



Internal Audit Report

This audit report is to read in conjunction with the Annual Internal Audit Report in the Annual Governance and Accountability Return.

Council:	Metherringham, Sots Hole and Tanvats Parish Council
Internal Auditor:	Stacey Knowles
Year Ending:	March 2025
Date of Report	14 th June 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 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.

Lincolnshire Association of Local Councils

Internal Audit Report

To the Chairman of Metheringham, Sots Hole and Tanvats Parish Council

I have examined council business including policies, agendas & minutes, accounting and financial statements and other documents relevant to this audit. This report forms the completed internal audit for the year ending March 2025.

A number of areas were identified in the internal audit for year ending March 2024 where actions were recommended and offered as suggestions for improvement. These recommendations have not been fully implemented and within the financial year ending March 2025 the council still faced the same risks in relation to potential fraud, mistake and business continuity as previously reported.

A full internal audit, as far as possible, was completed with the temporary RFO on 9th and 12th June 2025. The council should be aware that there are limitations to this internal audit owing to the inability to locate certain documents such as insurance certification, written inspection records in relation to health and safety of assets and buildings. In addition, the lack of closure from the external audit report for year ending March 2024 means that these aspects can also not be commented upon.

An overview of findings from the 2024/2025 audit are shown below:

Previous Audits

- **Prior year internal and external audit** – There is no evidence that the council has formally considered the recommendations from the previous internal audit for 2023/2024. There is an item of the agenda in June 2024 for this but there are no minutes in relation to this activity. The council has not received an external audit report from PKF LittleJohn in relation to 2023/2024. Email correspondence was found by the RFO from the external auditor explaining that as the council had not confirmed its dates for a public rights inspection period that it could not issue a final report for the year in question. The council has not actioned this or followed up with the external auditor to rectify this matter.

Key policies and governing documents

- **Standing Orders** were reviewed and adopted in May 2025. The document is not the most recent NALC model document and as such references legislation which has now been revoked – Public Contracts Regulations 2015. It is recommended that the council use the latest model document and fully tailor this for the council.
- **Financial Regulations** were reviewed and adopted by the council in May 2025.
 - This is not the latest model document issued by NALC and as above there are references to legislation which has now been revoked. There are specific issues found in the document where the references to specific Financial Regulations are incorrect. For example, 10.1h references 10.3 which doesn't exist in the document. The contents page does not correspond with contents of the document.
 - Financial Regulation 10.1 requires the council to strive for 3 quotes for any contract value between £500 and £35,000. This means that the council could potentially agree a contract worth £35,000 with a single quote. Whilst it is the council's decision to implement its own procurement thresholds, this does appear to be very wide parameters to only 'strive for 3 quotes'. With parameters of this nature, it is likely to result in the council procuring everything on the basis of a single quote. This does not appear to be in the spirit of the council's Financial Regulation 9.3 which states that '*All members and officers are responsible for obtaining value for money at all times.*'
 - In Financial Regulation 4 relating to budgetary control, there is no authority provided to committees. The Internal Auditor has not seen the Terms of Reference for committees, but the council may wish to check that this is consistent with the delegations given in the ToRs.

- It is recommended that the council reviews its Financial Regulations again and adopts the latest model document issued by NALC.
- **Terms of Reference** – A number of terms of reference have either been adopted or were on the agenda for adoption on 28th May 2025. Neither the existing ToR or new documents are published on the website.
- **Other policies**
 - **Complaints** – This document is not published on the website. A review was on the agenda in May 2025 but the minutes state that this was deferred.
 - **Publication scheme** – This document is not published on the website. It is mandatory to adopt and publish this document (S18-19 Freedom of Information Act 2000). The ICO requires that its model document is used.
 - **Data Protection policies** – Data Protection, Subject Access Requests, Data Breaches, Records Retention policies have not been located by the internal auditor. These documents should be adopted and published as soon as possible. The council should note the new requirement for 2025 in relation to digital and data compliance in the Annual Return for year ending March 2026. The council will be required to comply with the requirement of the new Annual Governance Statements Assertion 10. Please see the Practitioners Guide 2025.

