detail and confirmation of goods /services delivery and approval for payment. Ideally, a suitably designed certification stamp should be in place providing for evidence of these checks and payment authorisation • Check that there is effective segregation between the writing of cheques or the setting up of online payments, and physical release of payments • Check that VAT reclaims are prepared and submitted in a timely manner in line with the underlying records and in accordance with current HMRC requirements • Where debit / credit cards are in use, establish the total monthly and individual transaction limits and ensure appropriate controls over physical security and usage of the cards are in place
C. This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these	• Ensure that authorities have prepared, and formally adopted, at least once annually, an appropriate and comprehensive register of assessed risks, both regular and ad hoc • Ensure that appropriate levels of insurance cover are in place for land, buildings, public, employers' and hirers' (where applicable) liability, fidelity/employees (including members) liability, business interruption and cyber security • Ensure that appropriate arrangements are in place for monitoring play areas, open spaces and sports pitches: such reviews should be undertaken by appropriately qualified external inspectors or, if by officers or members, that they have received the appropriate training and accreditation • Review of the effectiveness of internal control carried out by the authority
D. The precept or rates requirement resulted from an adequate	• Ensure that the full authority, not a committee, has considered, approved and adopted the annual

budgetary process; progress against the budget was regularly monitored; and reserves were appropriate	precept for the coming year in accordance with the required parent authority timetable • Ensure that current year budget reports are prepared and submitted to the authority / committees periodically during the year with appropriate commentary on any significant variances • Review the budget performance either during the year or at the financial year-end seeking explanations for any significant or unanticipated variances • Ensure that the authority has considered the establishment of specific earmarked reserves and, ideally, reviews them annually as part of the budget assessment process • Ensure that the precept received in the accounts matches the prior year submission form to the relevant authority and the public record of precepted amounts
E. Expected income was fully received based on correct prices, properly recorded and promptly banked, and VAT was appropriately accounted for	• Review aged debtor listings to ensure appropriate follow up action is in place • Allotments: ensure that appropriate signed tenancy agreements exist, that an appropriate register of tenants is maintained identifying that debtors are monitored. • Burials: ensure that a formal burial register is maintained that it is up-to-date and that a sample of interments and memorials are appropriately evidenced, that fees have been charged at the correct approved rate and have been recovered within a reasonable time. (Authorities should also acquire and retain copies of Burial / Cremation certificates) • Hall hire: ensure that an effective diary system for bookings is in place identifying the hirer, hire times and ideally cross-referenced to invoices raised • Leases: ensure that leases are reviewed in a timely manner in accordance with the terms of the lease and rents similarly reviewed appropriately at the due time • Other variable income streams: ensure that appropriate control procedures and documentation are in existence to provide a clear audit trail through to the invoice and recovery of all such income • Where amounts are receivable on set dates during the year, ensure that an appropriate control record

	is maintained duly identifying the date(s) on which income is due and actually received / banked
F. Cash payments were properly supported by receipts; all cash expenditure was approved and VAT appropriately accounted for	• A number of authorities are now running down and closing their petty cash accounts and using debit / credit cards for ad hoc purchases. Consequently, where no payments are made in physical cash, a “not covered” response is required in this area • Review the systems in place for controlling any petty cash and also cash floats (used for bars, catering, etc.) • Check a sample of transactions during the financial year to ensure appropriate supporting documentation is held • Review the existence of evidenced periodic independent verification of the petty cash and any other cash floats held • Ensure that VAT is identified wherever incurred and appropriate • Physically check the petty cash and other cash floats held • Where bar or catering facilities are in place, ensure that appropriate cashing-up procedures are in place reconciling the physical cash takings to the till “Z” total readings
G. Salaries to employees and allowances to members were paid in accordance with the authority’s approvals, and PAYE and NI requirements were properly applied	• Ensure that, for all staff, a formal employment contract is in place together with a confirmatory letter setting out any changes to the contract • Ensure that appropriate procedures are in place for the payment of members allowances and deduction of any tax liability • Ensure that, for a sample of staff salaries, gross pay due is calculated in accordance with the approved spinal point on the NJC scale or hourly rate, if off-scale, and with the contracted hours • Ensure that appropriate tax codes are being applied to each employee • Where free or paid software is used, ensure that it is up to date. • For the test sample of employees, ensure that tax is calculated appropriately • Check the correct treatment of pension contributions • For NI, ensure that the correct deduction and employer’s contributions are applied: NB. The employers’ allowance is not available to councils but may be used by other authorities

