



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Report in the Public Interest – Inadequacies in Financial Management and Governance – **Rhosyr Community Council**

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

The audit work has been delivered by 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 Rhosyr Community Council.

This report sets out a number of failures in financial management and internal control at Rhosyr Community 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 intends to issue a qualified audit report on the Council's 2017-18 Annual Return.

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Summary report

Introduction

Purpose of this document

- 1 This report summarises my conclusions arising from my audit of Rhosyr Community Council's (the Council) accounts for the 2017-18 financial year. 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.

Rhosyr Community Council

- 4 The Council serves the areas of Llangeinwen, Newborough, Dwyran and Llangaffo on Anglesey. It is responsible for the maintenance of the public footpaths and of two local cemeteries. The Council spends over £20,000 annually on these local services.
- 5 It funds this expenditure by means of a precept from the Isle of Anglesey County Council and by fees arising from burial services. The precept demanded from Isle of Anglesey County Council collects the precept through additional council tax charged to the Council's residents. The amounts charged in recent years are set out in [Exhibit 1](#) below. The Council derives its funding from the public purse and its members are elected by local residents. Therefore, the Council is accountable to the local electorate.

Exhibit 1: Rhosyr Community Council Precept

	2015-16	2016-17	2017-18	2018-19
Annual Precept	£19,500	£19,500	£26,400	£26,400

- 6 Community councils such as Rhosyr, by their very small local nature, normally rely on one key officer, the Clerk, to manage their administrative affairs. Often, the Clerk is also appointed in the capacity of Responsible Financial Officer (RFO). The RFO is responsible for administering the financial affairs of the Council on a day-to-

day basis. In particular, this involves receiving and recording income, preparing cheque payments for signing by members, maintaining the accounting records and preparing the annual accounting statements.

- 7 Notwithstanding the role of the Clerk/RFO, by law (the Accounts and Audit (Wales) Regulations 2014 (the 2014 Regulations)), the responsibility for the stewardship of Council funds, including ensuring that it has effective and efficient financial management, rests with the Council (that is, the members). This includes such things as establishing an appropriate system of internal control, including internal audit, and approving the annual accounting statements prior to submission to the external auditor for examination.

My audit work

- 8 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.
- 9 Delays in receiving the annual return for 2015-16 and again in 2016-17 led to the auditors working on my behalf to refer Rhosyr Community Council to me. This has resulted in the assignment of these audits of the accounts to a member of the Wales Audit Office staff, working under my direction, to bring them to a satisfactory conclusion.
- 10 My audit findings, which reveal elements of poor governance and financial management, are summarised below and considered in more detail in the remainder of this document.

Key findings

- 11 The law requires the Council to make up its accounts to 31 March each year and to submit those accounts for audit by the Auditor General. The Council has failed to prepare accounts for the 2016-17 and 2017-18 financial years. It has also failed to maintain proper accounting records during this period.
- 12 In addition to these accounting issues, the Council has failed to ensure it meets its statutory responsibilities for other aspects of financial management and governance.
- 13 Notwithstanding the above, the Council has received an internal audit report providing assurance over its accounting, financial management and governance arrangements. However, the report itself is compromised as it does not reflect the issues identified during the internal audit.
- 14 Furthermore, one of the key requirements for the internal audit role is that the auditor is independent of the council's decision making and financial management processes. In this case, the internal auditor himself prepared the accounts and

completed key accounting controls as part of his audit. This means that the internal auditor provided assurance on work he had completed himself. Based on my audit, I consider that the assurance thus provided by internal audit is unreliable and therefore the Council has failed to maintain an adequate and effective internal audit.

- 15 What is clear to me is that the Council has not taken sufficient steps to satisfy itself that it meets its statutory responsibilities for financial management and governance. Council members have not sufficiently recognised or acted upon issues in relation to the adequacy of their governance arrangements.
- 16 The next section of this report sets out the deficiencies and weaknesses in the Council's arrangements that have been readily apparent to me during the audit.

Audit opinion

- 17 Due to the issues I have identified in this report I intend to issue a qualified audit opinion for 2016-17 and 2017-18 as set out below:
 - the Council has failed to maintain proper accounting records as required by Regulation 6 of the Accounts and Audit (Wales) Regulations 2014 and therefore I am unable to conclude whether the accounting statements have been prepared in accordance with proper practices and the Regulations;
 - the assertions made in the Annual Governance Statement are not supported by the evidence obtained during the course of the audit and do not reflect the Council's financial management and governance arrangements.
 - the Council does not comply with its statutory responsibilities for:
 - adoption of a members' code of conduct under the Local Government Act 2000;
 - maintenance of a register of members' interests under the Local Government Act 2000;
 - publication of documents under the Local Government (Democracy) (Wales) Act 2013;
 - maintaining an adequate and effective internal audit under the Accounts and Audit (Wales) Regulations 2014;
 - calculating its budget requirement under the Local Government (Finance) Act 1992.

