

Failures in financial management and governance – Ammanford Town Council

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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 significant deficiencies in financial management and governance at Ammanford Town Council which have meant it has failed to properly account for almost £800,000 of money raised from local taxpayers via council tax.

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Summary report

Introduction

- 1 Under section 22 of the 2004 Act, the Auditor General for Wales must consider whether in the public interest he should make a report on any matter which comes to his notice in the course of the audit in order for it to be considered by Ammanford Town Council (the Council) or brought to the attention of the public.
- 2 In light of the serious failures in governance and financial management by the Council itself and lack of accountability for almost £800,000 collected from local taxpayers from 2016-17 to 2020-21, I have decided to issue this report in the public interest.
- 3 In making this decision, I have taken into account the fact that the Council initially failed to respond to a document setting out my provisional findings and conclusions. I have also taken into account the lack of action by the Council in response to serious deficiencies identified by its internal auditor during 2017-18. In my opinion, this indicates the lack of awareness of its responsibilities for the management of public funds.
- 4 Therefore, I believe it is important that the public has a full and proper awareness of the events concerning the Council. Furthermore, while my audit findings are specific to this Council, there are important lessons to be learnt not just by the Council, but by all community councils in Wales.

Ammanford Town Council

- 5 Ammanford Town Council (the Council) serves the town and community of Ammanford in Carmarthenshire. The Council is made up of fifteen councillors representing the four wards of Myddynfych, Iscennen, Pantyffynon and Wernddu. It spends around £125,000 annually on local services including running and maintenance of a number of facilities including playing and recreational fields. The Council funds these services and facilities primarily by means of a precept raised from Carmarthenshire County Council. **Exhibit 1** summarises the Council's finances in recent years.

Exhibit 1: Summary financial position

While the Council's income and expenditure fluctuate, its reserves have steadily increased. The Council significantly increased its precept in 2017-18 leading to an 8.7% increase in the reserves it carried forward at the end of the year. The reserves balance exceeds the annual precept.

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Precept	£84,000	£86,520	£125,674	£136,968	£191,077	£259,710
Other receipts	£41,216	£24,271	£26,811	£61,818	£55,078	£8,945
Staff costs	£15,794	£15,903	£42,552	£25,849	£55,479	£38,051
Other expenditure	£111,446	£62,547	£97,970	£184,317	£240,958	£163,099
Closing reserves	£105,726	£138,067	£150,031	£138,650	£88,369	£155,875

Source: Ammanford Town Council annual returns

- 6 The County Council collects the precept through additional council tax charged to the Council's residents. The Council derives its funding from the public purse and its members are elected by local residents. The Council is, therefore, accountable to the local electorate.
- 7 In 2019-20 and 2020-21, the Council raised a precept of £191,077 and £259,710 respectively. This means that from 2016-17 to 2020-21, the Council raised a total of £799,949 from local taxpayers. In 2021-22, it raised a further £259,710 in its precept.
- 8 Community councils such as Ammanford, by their very small local nature, normally rely on one key officer, the Clerk, to manage their administrative affairs. More often than not, 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.
- 9 Since 2016-17, the Council has employed several different individuals to undertake the role of Clerk, before making a permanent appointment in January 2020. The current clerk is Mr Duncan Morgan (Mr Morgan).
- 10 Notwithstanding the role of the Clerk/RFO by law as set out in 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

- 11 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.
- 12 Lengthy delays in submitting accounts for audit from 2016-17 onwards and repeated failures by former temporary clerks to respond to the audit team resulted in my audit team undertaking a more focussed audit to examine the issues that underlie the Council's failure to submit accounts for audit.

