



WALES AUDIT OFFICE
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Auditor General for Wales

Audit of Accounts 2015-16 and 2016-17 – failures in financial management and governance – **Glynneath Town Council**

Audit years: 2015-16 and 2016-17

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This document is also available in Welsh. Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

The team who delivered the work comprised Donna Fanariotis and Deryck Evans under the supervision of Anthony Barrett.

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Acting under delegated arrangements and on behalf of the Auditor General for Wales, I have issued this report under section 22 of the Public Audit (Wales) Act 2004, to draw the public's attention to failures in governance arrangements and inadequacies in financial management and internal control at Glynneath Town Council.

This report sets out a number of failures in financial management and internal control at Glynneath Town Council and makes recommendations to address those failures. The Council must consider the report and the recommendations made, in accordance with section 25 of the Public Audit (Wales) Act 2004.

The Auditor General will issue a qualified audit report on the Council's Annual Returns for the financial years 2015-16 and 2016-17.

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Summary report

Introduction

- 1 This report summarises my conclusions arising from my audit of Glynneath Town Council's (the Council) accounts for the 2015-16 and 2016-17 financial years. In the course of the audit, I identified significant failures in governance arrangements and inadequacies in financial management and internal control.
- 2 This report is issued in the public interest under Section 22 of the Public Audit (Wales) Act 2004 (the Act). I have issued this report to draw the public's attention to these failures in governance arrangements and inadequacies in financial management and internal control at the Council. I believe it is important that the public has a full and proper awareness of the events concerning the Council.
- 3 I also consider it appropriate to give the Council an opportunity to demonstrate the important steps already taken to improve arrangements and to ensure that the risk of such governance failures recurring is reduced to a minimum. There are lessons to be learnt not just by the Council, but by all community councils in Wales.

Glynneath Town Council

- 4 Glynneath Town Council is situated in the Vale of Neath and serves a population of approximately 4,000. The Council spends around £200,000 each year. This places it within the largest 15% of town and community councils in Wales. Its main source of income is its precept of around £130,000. The precept is charged to council tax payers in the community served by the council.
- 5 The principal contact for the audit was the former clerk to the Council, Mr Clive Baker (the former clerk).

My audit work

- 6 My audit work on town and community councils focusses on an annual return completed by the councils and submitted to auditors working on my behalf. The annual return contains the annual accounting statements that the council is required by law to prepare and an annual governance statement which sets out how the council has managed its financial affairs.
- 7 My normal audit work is designed to be proportionate to the size of town and community councils and the sums of public money that they manage. The audit process should be efficient and allow councils to publish audited accounts in accordance with the statutory timetable for councils.
- 8 Due to delays in receiving the annual returns for 2015-16 and 2016-17 and repeated difficulties in making contact with and obtaining information from the former clerk, the nominated auditors referred Glynneath Town Council to me. I expanded the scope of my work due to the increased risk associated with late

completion and submission of accounts and failures to comply with requests for information for the purpose of the audit.

Key findings

- 9 My audit work identified significant issues both in relation to the accounting statements and the annual governance statement. These are:
- the Council has failed to maintain proper accounting records and to provide sufficient evidence for me to undertake the statutory audit; and
 - the Council's governance arrangements are inconsistent with the positive assertions it has made in its Annual Return
- 10 As a consequence of the matters identified at audit, I am unable to conclude on whether or not the accounting statements properly present the Council's financial transactions. Furthermore, the deficiencies I have identified mean that in my view, the Council does not have adequate arrangements in place to secure economy, efficiency and effectiveness in the use of its resources. Therefore, I will issue a qualified audit opinion for the 2015-16 and 2016-17 accounts.
- 11 These findings, which highlight elements of poor governance and financial management, are considered in more detail in the remainder of this document.

Recommendations and next steps

- 12 It is important that the Council now takes positive action to address the deficiencies I have identified during the audit. Therefore, I have considered the actions taken by the Council in response to my initial conclusions and have made ten recommendations for improvement.