Transparency

- **Agendas, minutes and meeting papers** - The website was not kept up to date throughout the year. A newly appointed RFO uploaded the entire years' minutes following his appointment in February 2025. Committee meeting agendas and minutes are not up to date yet. The RFO understands that agendas throughout the year were displayed locally on a noticeboard.
- **Annual Returns** - Annual returns for the past 5 years are incomplete on the website. The council has not uploaded documents in relation to the annual return for 2023/2024 including the notice for the public rights inspection period, Annual Governance Statements, Annual Accounting Statements, Internal Audit report or external audit report.
- **Website Accessibility** – this is published but the council should arrange for regular review of the statement. Last review was 2021.
- **Asset Register** - The Asset register is not published and there is no minuted review of the document within 2024/2025. A review was scheduled for May 2025.
- **Expenditure** – There are no details relating to payments the council has made in the last financial year. There are also no payments listed within the minutes of the council's meetings. The council is required to be transparent in relation to its expenditure. Payments to be authorised at meetings and payments made between meetings of the council should form part of the agenda or be shown as an appendix.

Financial records and internal controls

- **Cashbook and record keeping** – there was no maintenance of a cashbook throughout the financial year. The temporary RFO has retrospectively compiled all transactions using the council's bank statements. Paper records of invoices have been kept but the record keeping system was not fit for purpose through the year.
- **Internal controls** – The council has not been able to evidence the use of any internal controls throughout the financial year. Specifically:
 - The council failed to complete bank reconciliations and present these to the authority
 - There was no review of expenditure or associated invoices by the council before payments were made from the bank account
 - A single individual appears to have been responsible for authorising payments from the online account and this has neither been agreed in advance by the council or ratified as a payment made between meetings.
 - The council had insufficient signatories and did not use a dual authorisation system. This also means that there was insufficient separation of duties to have an effective internal control protecting against fraud or mistakes.
- **VAT** – VAT returns are not up to date owing to the lack of financial record keeping. The temporary RFO has recently prepared and submitted a VAT return for 2022/2023. A VAT return has not been completed for 2023/2024. The RFO has up to date records (retrospectively) in order to submit a

return for 2024/2025. The council should submit a VAT return at least annually in line with its Financial Regulation 8.8.

- **S137 payments** – A few s137 payments have been marked separately within the cashbook. Resolutions confirming the agreement to purchase a large poppy and a Christmas tree could not be found and the council therefore also did not confirm at the time of incurring the expenditure that it was relying on the power of last resort.
- **Investments and reserves** – The council has not implemented an investment policy or strategy. In addition, there is no evidence that the council operates or reviews earmarked reserves. With over £400,000 held in the council's accounts, the council should consider implementation of an investment strategy. The council should also review its cash reserves and mark appropriately if these are held for specific purposes while retaining sufficient amounts for its general reserve in line with 3 to 12 months net revenue expenditure (Practitioners guide 5.34). Whilst there is in practice no upper limit for earmarked reserves, the council should ensure that reserves are held for genuine and identifiable purposes and the levels of such reserves should be reviewed at least annually (Practitioners Guide 5.39).

The internal auditor found that a total of 19 transfers were made between bank accounts throughout the financial year to cover operational costs. The council's financial regulation 5.5c provides delegation for the clerk and RFO to transfer funds within the council's accounts up to the sum of £10,000, 'provided that a list of such payment is submitted to the next meeting of the council'. There is no record of fund transfers being noted in the minutes of the meetings. In addition, three individual transfers exceeded this £10,000 delegation limit and this was not formally considered by the authority. In addition, the sum of £165,000 was made over the course of the year in smaller disaggregated transfers which is not in the intended spirit of FR5.5.