Recommendations and next steps

Recommendations

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

Exhibit 2: recommendation

I make eight recommendations to address the deficiencies identified during the audit

Recommendations	
R1	The Council must ensure that the Statement of Accounts and an Annual Governance Statement are prepared and approved before 30 June each year, and then promptly sent to the Auditor General for audit and published by 30 September.
R2	The Council should review its system of accounting and internal control to ensure these are adequate and effective.
R3	The Council should ensure that it prepares a budget prior to setting its precept for the following financial year.
R4	The Council should ensure electors' rights to inspect the annual accounts and engage with the external auditor (if they wish) are formally observed and evidenced.
R5	The Council must ensure that it adopts a Code of Conduct for members.
R6	The Council must ensure that it prepares and maintains a register of members' interests.
R7	The Council must ensure that it identifies which documents it is required to publish electronically and makes appropriate arrangements to promptly post these on its website.
R8	The Council must ensure that it makes suitable arrangements for an adequate and effective internal audit including a review of the assurance provided by the internal auditor.

Next steps

- 19 Section 25 of the 2004 Act now requires the Council to consider the report or recommendations at a full Council meeting within one month of the date of issue of the report. At the meeting, the Council will need to decide:
 - whether the report and/or recommendations require it to take any action;
 - whether the recommendations in the report and/or recommendations are to be accepted; and
 - what action (if any) to take in response to the report and/or recommendations.
- 20 The Council will then need to prepare a written response and agree the wording of that response with me before publishing its response in a local newspaper.



Anthony Barrett
Assistant Auditor General
October 2019

Detailed report

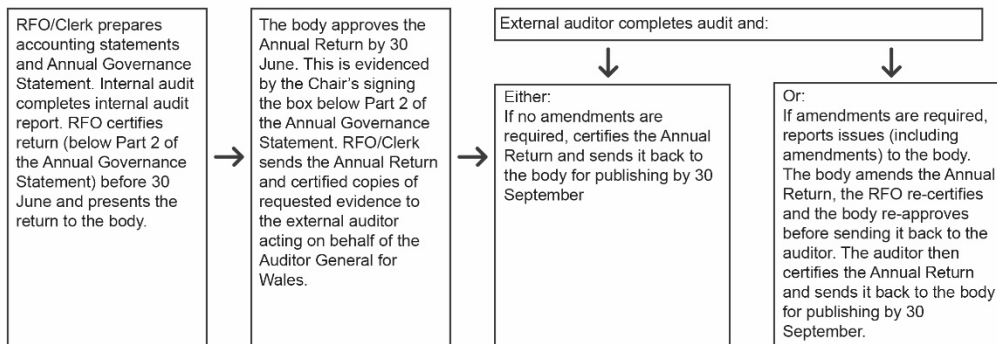
The Council has failed to prepare annual accounts for 2016-17 onwards

The requirements for the preparation, approval and publication of the Council's accounts are set out in statute

- 21 Under Section 13 of the Public Audit (Wales) Act 2004 (the 2004 Act), the Council must:
- make up its accounts each year to 31 March or such other date as the Welsh Ministers may generally or in any special case direct; and
 - ensure that its accounts are audited in accordance with the 2004 Act by the Auditor General for Wales.
- 22 Regulation 15 of the Accounts and Audit (Wales) Regulations 2014 (the 2014 Regulations) sets out the timetable for the preparation and approval of the annual accounts:
- the Council's Responsible Financial Officer (RFO) must prepare and certify that the accounts properly present the Council's receipts and payment, or present fairly the Council's financial position and income and expenditure. The certification is evidenced by the RFO signing and dating the accounting statements. Provision for signature and date are made in an annual return.
 - the Council members meeting as a whole must consider the accounting statements and, following that consideration, approve the accounting statements for submission to the auditor by a resolution of the Council; and following approval, ensure that the accounting statements are signed and dated by the person presiding at the meeting at which that approval was given.
 - these actions must be completed by 30 June following the end of the financial year.
- 23 As soon as possible after the Council has approved the annual return it must be sent to the external auditor who in turn must complete their audit by no later than 30 September. The process is summarised in [Exhibit 3](#) below:

Exhibit 3: the accounts and audit process

The accounts and audit arrangements follow the process as set out below



Source: Annual return.

- 24 The Council must also publish its accounts together with any audit certificate or report by 30 September. If this publication takes place before the conclusion of the audit and no such opinion has been given, the Council must publish unaudited accounts and a notice that includes a declaration and explanation that, at the date of publication, the auditor has given no opinion.
- 25 Further details about the requirements for the preparation, approval and audit of Town and Community Councils are set out in the Accounts and Audit (Wales) Regulations 2014 (the 2014 Regulations) and supplemented by One Voice Wales/Society of Local Council Clerks guidance, entitled **Governance and Accountability for Local Councils in Wales – A Practitioners’ Guide** (the Practitioners’ Guide).

