

# Follow up on the failures in financial management and governance – Ammanford Town Council

Audit year: 2018-19 to 2023-24

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I have now completed the audits of Ammanford Town Council's accounts up to and including the 2023-24 accounts. I have prepared this report to highlight issues identified by my audit after the issue of a report in the public interest in 2023.

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# Summary report

## Introduction

- 1 In September 2023, I issued a report in the public interest to draw attention to serious failures in governance and financial management by Ammanford Town Council (the Council) . In particular I reported on:
  - The Council's failure to prepare annual accounts as required by law and thus its failure to account for almost £800,000 collected from local taxpayers from 2016-17 to 2020-21;
  - The Council's failure to maintain proper and complete accounting records;
  - The Council members' collective failure to recognise and take appropriate action on issues raised by its internal auditor,
  - The Council's disregard of a draft document setting out my initial audit findings that was issued to the Council in September 2021.
- 2 Immediately prior to the publication of the report in the public interest and subsequently, I have undertaken further work at the Council in relation to the 2018-19 to 2021-22 accounts. The Council approved the 2022-23 and 2023-24 accounts on 29 July 2024 and shortly after provided the relevant information for audit. I have now completed my audit work on all outstanding financial years.
- 3 This report summarises my findings from my audit work for the outstanding financial years.

## My audit work

- 4 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.
- 5 Due to the issues identified and reported in the public interest I have undertaken a more extensive audit than in usual. My audit work has included following up the Council's progress in addressing the recommendations made in my public interest report and additional work related to the preparation of the accounts. The recommendations made in the public interest report are set out in Appendix 1 along with my assessment of the progress made by the Council.
- 6 The Council considered the report in a public meeting held on 25 October 2023. It is important to highlight that the Clerk and Responsible Financial Officer (Duncan Morgan) was on a long-term absence from 06 April 2023 and did not return to work. The Council dismissed the Mr Morgan on 12 April 2024. We refer to Mr Morgan as the former Clerk for the remainder of this report.
- 7 I express my thanks to the Councillors and Mrs Clare Hope for their assistance during the audit. Mrs Clare Hope was the interim Clerk between December 2018 to

December 2019 and had been requested by the Council to provide assistance during the former Clerk's sickness absence. The issues identified for the 2018-19 and 2019-20 financial years arose in the period when she was not employed as clerk.

## Key findings

- 8 Although the Public Interest Report was published in September 2023, the Council was aware of my findings since September 2021. Prior to this Public Interest Report the Council received internal audit reports which highlighted similar deficiencies.
- 9 The 2004 Act requires the Council to make up its accounts to 31 March each year and to submit the accounts to me for audit. Before the accounts are submitted for audit, the 2014 Regulations require that the following certification and approval process is followed:
  - The Responsible Financial Officer must certify that the accounts properly present its receipts and payments and its financial position; and
  - The Council must approve the accounts at a meeting of the Council.This process must be completed by 30 June immediately following the year end.
- 10 The Council failed to comply with these requirements for both the 2019-20 and 2020-21 accounts which were only approved by the Council in February 2022. I have not seen evidence showing that the Council approved the 2021-22 accounts but an annual return was found during the audit which had been signed by the Clerk dated 27 September 2022.
- 11 My audit work identified significant deficiencies in the Council's financial systems and financial management. As a consequence of this, I will issue a qualified audit opinion on the accounts for 2018-19, 2019-20, 2020-21 and 2021-22 for the following reasons:
  - the Council has not maintained proper and complete accounting records;
  - the Council has been unable to provide contractual documentation or supporting documentation to evidence that it has followed its standing orders and financial regulations.
  - adequate information has not been provided to Councillors regarding the approval of payments made and I have been unable to confirm whether the payments were made were done so under proper authority.
- 12 The Council provided the 2022-23 and 2023-24 accounts in the form prescribed by the 2014 Regulations in July 2024.
- 13 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.

- 14 I consider it important to note that the standards required to be disclosed by the Annual Governance Statement are the minimum standards that the electors of Ammanford Town Council should expect to be upheld.
- 15 I draw attention to the fact that the Council has, by its own admission, failed to meet these standards and has provided negative responses to many of the aspects of proper governance covered by the Annual Governance Statement.
- 16 What is clear to me is that since 2016, even though its failings and deficiencies have been brought to its attention by both internal and external audit, the Council's past officers and its members have failed to ensure that it has established proper standards of financial management and governance.
- 17 In failing to properly address the issues raised in the Public Interest Report and internal audit reports, Council members have not sufficiently recognised or acted upon issues in relation to the adequacy of their governance arrangements.
- 18 The detailed findings set out in the next section of this report set out the deficiencies and weaknesses in the Council's arrangements that have been apparent to me during the audit.

