



## REPORT TO COUNCIL 26<sup>TH</sup> MAY 2026

### REVIEW OF THE COUNCIL'S EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL AND STATEMENT OF INTERNAL CONTROL

#### 1. Summary

1.1 Local Councils are legally required to:

- have a sound system of internal control and effective arrangements for the management of risk
- undertake an effective internal audit, and
- review the effectiveness of their system of internal control annually

1.2 All councils must prepare an Annual Governance and Accountability Return ('AGAR', formerly called the Annual Return) in accordance with 'proper practices' and have the AGAR approved at a Full Council meeting.

1.3 For smaller authorities with either income or expenditure exceeding £25,000, the AGAR includes an Annual Governance Statement which consists of 9 assertions. Assertion 2 relates to 'internal control': "***We maintained an adequate system of internal control, including measures designed to prevent and detect fraud and corruption and reviewed its effectiveness***".

1.4 This report presents:

- a review of the effectiveness of Meltham Town Council's system of internal control and associated recommendations
- a Statement of Internal Controls (some internal controls are incorporated in the Council's Financial Regulations, but the system of controls goes beyond this. A Statement of Internal Controls has therefore been prepared).

1.5 Finance, Assets & HR Committee have considered the Internal Audit review conducted in November 2025 and the actions / comments are listed in the below table on item 4.

1.6 Council is now recommended to:

- Note the review
- Adopt the recommendations of the Clerk / Finance, Assets & HR Committee (abv. to Finance)

- Approve the statement of internal controls for 2026.

## **2. Background**

- 2.1 Local Councils are responsible for putting in place proper arrangements for the governance of their affairs and the stewardship of the resources under their control. These arrangements should enable the Council to carry out its activities effectively whilst managing risk.
- 2.2 A system of internal control should be designed to manage risk to a reasonable level. Whilst it cannot eliminate the risk of failure to achieve policies, aims and objectives; it can provide reasonable assurance of effectiveness.
- 2.3 Regular reviews of internal control provide assurances on their effectiveness and where appropriate a management action plan can be used to address any identified weaknesses.
- 2.4 The review process includes:
- obtaining assurances to the extent that control systems have operated effectively throughout the year;
  - reviewing Internal and External Audit Inspection reports;
  - reviewing any issues arising from the last review of internal controls

## **3. System of Internal Control**

- 3.1.1 Appendix 1 sets out the processes which need to be in place to warrant a positive response to the assertion on internal control contained in the Annual Governance Statement, an assessment of Meltham Town Council's current position and the Clerks associated recommendations.
- 3.2 The Clerks recommendations are set out in the final column.
- 3.3 Appendix 2 provides a basic Internal Control checklist provided by NALC. Members are asked to review this to be satisfied that Meltham Town Council meets as a minimum those controls detailed in the checklist or if not to recommend to Council the introduction of controls that do.
- 3.4 The Clerks recommendations are set out in the final column.

## **4. Recommendations from last year's Internal and External Audit inspections reports**

- 4.1 Internal and external audit inspection reports have previously been brought to council for consideration.
- 4.2 Recommendations from last year's internal audit inspection reports are reproduced below and the actions taken to address the recommendations are listed below.
- 4.3 Recommendations to action from external audit are reproduced below and the actions taken to address the recommendations are listed below.
- 4.4 Members are asked to review these and confirm that they are satisfied that the recommendations have been or are planned to be implemented.

Approved at Full Council  
26.5.26, minute ref: 26/36, item  
13.5

<b>Recommendations from internal audit November 2025</b>	<b>Actions</b>
1: That dual authorisation is introduced for electronic payments.	1: Finance are comfortable that our system is robust after considering the pro's and con's of moving banks as our current bank doesn't offer this service.
<b>Recommendations from external audit 24/25</b>	
None	N/A