- **Budget and precept** – The budget and precept were approved in January 2024 amounting to £180,000. The budget and precept were agreed in the same resolution for the same amount. The council does not appear to have taken into account any other income sources when setting its precept. In future the council should clearly agree a budget and then separately a precept amount. The council is required to set a precept which is derived from a considered and clear budgetary process. It is recognised however, that the council has lacked consistency in its officers for a number of years and a satisfactory budgetary process would have been extremely difficult to carry out given the lack of accounting records kept throughout the year.
- **Income** – The council has a few sources of income, some of which are in cash. The RFO reports that the Community Hub take cash in relation to photocopying and fines for library users. The cash has been kept in a cash tin but not banked regularly. Record keeping for takings has been inadequate and the RFO reports that cash has also been used to make some payments, akin to a petty cash system. The RFO reports that this activity has now ceased and records will be maintained to ensure the security of cash takings.
- **Card transactions** – the council still has a credit card in the name of a former employee and recurring annual transactions are still being made on this card. The RFO is aware and aims to close the account.

Risk management

- **Risk register** – The council did not carry out a review of the risk register within the financial year. A review was scheduled for May 2025.
- **Financial reporting** – There is no evidence from the council's minuted activity that budget monitoring or financial reporting has taken place throughout the year in line with Financial Regulation 4.8.
- **Grants** – Grant payments were made in the financial year. A payment was made to Metherringham School but was considered outside of the ordinary grant awarding process. As such a grant application was not received and considered as per the council's own grant awarding policy.
- **Registration with the ICO** – The council is appropriately registered with the ICO but a former employee is listed as the DPO.
- **Signatories and bank mandate** – the council has faced significant risk due to having limited signatories. The RFO could not confirm more than one signatory on the council's current account. Since appointment, the clerk and RFO have put in place arrangements to open a bank account with

Unity Bank, which offers sector specific controls including online dual authorisation. A number of signatories have been appointed to operate this account.

Proper process and HR

- **Co-options** – the minutes in October 2024 indicated that a new member was co-opted to the council. It is not clear whether the order of business changed during the meeting but wasn't made clear - a discussion took place at minutes 25 to 27 regarding co-option and applications from two candidates, but the new member was not co-opted until item 31 with two completely separate items regarding an FOI request and a complaint to the Monitoring Officer considered in between these items.

There being two applicants for one vacancy, it is not clear whether correct procedures were followed in relation to the voting process.

The council did not formally re-open into public session to propose and resolve the motion to co-opt a candidate. The minutes state 'the opening of the closed session was not necessary as no Members of the Public were present.' The council is required to follow its standing orders in relation to public and closed sessions during a meeting. The decision to enter a confidential session or to re-enter a normal session of the council should not be based on the presence of members of the public. The vote and resolution of co-option does not meet the criteria for confidentiality in the Public Bodies Admissions to Meetings Act 1960 and should have been carried out within an open session of the council.

- **HR**
 - **Contracts and employer documentation** - Two temporary members of staff are in place and one permanent. The RFO does not have an agreed job description, written statement of particulars or contract in place. It is not known whether the Clerk has the required documentation. The council is required by law to provide a written statement of particulars for staff members prior to or on day one of the staff member commencing work. [Employment Rights Act 1996 as amended by The Employment Rights (Employment Particulars and Paid Annual Leave (Amendment) Regulations 2018].
 - **Payroll** - provided externally currently. The council does not carry out any spot checks on the calculations provided by the external payroll provider. It is beneficial to have oversight of the figures and amounts being submitted by an external provider as responsibility for accuracy of HMRC records still lies with the council. The council should also confirm that employer allowance has not been applied for.
 - **Salaries and pension** – There is no minuted pay scale for staff. The council should minute the approved scale in which staff are employed for transparency. Turnover of staff has been too frequent to comment on the application of annual increments. However, without a contract in place for at least one staff member, the council does not have an agreed stance on increments, the salary scale or how they will be applied.

The council is registered with the Pensions Regulator but has not automatically enrolled its staff as required or provided the necessary evidence showing that staff members have opted out.

Six transactional checks were carried out during the internal audit. None of the transactions checked had a payment minute reference because the council did not consider payments for approval at its meetings throughout the financial year.