## Recommendations

- 19 I am making a further three recommendations to the Council as set out in Exhibit 1 below. The seven recommendations raised within the public interest report are set out in Appendix 1.

### Exhibit 1: Recommendations

I am making three further recommendations to assist the Council to improve its financial management and governance arrangements

| Recommendations |                                                                                                                                                                                   |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| RF1             | The Council should review and maintain a contract register for all contractual obligations and communicate this to the Council members.                                           |
| RF2             | The Council should ensure all contracts are awarded in line with its Standing Orders and Financial Regulations and maintain adequate accounting records demonstrating compliance. |
| RF3             | The Council should ensure it uses official communication channels for Council business.                                                                                           |

## **Next steps**

- 20 The Council should now review its progress against the recommendations made in the public interest report and the additional recommendations in this report to ensure it fully addresses the deficiencies identified.

Richard Harries

Director – Audit Services

For and on behalf of the Auditor General for Wales

# Detailed report

Although it has failed to meet the statutory timetable for each year, the Council has now prepared accounts up to and including the 2023-24 financial year but needs to publish the accounts online

**In my report in the public interest, I drew attention to the fact that the Council had failed to prepare accounts on a timely basis from 2016-17 to 2020-21**

- 21 I draw attention to paragraphs 30 to 44 of the public interest report.
- 22 Section 13 of the Public Audit (Wales) Act 2004 (the 2004 Act) and Regulation 15 of the Accounts and Audit (Wales) Regulations 2014 require the Council, by 30 June each year, to prepare and approve accounts and to submit those accounts for audit.
- 23 The Council must then publish its audited accounts, including on its website, by 30 September. If the audit is incomplete the Council must publish a notice explaining this.

**Although the 2021-22 accounts do not appear to have been approved and 2022-23 and 2023-24 accounts were late, all outstanding accounts have now been submitted for audit,**

- 24 In its November 2023 response to my public interest report, the Council noted that it was taking action to complete the outstanding 2022-23 accounts and to ensure that the 2023-24 accounting data was brought up to date with a view to approving the 2023-24 accounts by 30 June 2024.
- 25 Exhibit 3 below updates the table included in the public interest report and sets out the dates on which the RFO and the Council provided the necessary approval of the annual accounts.
- 26 The Council provided an Accounting Statement for 2021-22. Notwithstanding that it has been certified by the former Clerk, I have been unable to determine if this was approved by the Council.
- 27 Although the statutory date for approval of the 2023-24 accounts was not achieved, the table does demonstrate a significant improvement over previous years.
- 28 The Council should now ensure that the 2024-25 and subsequent years' accounts are prepared on a timely basis.
- 29 I note that the Council has not yet published the 2021-22 to 2023-24 accounts on its website.



### Exhibit 3: approval of the annual accounts

The Council has now prepared and submitted for audit all outstanding annual accounts.

| Financial year | Date RFO certification | Date approved by Council | Date signed by Chair |
|----------------|------------------------|--------------------------|----------------------|
| 2018-19        | 16/02/2022             | 28/02/2022               | 28/02/2022           |
| 2019-20        | 16/02/2022             | 28/02/2022               | 28/02/2022           |
| 2020-21        | 16/02/2022             | 28/02/2022               | 28/02/2022           |
| 2021-22        | 27/09/2022             | Not approved             | Not signed           |
| 2022-23        | 29/07/2024             | 29/07/2024               | 29/07/2024           |
| 2023-24        | 29/07/2024             | 29/07/2024               | 29/07/2024           |

Source: Audit Wales analysis

## **A lack of clarity in the terms of engagement with a firm of accountants engaged to assist with the accounts resulted in additional cost to the Council**

- 30 The Council commissioned LHP Accountants (LHP) to prepare its accounting statements for the 2018-19 to 2021-22 financial years. However, it is unclear whether this commission was approved by the Council or whether the commission secured value for money.

