



Internal Audit Review 2026

Nelson Town Council Memorandum

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Introduction and Scope

- 1 Local councils in England are required to prepare and publish an Annual Governance and Accountability Return (AGAR). The AGAR comprises an Annual Governance Statement, Accounting Statements, and an Annual Internal Audit Report.
- 2 Proper practices relevant to town and parish councils, and to the preparation and approval of the AGAR are included in Governance and Accountability for Smaller Authorities, Practitioners' Guide, March 2025 ('Governance and Accountability')
- 3 Internal audit forms a key element of a council's framework of internal control. Its purpose is to provide independent assurance to the council on the adequacy and effectiveness of its financial and other governance arrangements. Internal audit does not remove or replace the council's responsibility for establishing and maintaining effective systems of internal control.
- 4 As part of the AGAR process, the Council's internal auditor is required to act independently and, on the basis of a risk-based approach, review and report on the operation of relevant systems, procedures, and controls throughout the financial year in line with proper practices.
- 5 We undertook a programme of internal audit work in respect of the 2025/26 financial year, comprising both remote work and an on-site visit to Nelson Town Council in May 2026. This work covered the key internal control objectives and set out in the AGAR.
- 6 This work has enabled us to complete the Annual Internal Audit Report and to form judgements on the operation and effectiveness of Nelson Town Council's internal control arrangements for 2025/26, in advance of the Council's consideration and approval of the Annual Governance Statement. The work has considered the new requirements relating to digital and data compliance.

Findings

Overall Assessment

- 7 Our internal control objective assessments are documented in the Annual Internal Audit Report on page 3 of the Council' Annual Governance and Accountability Return 2025/26.
- 8 In respect of all but one applicable area, we have provided a 'Yes' conclusion.
- 9 We have provided a 'No' conclusion in respect of internal control objective O which relates to digital and data compliance. This is a new area for the 2025/26 Annual Governance Statement and internal audit work programme.
- 10 Further information on relevant control objectives A to J, and O is set out below.

Maintenance of Accounting Records

- 11 The Council uses the Rialtas Suite finance system package. There are physical and system controls limiting access to the system only to appropriate people.
- 12 Income and expenditure was coded to individual cost centres. Transactions from April 2025 to March 2026 had been input on to the Rialtas Suite finance system on an ongoing basis. This supports the production of accurate and up to date financial information for officers and members.

Preparation of Accounting Statements

- 13 The financial statements and the proposed disclosures for the AGAR were supported by detailed information from the electronic accounting system. They were also prepared on the appropriate (income and expenditure) basis. We agreed the figures from the financial system to those proposed to be included in the return.

Payments

- 14 We reviewed 2025/26 total expenditure with previous years to identify and understand significant year on year variances. We also tested a sample of individual payments.
- 15 From our testing, all expenditure sampled was supported by appropriate documentation and was properly authorised in line with the Council's financial regulations. VAT was appropriately considered, and no issues

were identified with the payments tested. All cheque payments were supported by signed cheque stubs

- 16 In accordance with the Council's financial regulations, the Finance and General Purposes Committee received monthly schedules of all payments made during the year.

Risk Management

- 17 The Council has a Risk Management Policy and Risk Register in place. Council minutes provide evidence that the Risk Register has been reviewed annually, with updates recorded including actions, ongoing monitoring arrangements, and the allocation of risk owners.
- 18 The Council has insurance in place covering expected areas, including fidelity guarantee (covering loss arising from fraud or dishonesty) and public liability.

Budget Setting and Monitoring

- 19 The budget for 2025/26 was approved by Full Council on 15 January 2025. Preparation work was undertaken by the Budget Management Working Group, which reported to the Council and included a review by cost centre. Consideration of the associated precept is recorded in minute 2024/145 (TC).
- 20 Actual expenditure in 2025/26 was significantly below the level anticipated through the Council's budget setting process as shown in the table below:

Figure 1: Expenditure was £437,972 lower than budgeted.

No.	2025/26 Budget (£)	2025/26 Actual (£)
Income	754,674	752,750
Expenditure	1,020,824	582,852
(Deficit) / Surplus	(266,150)	169,898

- 21 During 2025/26 regular financial information was provided to members to support regular budget monitoring. Reports produced from the accounting system were reviewed at the Finance and General Purposes Committee at monthly meetings.

Reserves

- 22 Governance and Accountability states that councils should ideally review reserves annually as part of the budget assessment process (section D, page 29). This is intended to ensure that reserve levels, including

earmarked reserves, remain aligned with current plans and inform budget and precept decision making.