Action already taken by the Council

- 13 It is important that the Council learns from these events. I understand that the Council has already taken certain actions, including:
- Discussed my initial findings and conclusions at a meeting in March 2019;
 - Adopted new Financial Regulations in February 2019 and is ensuring that these new regulations are followed;
 - Begun the process of procuring a new internal audit provider;
 - Set a budget for the year in accordance with the Local Government Finance Act 1992;
 - Appointed a new responsible finance officer and clerk; and
 - Developed a financial risk assessment that will be monitored and considered at council meetings.

Recommendations

- 14 On the basis of my review, I draw the Council's attention to the following ten recommendations:

Recommendations	
R1	The Council should ensure that it understands the audit process and timetable and monitors progress of the audit.
R2	Because it operates a digital ledger, the Council must ensure that it has adequate back up arrangements in place to safeguard against a potential loss of data.
R3	The Council should ensure that its primary accounting records including bank statements, payroll records and invoices are stored in a logical and accessible manner.
R4	The Council should review its records of assets and loans and ensure that these are properly recorded and reported in its annual accounting statements.
R5	The Council should ensure that before it approves its Annual Governance Statement, it satisfies itself that the assertions made accurately reflect the governance arrangements in place.
R6	Before it approves its accounts, the Council should ensure that the accounting statements have been prepared in accordance with proper practices.
R7	The Council should ensure that bank reconciliations are prepared and verified on a regular basis through the year and at the 31 March each year.
R8	The Council should ensure that it only sets its precept when it has received a detailed budget for the forthcoming financial year that is prepared in accordance with the Local Government Finance Act 1992.
R9	The Council should ensure that it reviews the effectiveness of its internal audit function each year including the terms of reference for the internal auditor and the work undertaken by the internal auditor.
R10	The Council should identify all of the information required to be published on its website and make arrangements to comply with the Local Government (Democracy) (Wales) Act.

Next steps

- 15 Section 25 of the Public Audit (Wales) Act 2004 requires the Council to consider this report at a full meeting of the Council within one month of the date of issue of the report. At the meeting, the Council will need to decide:
- whether the report requires it to take any action;
 - whether the recommendations in the report are to be accepted; and
 - what action (if any) to take in response to the report and recommendations.

16 The Council will then need to prepare a written response to the report and agree the wording of that response with me before publishing its response in accordance with section 25 of the Act.

Anthony Barrett
Assistant Auditor General
19 June 2019

Detailed report

The Council has failed to maintain proper accounting records and to provide sufficient evidence for me to undertake the statutory audit and therefore I am unable to provide an opinion on whether or not the annual accounts properly present the Council's income and expenditure for the years of audit

- 17 My audit has been hampered by a number of issues regarding the accounting statements including:
- repeated failures by the former clerk to respond to audit enquiries and to provide information required for the audit;
 - a failure by the Council to maintain proper accounting records;
 - haphazard and disorganised presentation of supporting records;
 - failure to comply with proper accounting practices; and
 - absence of an audit trail for the accounting statements and unexplained discrepancies.

The former clerk repeatedly failed to provide the audit team with information required for the purpose of the audit and to respond to audit enquiries on a timely basis

- 18 While the overall audit arrangements are designed to be proportionate and to provide a statutory audit at a reasonable cost to the Council, this is dependent upon the Council having appropriate arrangements in place to provide the external auditor with sufficient information to complete the audit and for this to be provided on a timely basis.
- 19 The 2015-16 and 2016-17 audits have been subject to considerable delays due to errors in the accounts, the former clerk's failure to provide information to the audit team or to respond to communications from the audit team on a timely basis.

