

Internal Audit Report

(to be read in conjunction with the Annual Internal Audit Report in the Annual Governance and Accountability Return)

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| Name of council: | Culworth Parish Council | | |
| Name of Internal Auditor: | G Wells | Date of report: | 1 st June 2025 |
| Year ending: | 31 March 2025 | Date audit carried out: | 28 th May 2025 |

Internal audit is the periodic independent review of a council's internal controls resulting in an assurance report designed to improve the effectiveness and efficiency of the activities and operating procedures under the council's control. Managing the council's internal controls should be a day-to-day function of the council through its staff and management and not left for internal audit. It would be incorrect to view internal audit as the detailed inspection of all records and transactions of a council in order to detect error or fraud. This report is based on the evidence made available to me and consequently the report is limited to those matters set out below.

The council is required to take appropriate action on all matters raised in reports from internal and external audit and to respond to matters brought to its attention by internal and external audit. Failure to take appropriate action may lead to a qualified audit opinion.

To the Chair of the Council:

By mutual agreement, I carried out the audit remotely, by means of e-mail followed by a virtual meeting with Gary Denby, Clerk to the Council, on an online platform.

I firstly examined the publicly available information displayed on the council's website including the council's policies, procedures, agendas, minutes, financial and other records.

I examined the council's arrangements for the management and control of its business in the areas of bookkeeping, due process (ie compliance with the 'proper practices' as set out in the Practitioners' Guide), risk management, budget setting and monitoring, payroll, asset register, bank reconciliations, internal control and year-end procedures including the display of information including the exercise of public rights.

There are a few areas I wish to draw to the Council's attention for review, action or to be aware of, as necessary:-

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- I remind the Council that it **cannot** reclaim VAT on works for an asset it does not own. For VAT to be reclaimed, the asset must typically be owned by the Parish Council, or at least the Council must have some form of financial interest in or control over the asset.

- **Ownership and Interest:** If the asset is owned by someone else (e.g., another public body or private entity), the Parish Council has no legal claim to the VAT paid on improvements or works carried out on that asset.
- **Control Over the Asset:** In cases where the Parish Council is only leasing or managing an asset, VAT recovery may still be complex and would depend on the terms of the lease or management agreement. If the works are part of an agreement where the Parish Council is responsible for the maintenance or upkeep (and the asset remains under its control), then there could be grounds for reclaiming VAT. However, if the asset is ultimately owned by another party, reclaiming VAT becomes much less likely.
- **VAT on Supplies:** For VAT to be reclaimed, the expenditure must be tied to activities for which the Parish Council can recover VAT, such as its public or community-based functions. If the Council is improving or maintaining an asset it doesn't own, then there would likely be no direct link to a VAT-eligible activity.

In essence, unless the Parish Council owns or has a qualifying interest in an asset, it cannot reclaim VAT on works done to it.

- Moreover, I urge the Council to reclaim any outstanding VAT sums due to it that it is eligible to claim as soon as possible.

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- I noted, during the audit, that the Council had received penalty notices from HMRC for non compliance with the regulatory reporting requirements. Further, that whilst there were no payments through the accounts for tax or NI purposes (which can, of course, be a result of such liabilities being under the relevant thresholds), questions were raised when further information was provided as to how the employee's income was being reported through use of their sole trader account to notify income from this Council.

As the Parish Clerk is an employee of the Council, the council must operate Pay As You Earn (PAYE) under HMRC regulations & must:

- Register with HMRC,
- Deduct income tax and National Insurance Contributions (NICs),
- Report these regularly through Real Time Information (RTI) – even if nil,
- Provide payslips, P60s, and P45s as applicable.

I bring this matter to the Council's attention in order that the Council is aware of their obligations as an employer and to suggest that the authority check and / or rectify matters if there are any issues of non compliance as risks to the Council and the employee themselves could be significant, not least the cost to the authority of such penalties.

I would recommend the following urgent actions by the Council (the employer):-

- Immediate compliance review: The council must assess and correct current arrangements if required.
- Register for PAYE (if not already done).
- Submit accurate and timely RTI returns to HMRC (even if nil) to avoid penalties.
- Obtain training for both councillors and the Clerk about employment law & responsibilities to avoid risks.
- The Council should seek professional payroll and legal advice to resolve any potential historical non-compliance.