- 23 In setting the 2025/26 budget, the Council planned for the use of £266,150 of reserves, resulting in a budgeted deficit for the year. The minutes note that the forecast shortfall was intended to be funded from reserves.
- 24 At 31 March 2026, the Council held total reserves of £1,389,948, including seven earmarked reserves totalling £337,804.
- 25 In respect of general reserves, the guidance advises that, where year-end general reserves are less than three months or more than twelve months of net revenue expenditure, an explanation should be provided to the external auditor (paragraph 5.208, page 74). General reserves at 31 March 2026 did exceed net revenue expenditure.
- 26 The guidance also notes that there is no prescribed upper or lower limit for earmarked reserves, provided they are held for genuine and identifiable purposes and are subject to regular review and justification, ideally at least annually and as part of the budget-setting process (paragraph 5.38, page 38).
- 27 The balance of the Council's seven earmarked reserves has not changed for at least the last five financial years, with no additions or expenditure during that period. We understand the Council has plans to apply some earmarked reserves in future years, and that these were last discussed at budget-setting, with the timing of expenditure influenced in part by available officer capacity. This remains an area for member oversight.

Income

- 28 The Council's income in 2025/26 was predominantly derived from the precept. We confirmed that the precept income was received in full and recorded accurately in the financial statements and bank records.
- 29 Other income streams were limited in value and mainly related to hall hire and miscellaneous receipts. We reviewed a sample of this income and found it to be properly recorded and banked, with VAT considered where applicable.

Payments to Employees

- 30 Payroll is provided by Blackburn with Darwen Borough Council which provides assurance that PAYE and National Insurance are deducted appropriately. We reviewed two months' payments highlighting that the calculations were made appropriately and supported by invoices from Blackburn with Darwen Borough Council.

Bank Reconciliations

- 31 Bank reconciliations were completed monthly during 2025/26 by the officer responsible for financial administration and were submitted to the Finance and General Purposes Committee for review and verification in accordance with the Council's financial regulations. A bank reconciliation was also completed at the year-end (31 March 2026).

Asset Registration

- 32 The Council maintains an Asset Register and an Asset Register Policy. The Asset Register was in place during 2025/26 and was approved by Full Council. From our review, the Asset Register was up to date, subject to periodic member review, and consistent with the assets held by the Council. No additions or disposals were recorded during 2025/26.

Digital and Data compliance

- 33 This year's Governance and Accountability guidance introduced a new AGS assertion (Assertion 10) relating to digital and data compliance. This assertion brings together a range of requirements covering authority owned email accounts, IT and data protection policies, website accessibility, transparency obligations, and member oversight of information governance arrangements. For the first time, internal control objective O asks Internal Audit to consider whether the authority has complied with relevant laws, regulations and proper practices relating to digital and data compliance.
- 34 The Council has a number of positive elements already in place. These include the use of authority gov.uk email accounts for all officers and councillors, a compliant website with an accessibility statement, adoption of the ICO Model Publication Scheme, and policies addressing data protection, privacy, information retention, and data breach management.
- 35 At the time of the audit, officers had not completed an assessment of compliance across all aspects of digital and data governance requirements set out in the guidance. While a number of relevant arrangements exist, there was insufficient evidence to demonstrate that all requirements were fully in place or subject to appropriate oversight.
- 36 In particular, it was not possible to confirm, at the time of the audit, whether:
- the Council has a formally adopted IT policy aligned to current expectations set out in the guidance
 - responsibility for data protection compliance is clearly defined and subject to ongoing oversight
 - back-up arrangements for financial systems and website data are clearly understood and documented by the Council

- website accessibility and transparency arrangements are subject to periodic review by members, and
- all transparency requirements are operating effectively in practice as public access via the website is currently limited, with linked pages indicating 'content coming soon'
http://www.nelsontowncouncil.gov.uk/Local_Government_Transparency_Code_27196.aspx

Area for Improvement 1: A review of the Council's digital and data governance arrangements should be undertaken to assess alignment with the 2025 Governance and Accountability guidance and to support future Annual Governance Statement assessments.

Appendix 1 - Action Plan to address issues raised

Action Number	Report Reference	Issue	Agreed Action	Responsible Officer	Timescale
1	33-36	<p>A review of the Council's digital and data governance arrangements should be undertaken.</p> <p>That review should consider the requirements set out in the 2025 Governance and Accountability guidance relating to digital and data compliance and be documented to support future Annual Governance Statement assessments.</p>			

Please complete the agreed action, responsible officer, and timescale sections, and return to Veritau following consideration and agreement of the report by members.