The Council has failed to maintain proper accounting records of its transactions during the year

- 20 Regulation 6 of the Accounts and Audit (Wales) Regulations 2014 requires the responsible financial officer (RFO), which in the case of the Council is the Clerk, to determine on behalf of the body, after consideration of proper practices, its accounting records, including the form of accounts and supporting accounting records, and its accounting control systems.
- 21 Proper practices are set out in the One Voice Wales/Society of Local Council Clerks publication, Governance and Accountability for Local Councils in Wales: A Practitioners' Guide. These proper practices require that the Council should maintain a cashbook or equivalent in order to record transactions and retain original documentation to provide evidence to substantiate transactions recorded in the cashbook. The Council maintained its cashbook in the form of an electronic cashbook.
- 22 The Council has been unable to provide a copy of the underlying accounting records for the audit which were held on a laptop. The former clerk explained that this is due to a computer virus causing a complete loss of data. The Council did not have in place arrangements to take a back up copy of data and therefore the Council was unable to provide a copy of the ledger.

The accounting records presented for audit were haphazard and incomplete

- 23 On transfer of the audit from BDO to the Wales Audit Office, the former clerk was asked to produce all of the Council's accounting records to facilitate my audit work. The former clerk provided these records in two boxes, one for each of the 2015-16 and 2016-17 financial years.
- 24 My audit team noted that the records provided were placed in the boxes in a haphazard manner, with various different types of records mixed together eg bank statements mixed in amongst quarterly reports and invoices. This disorganised record keeping has caused significant delays and additional cost in undertaking the audit.
- 25 Furthermore, the former clerk failed to provide a complete set of bank statements. Therefore, the scope of my audit has been limited due to the absence of the original cashbook/ledger and the incomplete records provided by the former clerk.

The accounting statements contain a number of unexplained discrepancies

- 26 My audit work has also identified a number of inconsistencies in the 2015-16 accounts for which the former clerk was unable to provide an adequate explanation:
- Total borrowings reported in the accounts does not agree with confirmation provided by the Public Works Loan Board.
 - Total fixed assets does not appear to reflect additions to the Council's assets during the year.

Due to the Council's failures noted above, I am unable to conclude on whether or not the accounting statements properly present the Council's income and expenditure and financial position for the years ended 31 March 2016 and 2017

- 27 The failure to maintain proper accounting records as set out above, means that I am unable to conclude on whether or not the accounting statements in section 1 of the 2015-16 annual return:
- properly presents the Council's income and expenditure for the year and its financial position as at 31 March 2016;
 - complies with all statutory provisions related to the accounts; and
 - has been compiled in accordance with proper practices.
- 28 Therefore, I will issue an audit opinion that is qualified due to a limitation in the scope of the audit arising from the Council's failure to maintain proper accounting records.

The Council's governance arrangements are inconsistent with the positive assertions it has made in its Annual Return

- 29 In addition to presenting the accounts for a given year, the Annual Return requires the Council to make a formal declaration in relation to the arrangements it has in place for its governance and financial management. This is referred to as the Annual Governance Statement. The Annual Governance Statement is reviewed and approved as an accurate statement by the Council.
- 30 Whilst the actual wording of the Annual Governance Statement can vary from one year to another, it broadly covers:

Exhibit 1: Annual Governance Statement

In its Annual Governance Statement the Council makes six assertions that are contradicted by the evidence obtained during the audit and a further two for which there is insufficient evidence for me to draw a conclusion

Assertion	Council Response	Audit assessment
Properly prepared and approved the accounting statements	Yes	No
Maintained and reviewed the effectiveness of an adequate system of internal control, including measures designed to prevent and detect fraud and corruption	Yes	No
Taken steps to ensure there are no matters of non-compliance with laws, regulations and codes of practice	Yes	No
Provided proper opportunity for the exercise of electors' rights in relation to the accounts	Yes	Yes
Carried out an assessment of the risks facing the Council	Yes	Yes
Maintained an adequate and effective system of internal audit	Yes	No
Considered the financial impact of any litigation, liabilities or commitments, events or transactions	Yes	Unable to conclude
Appropriate action has been taken in relation to internal and external audit reports	Yes	Unable to conclude
2015-16 only		
Calculated and approved the budget requirement as required by law	Yes	No
Received detailed financial reports on the Council's receipts and payments and financial position and monitored the financial position against the budget	Yes	No