Key findings

- 13 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 presents 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.
- 14 The Council failed to comply with these requirements for both the 2016-17 and 2017-18 accounts which were only approved by the Council in September 2018. These deficiencies were drawn to the Council's attention by its then internal auditor, Auditing Solutions Ltd. While the Council has now provided some financial information, The Council did not provide its accounts for audit in the form specified by Regulations for 2018-19, 2019-20 and 2020-21 until April 2022. This means that the Council has failed to properly account for and report on almost £800,000 of money it has collected from local taxpayers through its annual precepts.
- 15 My audit work identified significant deficiencies in the Council's financial systems and financial management. As a consequence of this, I will issue a disclaimer in relation to my audit opinion on the accounts for 2016-17 and 2017-18 for the following reasons:
 - the Council has not maintained proper and complete accounting records; and
 - I have not been provided with key records related to the Council's use of cash balances and am therefore unable to conclude on whether the income and expenditure reported in the accounts is complete.
- 16 My audit work on the 2018-19 to 2020-21 accounts is ongoing due to staff absences at the Council. I will complete these audits alongside the audit of the 2021-22 and 2022-23 accounts. The Council has not yet provided the 2021-22 accounts in the form prescribed by the 2014 Regulations.

- 17 I draw to the Council's attention the fact that the Auditor General's audit certificate has been improperly completed on the 2018-19, 2019-20 and 2020-21 annual returns. These annual returns are published on the Council's website.
- 18 This certificate is for the Auditor General to issue his external audit opinion and certificate that he has completed the audit. The Auditor General's certificate has however been completed by a third party. The Council and the public should disregard these signed certificates.
- 19 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.
- 20 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.
- 21 The Council's assertions made in its Annual Return for 2016-17 and 2017-18 are summarised in **Appendix 1**. 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 all of the aspects of proper governance covered by the Annual Governance Statement.
- 22 I also draw attention to the critical reports issued by the Council's internal auditor for 2016-17, 2017-18 and 2018-19.
- 23 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 and present officers and its members have failed to ensure that it has established proper standards of financial management and governance. In failing to properly address the issues raised in the internal audit reports, Council members have not sufficiently recognised or acted upon issues in relation to the adequacy of their governance arrangements. In the case of my external audit findings, the Council initially disregarded correspondence drawing my audit findings to its attention in September 2021.
- 24 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 and next steps

Recommendations

I make 7 recommendations to the Council as set out in **Exhibit 2** below.

Exhibit 2: recommendations

I make seven recommendations to assist the Council to improve its financial management and governance arrangements

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

Recommendations

- R7 The Council should ensure that in future years, the Auditor General's audit certificate is not completed by a third party

Action taken by the Council

- 25 On 4 March 2022, the Council provided a response to my findings and conclusions. The Council has stated that it has improved its processes and will continue with the practice of continued development and improvement. The Council set out in its response details of the actions it has taken and I have reflected these in the remainder of this report. I have not undertaken any audit work to substantiate the Council's assertions but will consider the actions taken as part of future audit work.

Next steps

- 26 In accordance with section 25 of the Public Audit (Wales) Act 2004 the Council must now consider this report at a full meeting of the Council within one month of the date of this report.
- 27 At least seven days before the meeting, the Council must publish a notice in a newspaper circulating in the community stating:
- the time and place of the meeting;
 - that the meeting is being held to consider a report in the public interest; and
 - a description of the subject matter of the report.
- 28 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.
- 29 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 newspaper circulating in the community.

Ann-Marie Harkin

Executive Director – Audit Services

For and on behalf of the Auditor General for Wales

Detailed report

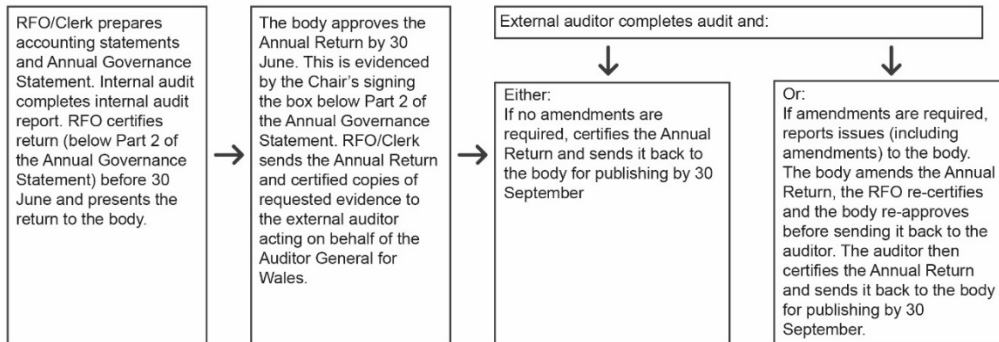
The Council has failed to meet its statutory duties for the preparation and approval of its annual accounts since 2016-17

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

- 30 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.
- 31 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 presents 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.
- 32 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. Exhibit 3 summarises this process. The exhibit is extracted from the front page of the Annual Return provided to the Council.