## **5. Statement of Internal Controls**

5.1 Members are asked to review the Statement of Internal Controls at Appendix 3 and approve it.

## Appendix 1 – Internal Control Processes

Process	Current actions	Recommendations
<p><b>Standing Orders and Financial Regulations.</b></p> <p>Authorities need to have in place standing orders and financial regulations governing how it operates.</p>	<p>MTC has in place standing orders and financial regulations governing how it operates which are reviewed and taken to Council for approval every year.</p> <p>These are also reviewed periodically and sent to Council for amendment when changes in legislation are made.</p>	
<p>Financial regulations need to incorporate provisions for securing competition and regulating the manner in which tenders are invited. These need to be regularly reviewed, fit for purpose, and adhered to.</p>	<p>MTCs financial regulations incorporate provisions for securing competition and regulating the manner in which tenders are invited. They set a limit for the purchase of goods and services above which two estimates or quotes should be obtained.</p> <p>Reviewed by the RFO each spring and taken to the annual meeting for review by members and approval.</p>	
<p><b>Safe and Efficient Arrangements to Safeguard Public Money.</b></p> <p>Practical and resilient arrangements need to exist covering how authorities order goods and services, incur liabilities, manage debtors, make payments and handle receipts.</p>	<p>For orders over £2000.00 the Clerk submits a fully priced official order before delivery.</p> <p>On receipt of invoices verification that the goods or services have been received are obtained and the invoice arithmetic is checked.</p> <p>The Clerk keeps up to date with VAT guidance.</p>	

<b>Process</b>	<b>Current actions</b>	<b>Recommendations</b>
	<p>A monthly schedule of all payments and all income received is reported to the Mayor and Chair of Finance and they are asked to confirm all is in order – the schedules are then reported to the next Council meeting for retrospective approval and are formally minuted. Councillors can interrogate the RFO as to entries.</p> <p>The Chair of Finance initials each invoice on a monthly basis at the next available meeting.</p> <p>Cheques are no longer used.</p> <p>Cash and cheques are entered onto the cash book as soon as possible after receipt, banked promptly and intact. The Clerk will never retain any cash received for spending.</p> <p>No petty cash is held anymore.</p> <p>The request for payments are emailed to the Mayor and Chair of Finance for approval before BACS payment is submitted, in line with the financial regulations and the delegated limits to the RFO and Council. Copies of invoices are available to the Mayor and Chair of Finance on request, they are also uploaded to Scribe as a digital record.</p> <p>Petty cash has been abolished.</p>	

Process	Current actions	Recommendations
<p>The effectiveness of arrangements to protect money are reviewed regularly. MTC needs to arrange for the proper administration of its financial affairs and ensure that the Clerk and RFO has formal responsibility for those affairs</p>	<p>Arrangements are in place for the proper administration of financial affairs and the RFO has formal responsibility for those affairs.</p> <p>Petty cash been abolished.</p> <p>Town Mayor / Chair Finance sign off monthly bank rec which reported to next meeting of Finance / Council and minuted.</p>	
<p>MTC needs to ensure controls over money are embedded in Standing Orders and Financial Regulations.</p>	<p>Standing Orders and Financial Regulations have been duly updated and adopted to reflect modern financial working practice as part of the governance review.</p> <p>Standing Orders / Financial Regulations reviewed on a regular basis to reflect changes in legislation and Council operations as and when the matter arises.</p>	
<p>MTC needs to approve the setting up of, and any changes to, accounts with banks or other financial institutions.</p>	<p>These are subject to Council resolutions which are minuted.</p>	
<p>MTC needs to approve every bank mandate, the list of authorised signatures for each account, the limits of authority for each account signature and any amendments to mandates.</p>	<p>These are subject to Council resolutions which are minuted.</p> <p>Bacs payments have been instigated with controls over authorisation.</p>	<p>To be reviewed annually.</p>
<p>Risk assessment and internal controls need to focus on the safety MTCs assets, particularly money. Those with direct responsibility for money need to undertake appropriate training from time to time.</p>	<p>Risk assessment has focus on the safety of MTCs assets. The RFO undertakes appropriate training from time to time</p> <p>The Councils risk assessment is reviewed regularly and reported at least Annually to</p>	