The Council has failed to prepare its annual accounts for 2016-17 and subsequent years

- 26 Due to significant delays and difficulties encountered by auditors acting on my behalf, the auditors, BDO, referred the Council to me. I contacted the Council in November 2018 and asked them to provide me with the completed accounts in the form of an annual return for 2016-17 and 2017-18. The Council met with my audit team on 23 November 2018 and provided its accounting records for review and two annual returns. However, although an internal auditor has completed a report on the 2016-17 annual return, the annual returns have not been fully completed.
- 27 My review of the Council’s minutes found that the Clerk did not provide the Council with a complete and balanced account of its performance in adhering to these deadlines.

- 28 While the Clerk's delay in submitting the annual returns for both years has been a factor in the Council's failure to comply with its statutory responsibilities, the Council itself must take a degree of responsibility for this failure. I have found no evidence that the Council took any steps in relation to the overdue submission and publishing of its accounts.
- 29 On this basis, I conclude that Rhosyr Community Council has not complied with its statutory responsibilities as set out above for preparing and approving its accounts for 2016-17 and 2017-18.

The Council has not maintained adequate accounting records during the period subject to audit

The 2014 Regulations require the Council to maintain proper accounting records

- 30 Regulation 6 of the 2014 Regulations requires the RFO (the Clerk) to keep accounting records that are sufficient to show and explain the Council's transactions and to enable the RFO to ensure that any statement of accounts or accounting statement complies with the Regulations.
- 31 For a council such as Rhosyr, the accounting records may be limited to:
- a cashbook recording transactions; and
 - supporting documentation, for example. invoices and receipts.

Although the Council has a cashbook, it has not been properly prepared or maintained

- 32 The Council should enter details of its transactions in the cashbook as and when those transactions are incurred. The completeness and accuracy of the cashbook should then be verified by reconciling the cashbook to the Council's bank statements when a bank statement is received. Because there may be a delay between transactions being incurred and the transaction being processed by the bank, eg cheques, the cashbook should not be written up as a direct copy of the bank statements as it will not reflect the state of the Council's finances at any given point in time.
- 33 My audit identified that the Council records its cheques out of sequence. This indicates that the cashbook is written up from the bank statements rather than primary records.
- 34 At the year-end, the cashbook should be summarised and 'balanced' in order to produce the annual accounts. This balancing exercise ensures that there is an appropriate cut-off point for recording transactions and aids the reconciliation to the

year-end bank statement. This 'balancing' exercise is again an important check on the completeness and accuracy of the Council's records.

- 35 My audit identified that the Council has not balanced its cashbook properly for both 2016-17 and 2017-18.

The Council has failed to establish proper arrangements to ensure it complies with various statutory responsibilities

The Council does not appear to have set a proper budget before raising its precept demand

- 36 Each year, the Council issues a precept to the council tax billing authority, the Isle of Anglesey County Council.
- 37 The Local Government Finance Act 1992 (the 1992 Act) 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.
- 38 The precept issued to the council tax billing authority is then the net of these items.
- 39 For 2015-16 and 2016-17, I have not seen any evidence that the Council complied with the 1992 Act's requirements and properly considered a budget for the year.

The Council has failed to comply with the Local Government Act 2000 requirement to adopt a Code of Conduct for members

- 40 An essential part of any body's governance framework is the behaviour demonstrated by the members of that body. The Local Government Act 2000 (the 2000 Act) created a new ethical framework for local government in Wales. It created a power for the Welsh Ministers to issue a model code of conduct to apply to members and co-opted members of all relevant authorities in Wales.

- 41 Local councils are required to adopt the Code in its model form in its entirety, but can make additions to the Code, provided these are consistent with the Model. The locally adopted Code is then integral to the individual council's governance framework.
- 42 During the course of my audit I was unable to find evidence that the Council had adopted a Code of Conduct for members.

The Council has failed to comply with the Local Government Act 2000 requirement to adopt maintain and publish a register of members' interests

- 43 While carrying out their duties, members need to decide if they have a personal interest, and, if so, whether they need to disclose it. Where members do have a disclosable interest, they must reveal its nature at meetings, when making written representations, including e-mails, and when making oral representations. This disclosure is required even if the interest is recorded on the Council's register of interests.
- 44 Councils are required by section 81 of the 2000 Act to maintain a register of disclosed interests and to publish that register electronically.
- 45 My audit identified that the Council does not comply with the requirements of the 2000 Act and does not maintain a register of interests. Although members may be aware of the need to declare interests at meetings, the Council has failed to recognise that it must also maintain and publish a register.