- As it is the start of a new Council term, I remind the Council that signatories on a parish council bank account should authorise transactions promptly when requested to do so by the Responsible Financial Officer to ensure the smooth and timely operation of council activities.
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- Internal control is also vital for a parish council as it ensures the proper use of public funds, promotes transparency, and reduces the risk of errors, fraud, or mismanagement. Effective internal controls support compliance with legal and financial regulations, protect council assets, and help maintain public confidence. They also provide a clear framework for decision-making and accountability, enabling the council to operate efficiently and responsibly in the best interests of the community. I am pleased to see the Council has adopted a Risk & Financial Management Strategy.
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- I noted that there is no regular reporting of the bank reconciliation within the Council minutes - it is essential for a parish council to record officially the financial status of the authority regularly as it ensures that financial records are accurate, up to date, and in line with the actual bank balance. It helps identify discrepancies promptly, such as errors or unauthorised transactions, allowing for swift corrective action. Regular reconciliation also supports transparency, strengthens internal controls, and provides councillors with a clear understanding of the council's financial position, aiding informed decision-making and demonstrating good financial stewardship to the community. The Council illustrated robust budget & reserves planning during this period – well done.
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- A Parish Council must not include trust fund money in its own AGAR (Annual Governance and Accountability Return) accounting because the council holds such funds as a trustee and not in its capacity as a local authority. Trust funds are legally separate from the council's own finances and must be managed and reported independently in accordance with trust law. Including these funds in the AGAR would misrepresent the council's financial position and contravene proper accounting practices and legal responsibilities. I believe such figures belonging to the CHF Trust have been included in the Council's figures.
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- The Clerk and I discussed that the website could benefit from a review of documents to ensure it is current and up to date. The parish council website should be kept up to date to ensure transparency, accountability, and effective communication with the community. An up-to-date website provides residents with accurate information about council meetings, decisions, finances, and local services, helping to build trust and encourage public engagement. It also ensures the council meets its legal obligations under accessibility regulations. Outdated or missing information can lead to confusion, complaints, and a loss of credibility.
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- It was noted that the Council failed to meet the external auditor's deadlines for submitting the Annual Governance and Accountability Return (AGAR) 2023-2024. The council consequently faced additional charges from the external auditor for late submission & for work required to address non-compliance. These costs placed an unnecessary burden on the council's budget. Failure to meet the set deadlines can result in a public notice of failure being issued, which can damage the council's reputation and erode public trust. In worst-case scenarios, persistent non-compliance may lead to formal investigations, intervention by higher authorities, or legal action. It also reflects poorly on the council's governance and financial management, potentially affecting future audits, grants, or funding opportunities. I am hopeful that there will be no delay in meeting the requirements this financial period.
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- The Clerk notified that they will be retiring from the Council later this year and I wish them well. I would advise that the Council seek immediate counsel from Northants CALC regarding the recommended minimum hours for a Council of this size, as well as any advice on advertising, recruiting, training and onboarding.

I wish the Council well as it embarks on a new term and take this opportunity to welcome Councillors, both old and new, to the sector.

Yours sincerely,



G Wells
Internal Auditor to the Council
gwellsinternalaudit@gmail.com

The figures submitted in the Annual Governance and Accountability Return are:

| | Year ending 31 March 2024 | Year ending 31 March 2025 |
|--|--------------------------------------|--------------------------------------|
| 1. Balances brought forward | 42532 | 47370 |
| 2. Annual precept | 37000 | 38000 |
| 3. Total other receipts | 75341 | 17632 |
| 4. Staff costs | 3552 | 5193 |
| 5. Loan interest/capital repayments | 0 | 0 |
| 6. Total other payments | 103951 | 33666 |
| 7. Balances carried forward | 47370 | 64143 |
| 8. Total cash and investments | 47370 | 64143 |
| 9. Total fixed assets and long-term assets | 106511 | 106511 |
| 10. Total borrowings | 0 | 0 |

The proper practices referred to in Accounts and Audit Regulations are set out in *Governance and Accountability for Smaller Authorities in England (2025)*. It is a guide to the accounting practices to be followed by local councils and it sets out the appropriate standard of financial reporting to be followed. A copy of the guide is available for free download from:

<https://northantscalc.gov.uk/practitioners-guide>.