<b>Process</b>	<b>Current actions</b>	<b>Recommendations</b>
	Council to ensure it is up to date and fit for purpose.	
<p><b>Employment.</b> The remuneration payable to all employees needs to be approved in advance by MTC. In addition to having robust payroll arrangements which cover the accuracy and legitimacy of payments of salaries and wages, and associated liabilities, MTC needs to ensure that it has complied with its duties under employment legislation and has met its pension obligations.</p>	<p>The remuneration payable to all employees is approved in advance by MTC and resolutions are minuted. MTC has robust payroll arrangements which cover the accuracy and legitimacy of payments of salaries and associated liabilities. The Clerk ensures that MTC has complied with its duties under employment legislation and has met its pension obligations.</p>	
<p><b>VAT.</b> MTC needs to have robust arrangements in place for handling its responsibilities with regard to VAT.</p>	<p>The arrangements in place are robust and subject to checks by internal audit.</p>	
<p><b>Fixed Assets and Equipment.</b> MTCs assets need to be secured, properly maintained and efficiently managed. Appropriate procedures need to be followed for any asset disposal and for the use of any resulting capital receipt.</p>	<p>MTCs assets are secured, properly maintained and efficiently managed. Any asset disposal and the use of any resulting capital receipt would need to be formally approved in advance by Full Council.</p> <p>Annual review of fixed assets and equipment and asset register updated.</p>	
<p><b>Loans and Long Term Liabilities.</b> MTC needs to ensure that any loan or similar commitment is only entered into after the authority is satisfied that it can be afforded and</p>	<p>N/A - MTC has not got any loans. If any loans or similar commitment were entered into in the future, MTC would comply with this.</p>	

Process	Current actions	Recommendations
<p>that relevant approvals have been obtained. Proper arrangements need to be in place to ensure that funds are available to make repayments of capital and any associated interest and other liabilities.</p>		
<p><b>Review of effectiveness.</b> Regulation 6 of the Accounts and Audit Regulations 2015 requires MTC to conduct <b>each</b> financial year a review of the effectiveness of the system of internal control. The review needs to inform MTCs preparation of its annual governance statement.</p>	<p>Regular reviews twice a year, usually falling in March and September</p>	

## Appendix 2 - NALC INTERNAL CONTROL CHECKLIST

CHECKS	CURRENT POSITION	RECOMMENDATIONS
<p><b>Accounting records, ie cash book:</b> Is the cash book being kept up to date? Cross reference it with minutes/bank statements/cheque books</p>	<p>Yes Yes -</p>	<p>We have moved to online accounting system – minute references provided /invoices scanned – all payments now by BACS</p>
<p><b>Payments:</b> Have they all been properly authorised?  Are all payments listed in the minutes? Do payments made correspond with the invoiced amounts? Check legitimacy of Direct Debits and Standing Orders</p>	<p>Yes A schedule of payments goes to Mayor and Chair of Finance before payment for authorisation, who can scrutinise these. This is then reported to the Finance, Assets &amp; HR/Council at the next available meeting in line with the delegated limits of authority within the updated financial regulations.</p>	<p>RFO to review the systems of control at least 6 monthly and feedback to Finance.</p>
<p><b>Cheques:</b> Are they properly and fully completed before being signed? Are cheque counterfoils always initialled by the signatories? Paid cheques correspond with bank statements - also check outstanding payments.</p>	<p>n/a n/a n/a</p>	<p>Cheques have been abolished.</p>
<p><b>Receipts:</b> Is income due to the council being collected promptly and in full? Are receipts being given? Is income properly controlled being paid into the bank? I.e. in accordance with the council's financial regulations.</p>	<p>Yes Yes Yes</p>	

CHECKS	CURRENT POSITION	RECOMMENDATIONS
<b>Allotment rents:</b> Rent letter sent out and rents received in a timely manner? Tenancy agreements issued?	Yes  Yes	
<b>Surplus balances:</b> Are surplus deposits placed in a suitable interest-earning bank account?	Yes	
<b>Bank reconciliation:</b> Is the council provided with this information regularly? (monthly) The monthly reconciliation is checked against bank statements?	Yes  Yes	Town Mayor and Chair of Finance provided each month – brought to Council and minuted.
<b>VAT Paid:</b> Is it properly recorded in the cash book? Claim for refund of VAT made and paid to the council? Claim properly submitted in a timely manner?	Yes  Yes Yes	
<b>Ordering of stationary and supplies:</b> Commensurate with the usage requirements of the council?	Yes	
<b>Internet banking:</b> Checks implemented by the council being adhered to?	Yes - checks in place via bank reconciliation and opportunity for ad hoc inspection by councillors.	
<b>Petty cash:</b>		