## **The Council's accounts must be prepared in accordance with proper practices**

- 31 For community councils in Wales, proper accounting practices are defined by Regulations as the One Voice Wales/SLCC publication 'Governance and Accountability for Local Councils in Wales: A Practitioners' Guide' (the Practitioners' Guide).
- 32 The Practitioners' Guide sets out a simple format for the annual accounting statement that is to be included in a proforma annual return.

## **A lack of clarity of the terms of engagement for LHP may have led to a significant increase in the cost of services provided to the Council**

- 33 I am informed that the Council engaged LHP in order to prepare the annual accounts for audit. However, for the three financial years between 2018-19 to 2020-21 the firm LHP accountants prepared accounting statements that were not in the form prescribed by the regulations.
- 34 However, there is a lack of clarity of the terms of engagement.
- 35 LHP provided the Clerk with a proposal document which details the services that they will provide. The proposal stated the services would be for "Annual Accounts – Prior Years" and that they would "conduct our audit in accordance with International Standards on Auditing".
- 36 I was also provided with an engagement letter that referred to different services to those included in the proposal as it states that the firm would not be carrying out any audit work. The schedule of services within the letter of engagement are ambiguous and vague and do not set out clearly what the Council was agreeing to.
- 37 In my public interest report, I noted that the Auditor General's certificate for the 2018-19 to 2020-21 accounts had been signed by a third party. I have now established that the signature was by one of LHP's accountants. This provides further evidence of the lack of clarity and understanding of the Council's requirements to prepare the returns.

- 38 I have not been able to identify when, or if, the Council approved the appointment of LHP. It does not appear that the Council followed any form of procurement process.
- 39 In the initial proposal, LHP set out that the cost of the proposed services would be £1,500. In fact, the total cost to the Council for preparing the accounts was £4,500. It is unclear why the final costs were three times the original estimate.
- 40 Therefore, I am unable to conclude whether or not the Council had established proper arrangements to secure value for money.
- 41 Further to this, the Council had transitioned to a different accounting system which was not approved by the Council.

## Significant deficiencies in the Council's accounting records mean that I am unable to conclude on whether or not the accounts for 2018-19 to 2021-22 properly present the Council's income and expenditure

### The Council has significantly changed its accounting system twice since 2018-19

- 42 The Accounts and Audit (Wales) Regulations 2014 sets out the Council's responsibility to maintain proper accounting records. I set out in the public interest report, the deficiencies I had identified in relation to the 2016-17 and 2017-18 accounting records.
- 43 In 2018-19, the Council maintained its cashbook in the form of an electronic Excel workbook. From 2019-20 the Council has used the Rialtas accounting system. The 2019-20 and 2020-21 annual returns reconciled back to reports that were obtained from the Clerk's mailbox however the 2021-22 annual return did not reconcile back to the accounting system noting that total other payments are understated by £2000.
- 44 The Council explained that the Clerk has since tried moving to another accounting system (Xero) for the 2022-23 financial year. It also became apparent that the Council is in dispute with the providers of the Rialtas system regarding providing sufficient notice to terminate their contract.

### My audit has identified several significant weaknesses and omissions in the Council's records.

- 45 During the course of the 2018-19 and 2021-22 audits, my audit team sought to establish that the annual accounts properly reflected the underlying cashbook analysis. The audit team identified that:
- The accounts for 2018-19 did not agree to the underlying records;
  - The Council was unable to provide explanations for the variances;
  - The Council did not keep appropriate payroll records;
  - The payroll records that the Council did keep did not reconcile back to the accounting system and cashbook; and
  - Payments paid via payroll such as allowances for mobile phones and working from home allowances are not included within the Clerks contract of employment.
  - There were missing invoices or supporting documentation.

- 46 For 2018-19, the then Responsible Financial Officer (Mr Lyn Llewellyn) prepared cashbooks in the form of a comprehensive Excel workbook incorporating all bank accounts held by the Council. The internal auditor identified a small number of duplicated entries and arranged for these to be corrected before my audit commenced.
- 47 Mrs Hope had contacted the accounting firm that had prepared the annual accounts to obtain copies of the records sent to the firm and what other information was available. The accounting firm was unable to provide the information at the time of my audit and confirmed that they did not have the source data for the 2020-21 financial year.
- 48 It was noted that the former Clerk had used their personal e-mail address to communicate with a personal e-mail address of the accountant that was preparing the accounts on behalf of the Council. This poses an unnecessary security risk to the Council's data and may have contributed to the accounting firm being unable to provide accounting records back to the Council.