Assertion	Council Response	Audit assessment
Ensured that the internal auditor is independent of the Council's decision-making process and maintenance of the accounting records	Yes	Yes
2016-17 only		
Registered as an employer with HM Revenue and Customs	Yes	Yes
Maintained proper payroll records	Yes	Yes
Adopted a Code of Conduct for members	Yes	Yes

Source: Glynneath Annual Return and Wales Audit Office analysis

- 31 For the two audit years considered in this report, 2015-16 and 2016-17, the Council has completed the returns as above on the basis it is compliant with the expectations set out in both legislation and published guidance. Where a positive assertion has been made, it has not qualified its responses or provided explanations on areas where it is either deficient or working to secure improvements.
- 32 The governance disclosures made by the Council are therefore, in my view, inconsistent with the position reflected in its documentation.
- 33 What is clear to me is that the Council has not taken sufficient steps to satisfy itself that its governance arrangements are effective and are fairly disclosed in the Annual Governance Statement. Council members have not sufficiently recognised or acted upon issues in relation to the adequacy of their governance arrangements.
- 34 The next section of this report sets out a number of deficiencies and weaknesses in the Council's arrangements that have been readily apparent to me during the audit.

The Council did not comply with proper accounting practice when preparing its accounting statements

- 35 Proper practice also requires that when its income and expenditure exceed £200,000 for three consecutive years, the Council must prepare its accounting statements on an accruals basis, reporting transactions in the financial year to which they relate rather than when cash payments are made or received.
- 36 The accounting statements for the financial year ended 31 March 2016 were originally prepared on a receipts and payments basis. Proper accounting practices require that the accounts are prepared on an income and expenditure (accruals) basis. The Council amended the accounts but has been unable to provide records to support the amended accounts or any form of audit trail between the quarterly receipts and payments reports and the income and expenditure accounts.

The bank reconciliation presented for audit for 2015-16 was inaccurate and did not agree with the accounting statements

- 37 One of the key accounting controls for every council is the bank reconciliation. Reconciling the council's cashbook/ledger to the bank statement is an essential control that ensures the cashbook/ledger is a complete and accurate record of its transactions. My audit work identified discrepancies between the cash and bank balance reported in the accounts and the bank reconciliation.
- 38 The former clerk believes that 'the required changes to the inclusion of VAT in the reporting led to a discrepancy in the bank reconciliation'. Due to the incomplete records, I am unable to conclude on whether or not this assertion explains the discrepancies.
- 39 These discrepancies indicate a failure in an important internal control.

The Council has failed to comply with legislative requirements for setting its budget requirement and set its precept in a manner that is contrary to law

- 40 Each year, the Council issues a precept to the council tax billing authority, Neath Port Talbot County Borough Council. The precept is the Council's primary source of income to fund the services it delivers. In its annual governance statement for the year ended 31 March 2016, the Council makes a positive assertion that it approved its budget requirement in accordance with the Local Government Finance Act 1992. It also stated that it received regular financial reports in order to monitor its income and expenditure against its budget.
- 41 The annual precept is around £130,000.

Exhibit 2: Glynneath Town Council precept

In 2015-16 and 2016-17, the Council set a precept of around £130,000

	2015-16 (£)	2016-17 (£)
Annual precept – charged to council tax	129,676	132,204

Source: Wales Audit Office analysis

- 42 The Local Government Finance Act 1992 requires the council to calculate its budget requirement in order to set its precept. The Act specifies that the council must calculate its budget requirement by considering the aggregate of:
- the expenditure the Council estimates it will incur in the year in performing its functions;

- such allowance as the Council estimates will be appropriate for contingencies in relation to expenditure;
- the financial reserves which the Council estimates it will be appropriate to raise in the year for meeting its estimated future expenditure or to meet any deficit arising in an earlier financial year;
- the sums which it estimates will be payable to the Council for the year, other than the precept; and
- the amount of the financial reserves which the authority estimates that it will use in order to finance its expenditure.

43 The precept issued to the council tax billing authority is then the net of these items.

44 Notwithstanding the positive assertion made by the Council in its Annual Governance Statements for 2015-16 and 2016-17, it has been unable to provide evidence that it complied with the requirements of the Act and properly considered a budget for the year. The Council's minutes demonstrate that it simply considers a schedule showing a series of percentage increases to the precept. The Council then determines the budget requirement based on this schedule of possible increases.