	• Ensure that the correct employers' pension percentage contribution is being applied • Ensure that for the test sample, the correct net pay is paid to the employee with tax, NI and pension contributions correctly paid to the respective agencies
H. Asset and investment registers were complete and accurate and properly maintained This section/assurance should be extended to include loans to or by the authority	<u>Tangible fixed assets</u> • Ensure that the authority is maintaining a formal asset register and updating it routinely to record new assets at historic cost price, net of VAT and removing any disposed of / no longer serviceable assets • Physically verifying the existence and condition of high value, high risk assets may be appropriate • Ideally, the register should identify for each asset the purchase cost and, if practicable, the replacement / insured cost, the latter being updated annually and used to assist in forward planning for asset replacement • Additions and disposals records should allow tracking from the prior year to the current • Ensure that the asset value to be reported in the AGAR at Section 2, Line 9 equates to the prior year reported value, adjusted for the nominal value of any new acquisitions and /or disposals • Compare the asset register with the insurance schedule to ensure that all assets as recorded are appropriately insured or "self- insured" by the authority <u>Fixed asset investments</u> • Ensure that all long-term investments (i.e., those for more than 12- month terms) are covered by the "Investment Strategy" and reported as Assets in the AGAR at Section 2, Line 9. <u>Borrowing and lending</u> • Ensure that the authority has sought and obtained appropriate UK Debt Management Office approval for all loans acquired • Ensured that the authority has accounted for the loan appropriately (i.e., recorded the full value of the loan, any arrangement fee should be regarded as an admin expense) in the year of receipt • Ensure that the combined principal loan repayment and interest for the year is correctly recorded in the AGAR at Section 2 Line 5 • Ensure that the outstanding loan liability as at 31st March each year is correctly recorded in the AGAR

	at Section 2, Line 10 (value should be verified from the lender and verification provided to the Internal Auditor by the Clerk/RFO) Where the authority has issued loans to local bodies, they should ideally seek signed indemnities from the recipient body, or their members, agreeing to underwrite the loan debt
J. Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cashbook, supported by an adequate audit trail from underlying records and, where appropriate, debtors and creditors were properly recorded	Whilst Internal Auditors are not required to verify the accuracy of detail to be disclosed in the AGAR, this assertion, together with the expectation of most authorities, effectively requires Internal Auditors to ensure that the financial detail reported at Section 2 of the AGAR reflects the detail in the accounting records maintained for the financial year. Consequently, Internal Auditors should: - Ensure that, where annual turnover exceeds £200,000, appropriate records are maintained throughout the year on an Income and Expenditure basis to facilitate budget reporting in that vein - Ensure that appropriate accounting arrangements are in place to account for debtors and creditors during the year and at the financial year-end
K. If the authority certified itself exempt from a limited assurance review in the prior year, it met the exemption criteria and correctly declared itself exempt	Internal Auditors should ensure that all relevant criteria are met (receipts and payments totalled less than £25,000) - The correct exemption certificate was prepared and minuted in accordance with the statutory submission deadline - That it has been published, together with all required information on the authority's website and noticeboard
L. The authority publishes information on a free to access website/webpage, up to date at the time of the internal audit in accordance with relevant legislation	Internal Auditors should review the authority's website ensuring that all required documentation is published in accordance with the relevant legislation, including publishing the ICO Publication Scheme on its website.
M. The authority, during the previous year, correctly provided for the period for the exercise of public rights as required by the Accounts and Audit Regulations	Internal Auditors should acquire/examine a copy of the required "Public Notice" ensuring that it clearly identifies the statutory 30 working day period when the authority's records are available for public inspection. Internal Auditors may also check whether authorities have minuted the relevant dates at the same time as approving the AGAR.

N. The authority complied with the publication requirements for the prior year AGAR.	Internal Auditors should ensure that the statutory disclosure/publication requirements in relation to the prior year's AGAR have been met as detailed in the front page of the current year's AGAR.
O. The authority complied with laws, regulations and proper practices relating to digital and data compliance	• Ensure the authority has, as a minimum, a single generic email address on an authority owned domain • Check that website accessibility has been tested, at least annually, and that the accessibility statement has been updated as required • Check when the authority last completed a data audit • Ensure the authority has prepared and formally adopted a data protection policy that is reviewed at least once annually • Ensure the authority has an up-to-date IT policy in place
P. Trust funds (including charitable) – the Council met its responsibilities as a trustee	• Confirm that all charities of which the council is a Trustee are up to date with Charity Commission filing requirements • Confirm that the council is the sole trustee on the Charity Commission register • Confirm that the council is acting in accordance with the Trust deed • Confirm that the charity meetings and accounts are recorded separately from those of the council • Review the level and activity of the charity and where a risk-based approach suggests such, review the Independent Examiner's report

Your right to complain

If you are unhappy with any aspect of the service we provide to you, please raise this in the first instance with your assigned internal auditor who will endeavour to resolve any issues.

If you are not satisfied with this outcome, we operate a formal complaints procedure which can be accessed via our website www.mulberrylas.co.uk

If you have any questions relating to the content of this guide, or require any further information, please do not hesitate to contact us.

Help and support

Our audit team are available throughout the year to support your authority. For most questions, we provide a free advisory service via email and/or telephone. If a query requires a more detailed response, we may charge a fee for this, but this will always be advised to you and agreed in advance of any work taking place.

We also offer a comprehensive training programme for officers and councillors, with discounted rates for all internal audit clients. More information and bookings can be made at www.mulberrylas.co.uk/training

Contact details

Please direct any questions relating to your internal audit visit or internal audit report to your assigned internal auditor.

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