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

- 46 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.
- 47 The changes introduced by the 2013 Act are designed to enhance the accountability of local councils to their electorates.
- 48 My audit identified that while the Council has established a website, it has not published the information it is required to publish electronically. The website does not include a copy of the Council's register of members' interests, notices of audit, audited accounts or minutes for meetings.

The Council has failed to make proper arrangements for the exercise of public rights

The Council has a statutory duty to make arrangements for electors to exercise their rights under the Public Audit (Wales) Act 2004

- 49 Sections 30 and 31 of the Public Audit (Wales) Act 2004 (the 2004 Act), make provision for public rights to inspect the accounts to be audited, to question the auditor about the accounts and to make objections before the auditor as to any matter in respect of which the auditor has a power to:
- apply for a declaration that an item of account is unlawful; and
 - any other matter in respect of which the auditor has the power to make a report under section 22 of the 2004 Act.
- 50 Regulation 17 of the 2014 Regulations requires the Body to give notice by advertisement to the public in one or more conspicuous places setting out the period during which the accounts and other documents are available for inspection and to provide the following details:
- the place at which, and the hours during which, they will be so available;
 - the name and address of the auditor;
 - the provisions contained in section 30 and section 31 of the 2004 Act; and
 - the date appointed under Regulation 21 of the 2014 Regulations.

The Council has failed to make proper arrangements for the exercise of electors' rights under the Public Audit (Wales) Act 2004

- 51 Although it was specifically requested for the audit, the Council has failed to provide any evidence that it complied with the requirements of the 2004 Act and the 2014 Regulations.
- 52 In any case, in the absence of any approved accounts it is clear to me that the Council cannot have met its responsibilities under the 2004 Act and the 2014 Regulations.
- 53 Therefore, in order to ensure that the Council's electors have the opportunity to exercise their rights under the 2004 Act, I appointed 29 July 2019 as the date from which local electors may exercise their rights for the 2016-17 and 2017-18 accounts.

The internal auditor's report is compromised as the auditor prepared accounts and completed key accounting controls on behalf of the Council and, as it does not reflect the internal auditor's findings, I conclude that the internal audit was not adequate and effective

- 54 The 2014 Regulations require all community councils to ensure that they have an adequate and effective system of internal audit in place.
- 55 Internal audit is an important part of the overall internal control framework. The internal auditor should be independent ie have no part in the Council's decision-making process or any role in the maintenance of the accounting system and preparation of the annual accounts. The internal auditor should be engaged to deliver an agreed programme of work, their performance considered annually and reappointment minuted.
- 56 The Annual Return contains a template internal audit report that provides an example of the internal audit procedures that could be undertaken and provides a template to report audit findings to the Council. Completion of this template is not mandated but, where it is not used, the Council should ensure that it receives a separate detailed report from the internal auditor.
- 57 The Council appointed an internal auditor for the 2016-17 financial year and the internal auditor has provided the Council with a detailed report setting out the scope of the work undertaken in the internal audit report section of the 2016-17 Annual Return.
- 58 However, the internal auditor has provided assurance that is not supported by the evidence presented for audit. While the internal auditor provided positive assurances, the 2016-17 annual return was otherwise blank and as set out above, I conclude:
- the books of account have not been properly kept through the year and have not been balanced and reconciled;
 - there is no evidence to suggest the precept was set following a proper budget process; and
 - the accounting statements have not yet been prepared.
- 59 In a written submission, the internal auditor explained that when the clerk presented the accounting records for the internal audit, he identified numerous omissions and deficiencies in the accounting records including:
- the cash book kept by the Clerk was incomplete; and
 - the Clerk had not reconciled the cash book to the bank accounts during the year.

- 60 The internal auditor sought to assist the Council by providing constructive support rather than a critical report. To this end, he prepared a bank reconciliation, a draft statement of accounts and an explanation of variances between the 2015-16 and the 2016-17 accounts. The internal audit report was then completed on this basis.
- 61 Notwithstanding that the internal auditor had provided much of the information required to prepare the accounts for audit, the Council did not make use of this assistance by completing the annual return.
- 62 Based on the evidence arising from my audit work, I do not consider that the internal audit process was robust. It is important that the internal auditor acts independently of the accounts production process and provides a robust appraisal of his audit findings in order to draw the Council's attention to weaknesses in financial systems and controls.
- 63 By preparing draft accounting statements and completing the bank reconciliation, the internal auditor participated in the accounting and financial control system he was meant to be assessing. Therefore, I conclude that the Council did not maintain an adequate and effective system of internal audit for 2016-17.
- 64 To his credit, the internal auditor has acknowledged this and recognises that the Council should have been provided with a full assessment of the deficiencies he identified.

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