There were four transactions where the internal auditor could not locate a resolution of the council to authorise the expenditure. For example, two payments were made to a councillor for clips, clickers, ribbons and poppies (one for £150 and another for £192.16). There are no resolutions in the minutes authorising the expenditure or the associated repayment to the councillor from the council's bank account. On these occasions the councillor incurring the expenditure was also the same person to authorise and complete a bank transfer to himself to reimburse the cost of the expenditure. This is contrary to the council's financial regulations 6.19 which prohibits the use of personal debit and credit cards. The council has also failed to consider the expenditure before it was made and then further failed to consider the reimbursement of the expenses as an authority, ensuring that a separate councillor and signatory not involved with the original

expense claim completed the authorisation for payment.

The above transaction also raises questions about how the council processes and authorises expense claims. Council members and staff require clarity through an adopted expenses policy outlining the procedures in place for authority to spend through to authorisation of the expense claim. The expense form cannot be authorised by the person submitting it to ensure adequate separation of duties. This separation of duties also reduces the risk of allegations of fraud and protects staff and members.

A payment to Graham Shaw for cleaning the pavilion was reviewed. It is not clear if this individual is a contractor or an employed member of staff (or ought to be employed). There is no invoice submitted for this transaction and the internal auditor could not locate a resolution in the minutes as to when the council agreed for the services to be provided.

Similarly, a payment to Portelli Group for security officers in relation to the Fayre and Feast was not considered by the council. There were a number of other transactions relating to the Fayre and Feast which were also not authorised by the council. The suppliers and the associated prices should be agreed by the council or an associated committee (ensuring that Financial Regulations and committee terms of reference provide for such delegation). The council should consider adoption of some very clear terms of reference if these matters are considered by a committee.

Year-end process

The council is using receipts and payments and the RFO is aware that the use of income and expenditure accounting will be required in the future. The asset register was not maintained in 2024/2025. A restatement will be made on the accounting statements in relation to cash receipts which the RFO adequately explained.

Annual Internal Audit Report 2024/2025

The Internal Audit section of the AGAR has been completed and signed appropriately. The following responses are given with the reasoning which is further detailed throughout this report. The responses below will affect the authority's ability to give positive assertions on the Annual Governance Statement.

Internal control objective	Response	Reason
A	No	The council did not always have appropriate accounting records kept throughout the financial year. This was evidenced in the transactional checks carried out and confirmation from the temporary RFO.
B	No	The council did not always follow its Financial Regulations as evidenced by purchases made without the council's authority and in the absence of specific delegations.
C	No	A risk management scheme was not in place in the financial year. Insurance cover was not based on a sound asset register or review of the authority's risks.
D	No	The precept requirement did not result from an adequate budgetary process, the budget was not monitored and there was no consideration of reserves in the financial year.
E	No	The council has cash receipts from the community hub which were not banked intact and were effectively used as a petty cash system.
F	Not covered	The council does not officially have a petty cash system.
G	Yes	Salaries have been made as appropriate.
H	No	Asset registers were not properly reviewed or maintained throughout the year.
I	No	Bank reconciliations were not carried out throughout the year and were retrospectively completed by the temporary RFO.
J	Yes	Receipts and payments in use. The temporary RFO has compiled a cashbook which is supported by adequate paper records and invoice.
K	N/A	The authority did not certify exemption in 2023/24
L	No	The authority has not published 5 years of annual returns on its website. Minutes and agendas were not published on the website during the financial year. There is no record of payments made on the website.
M	No	The council did not complete a public rights inspection period. The dates were not confirmed to the external auditor and there is no record of it taking place.
N	No	No documents in relation to the 2023/2024 AGAR have been published.
O	N/A	The council does not act as a trustee.

Thank you to Tony for meeting with me to complete this audit. Although the council has not met its internal control objectives, new temporary officers have recognised the significant amount of work required to ensure good governance, and are starting to put in place the required processes and documentation in line with proper processes as outlined in the Practitioner's Guide.

Yours sincerely

Stacey Knowles

Internal Auditor
Lincolnshire Association Local Councils
Date: 14th June 2025