CHECKS	CURRENT POSITION	RECOMMENDATIONS
Properly controlled and recorded?	n/a	Petty cash has been abolished.
<b>Tax and NI liabilities:</b> HMRC liabilities met? Real Time Information reporting done on time? (so as not to incur financial penalties for the council)	Yes Yes	
<b>External auditor's report:</b> Presented to full council and directives acted upon?	Yes  Council check that the internal and external auditor's recommendations have been acted upon	

## **APPENDIX 3 - STATEMENT OF INTERNAL CONTROL**

Meltham Town Council (the Council) is a local authority funded largely by public money and is responsible for ensuring its financial business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently, and effectively.

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions, and which includes arrangements for the management of risk.

The Council is required to review at least annually the effectiveness of its system of financial control. This is informed by the work of the internal auditor and the Finance, Assets & HR Committee, who have responsibility for the development and maintenance of the internal audit environment, and also any comments made by the external auditors in their annual report.

### **The Purpose of the System of Internal Control**

The Council's system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure. It cannot provide an absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to policies, aims and objectives, to evaluate the likelihood of those risks being realised, and the impact should they be realised, and to manage them effectively and economically. The system of internal control accords with the practices set out in the Governance and Accountability in Local Councils: A Practitioners' Guide (2019 edition).

### **The Internal Control Environment**

The Council has adopted Financial Regulations which set parameters for the Council's financial operations. The Council has appointed a Responsible Finance Officer (RFO) who implements financial systems and controls. The Council uses Scribe Accounting software to process transactions and monitor performance against budget and Basic PAYE Tools runs Payroll. Banking services are provided by the Co-operative Bank.

An independent internal audit service is provided by Internal Audit Yorkshire and the Council's internal monitoring is undertaken by the Finance, Assets & HR Committee/Council. Any issues raised by the Internal Auditor are reported in writing to the Council and agreed actions are monitored to ensure that they have been carried out and actioned within agreed timescales. Additionally, the Council seeks and receives appropriate property, legal, insurance, and health & safety advice as appropriate to manage risk.

The Council is responsible for:

- Establishing and monitoring the achievements of the authority's objectives
- The facilitation of policy and decision making
- Ensuring compliance with established policies, procedures, laws and regulations
- Identification and management of risk
- Ensuring that best value and value for money are achieved in all purchases
- Ensuring performance is regularly monitored against financial and operational budgets
- Control and reports on the financial management of the Council

## **Review of Effectiveness**

The Council, through the RFO, has responsibility for conducting a review of the effectiveness of the system of internal control and the internal audit process.

The review of the effectiveness of the system of internal control is monitored by:

- The Full Council. Full Council meets approximately every 4 weeks. It monitors progress by receiving relevant reports from the Finance, Assets & HR Committee and the RFO.
- The Town Clerk is the Council's RFO who acts as the Council's legal advisor and administrator. The Clerk is responsible for administering the Council's finances, for advising on compliance with laws and regulations to which the Council is subject, and for managing risks. The Clerk also provides advice to help the Council ensure that its procedures, control systems and policies are adhered to.
- The Finance, Assets & HR Committee. The committee ordinarily meets every 4 weeks and undertakes budget monitoring, consideration of NET worth reports and approval of the schedule of payments and income. However, since the pandemic some of these functions have been undertaken by the Full Council instead. Members of the committee / Council monitor progress against objectives, financial systems and procedures, budgetary control, and carry out reviews of financial matters. Minutes of committee / Council meetings are circulated to all members of the Council and recommendations are considered at Full Council meetings.

### **The work of the Internal Auditor.**

The Internal Auditor, an independent person specialising in local council matters, reports to the Council on the adequacy of its records, procedures, systems, internal control and risk management.

### **The External Auditors in their annual report.**

Any concerns about the effectiveness of the system of internal control are investigated and action taken as appropriate.

### **Significant Internal Control Issues**

The Council strives for the continuous improvement of the system it has adopted for internal control and will address any issues and weaknesses raised and reported during the review process.