45 In my view, in following this process, the Council did not set a lawful precept.

46 During the course of the year, the Council received a series of financial reports from the then clerk setting out what monies had been received and paid out. However, on the basis that the Council did not set an appropriate budget, it follows that it did not effectively manage its finances against an expected budget.

47 For the 2019-20 financial year, the Council has set a detailed budget to support its precept demand.

There is insufficient evidence to support the assurances provided by the Council's internal auditor and the internal audit is not in my view, adequate and effective

48 The Council engaged Mr Lyn Llewellyn to provide its internal audit service for both 2015-16 and 2016-17. Mr Llewellyn provided the Council with a detailed report on the outcome of his work and completed a checklist on the reverse of its annual returns for the two years. Mr Llewellyn's reports on the reverse of the annual returns give positive assertions in several areas where I found deficiencies.

Exhibit 3: Internal audit assurances

The internal audit report provides positive assurances that are not supported by the evidence provided for the external audit

Assertion	Internal audit conclusion	External audit conclusion
Appropriate books of account have been properly kept throughout the year.	Yes	No
The annual precept/levy/resource demand requirement resulted from an adequate budgetary process, progress against the budget was regularly monitored, and reserves were appropriate.	Yes	No
Periodic and year-end bank account reconciliations were properly carried out.	Yes	No
Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments/income and expenditure), agreed with the cashbook, were supported by an adequate audit trail from underlying records, and where appropriate, debtors and creditors were properly recorded.	2016 – No 2017 – Yes	2016 – No 2017 – No

- 49 Due to the issues identified during the audit, my audit team requested to review Mr Llewellyn's audit files. My review identified a lack of evidence to support Mr Llewellyn's findings.
- 50 Mr Llewellyn noted that the former clerk had provided him with the Council's records in a dishevelled manner similar to those provided for the external audit.
- 51 In a written submission to me, Mr Llewellyn disputes my conclusions as stated in **Exhibit 3**. He notes:
- He recalls that there were monthly cashbooks, that these were duly reconciled to the bank statements and that he was satisfied as to their accuracy.
 - He was provided with budget statements for both years along with at least two monitoring reports and he checked the reserves were appropriate.
 - He 'distinctly' recalls examining monthly bank reconciliations prepared by the clerk and that this is his normal practice when carrying out internal audit work.
- 52 Mr Llewellyn accepts that the accounts were not prepared on the appropriate basis, stating that 'There was no way the town clerk [Mr Clive Baker - the former clerk] would move to an accrual basis.' On reflection, he agrees that his response was incorrect in relation to the 2016-17 accounts.

- 53 Mr Llewellyn considers that the papers the Council provided to me for my audit were incomplete. Mr Llewellyn acknowledges that he ‘failed to take copies of documentary evidence which [he] should have done.’
- 54 In the absence of any corroborative evidence in Mr Llewellyn’s file and the evidence obtained as part of the audit and addressed elsewhere in this report, I do not consider that the internal audit process was robust. Therefore, I conclude that the Council did not maintain an adequate and effective system of internal audit for 2015-16 and 2016-17.

Although the Council has a website, it does not publish all documents it is required to publish electronically

- 55 The Local Government (Democracy) (Wales) Act 2013 (the 2013 Act) requires every local council to make available their contact and membership details, and records of their proceedings via the internet. The 2013 Act also requires every council to publish their register of members’ interests, public notices and audited accounts electronically.
- 56 The changes introduced by the 2013 Act enhance accountability of local councils to their electorate.
- 57 My audit identified that while the Council has established a website, it has not published the information it is required to publish electronically. For example, the website does not include a copy of the Council’s register of members’ interests, notices of audit or audited accounts. The Council has only published minutes for meetings held between May and September 2018.
- 58 Since February 2019, the Council has published more up to date minutes on its website. However, other documentation that the Council is required to publish online remains incomplete.

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