### **The Council has insufficient records to support expenditure and is unable to demonstrate that payments have been approved**

- 49 My public interest report set out my concerns over the Council's use of a £5,000 cash withdrawal and the lack of sufficient supporting records. Mrs Hope has subsequently provided a detailed record (a petty cash log) and supporting receipts for all except one transaction. Notwithstanding that this record was not provided to me by Mr Morgan, Mrs Hope provided evidence demonstrating that Mr Morgan had signed for receipt of the petty cash log. However, it remains my view that there are significant risks arising from the use of large sums of cash and the Council should ensure that cash transactions are kept to a minimum.
- 50 In relation to other payments, the Council was able to provide accounting records for most of the transactions tested for the 2018-19 to 2021-22 financial years. However, it remains the case that a significant number of transactions could not be verified and in some cases, these transactions were not reported to the Council.
- 51 These unapproved payments include payments made to previous members and officers of the Council.
- A payment to the previous Clerk (Annette Bell)<sup>1</sup> for "expenses" totalling £2,844.49.
  - A payment to SSE Enterprises for "Christmas Lights" totalling £6,432.58
  - A payment to Julia Bell (a previous Councillor and previous Mayor) for "Mayors and Deputy Mayors" allowance totalling £2,277.64.

- 52 Annette Bell initially denied receiving a payment for £2,844.49. However, we obtained from the bank a copy of a paid cheque for £2,844.49. The cheque was made payable to “Antoinette Bell” and was countersigned by two Councillors.
- 53 Annette Bell later acknowledged that she had in fact received the payment, stating that this was for reimbursement of out of pocket expenses. She provided a heavily redacted personal bank statement showing a number of transactions that she stated were incurred on behalf of the Council. Annette Bell attests that no Councillor would sign a cheque without a schedule being attached with receipts for the services purchased and that receipts were provided to the Councillors at the time of the cheque was written. Nevertheless, I could find no supporting receipts during the audit.

### **Contract record keeping and thus contract management is poor**

- 54 The audit team attempted to trace back expenditure transactions to original contracts and how those contracts were awarded, and it became immediately apparent that it would not be possible to confirm the expenditure to original documentation.
- 55 The Council has a Service Level Agreement (SLA) with Carmarthenshire County Council (the Unitary Authority) for the maintenance of recreation grounds and parks that are owned by the Council. However, a copy of this SLA was not provided and it is unclear from the inspection of invoices what the SLA covers. It was later noted that the Council had paid £9,920 for services with a third party (Shapewright Services Ltd) for services that should have been included within the SLA. The payment was never reported to the Council.

### **The lack of available records and the uncertainties around the expenditure incurred by the Council means I am unable to conclude on whether or not the accounts for 2018-19 to 2021-22 properly present the Council's income and expenditure**

- 56 The deficiencies reported above mean that there are significant gaps in the Council's accounting records. I cannot conclude on whether or not the Council's accounts for 2018-19 to 2021-22 are a complete and accurate record of the Council's income and expenditure. I will therefore issue a qualified opinion on whether these accounts present fairly the Council's income and expenditure.

# Appendix 1

## Recommendations from the published public interest report

| Recommendations |                                                                                                                                                                                                                                                                      |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| R1              | The Council should establish appropriate procedures to ensure that its annual accounts are prepared and approved by 30 June each year                                                                                                                                |
| R2              | The Council should review its accounting records, including the form of accounts and supporting accounting records, and establish arrangements to ensure that these are properly maintained                                                                          |
| R3              | The Council should review its procedures for using petty cash and ensure petty cash is used only for small value transactions                                                                                                                                        |
| R4              | Cheque signatories should ensure that they do not sign cheques drawn for cash or cheques that do not have the payee recorded on the cheque itself                                                                                                                    |
| R5              | The Council should review the information published on its website and ensure that it complies with the requirements of the Local Government (Democracy)(Wales) Act 2013                                                                                             |
| R6              | The Council should review the internal audit report received for the 2016-17 and 2017-18 financial years and the report received for the 2018-19 financial year and ensure it takes appropriate action to remedy the deficiencies identified by the internal auditor |
| R7              | The Council should ensure that in future years, the Auditor General's audit certificate is not completed by a third party                                                                                                                                            |



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