Exhibit 3: the accounts and audit process

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



Source: Annual return

- 33 The council must also publish its accounts together with any audit certificate or report by 30 September, or if this publication takes place before the conclusion of the audit and no such opinion has been given, it includes a declaration and explanation that, at the date of publication, the auditor has given no opinion.
- 34 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 and supplemented by One Voice Wales/Society of Local Council Clerks guidance, 'Governance and Accountability for Local Councils in Wales – A Practitioners' Guide' (the Practitioners' Guide).

From 2016-17 to 2020-21, the Council failed to prepare and approve its annual accounts in accordance with the Regulations

- 35 The Council approved its 2015-16 accounts on 13 June 2016, in accordance with the Regulations. However, for the past five years the Council has failed to discharge its statutory duty to prepare and approve accounts as required by the 2004 Act and the 2014 Regulations. Exhibit 4 sets out the dates on which the RFO and the Council provided the necessary approval of the annual accounts.

Exhibit 4: approval of the annual accounts

The Council has not complied with the statutory timetable for the preparation and approval of accounts for 2016-17 to 2018-19 and accounts for 2018-19 and 2019-20 have not yet been submitted for audit.

Financial year	Date RFO certification	Date approved by Council	Date signed by Chair
2016-17	18/09/2018	17/09/2018	18/09/2018
2017-18	18/09/2018	17/09/2018	18/09/2018
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

Source: Audit Wales analysis

- 36 My review of the Council's minutes demonstrates that the Clerk did not provide the certification required by the Accounts and Audit (Wales) Regulations until after the Council had approved the accounts. The Regulations require that this certification is given before the Council approves the accounts.
- 37 No explanation has been provided as to why the Chair did not sign the annual returns for 2016-17 and 2017-18 until the day following the meeting at which the annual returns were approved.
- 38 The minutes of a council meeting held on 16 July 2019 indicate that the Council record that the Council agreed an accounting statement and an annual governance statement for the 2018-19 financial year. However, the minutes also state "The Mayor requested that both documents are finalised and then she will sign them." Notwithstanding the approval recorded in the Council's minutes, the 2018-19 annual return incorporating the accounts was not provided to me for audit until April 2022.

- 39 In addition to the 2018-19 accounts, I was not provided with the 2019-20 or the 2020-21 accounts for audit in accordance with the timetable set out in the 2014 Regulations. These accounts should have been approved in June 2020 and June 2021 respectively. My examination of the Council's minutes and information provided by the Council on 4 March 2022 identified that these accounts were not approved until an Extraordinary General Meeting held on 28 February 2022. The Annual Returns were not provided to me until 11 April 2022.
- 40 Notwithstanding the difficulties caused by COVID19, this represents a significant and ongoing failure in financial management and accountability.
- 41 In its response to my provisional findings and conclusions, the Council states that it has had financial accounts produced by independent accountants for the three outstanding years. The Council also noted that on appointment, the current Clerk did not have any form of handover from the previous incumbent and has experienced difficulties due to the closure of the Council office in March 2020.

The Council's accounts for 2017-18 have been amended prior to being submitted for audit and therefore it is unclear if the amendments were made before or after the Chair signed the annual returns

- 42 Once the accounts have been signed by the Chair, they should not be amended before submission to the auditor.
- 43 However, the following entries in the 2017-18 accounts provided for audit have been amended:
- Staff costs was changed from £36,373 to £42,502
 - Other payments was amended from £105,085 to £97,970
 - Balances carried forward was changed from £149,095 to £150,031
- 44 It is not clear if the amendments were made before or after the Chair signed the annual return. Therefore, I cannot conclude on whether or not the Council is aware of the amendments made to the accounts.

- Transactions related to the Eisteddfod account have been included in the cashbook for both 2016-17 and 2017-18 but the year end balances are excluded from the reported year end balances in the accounts.
- Transactions and year end balances for the Youth Council account have been excluded from the cashbook and the year end balances in the accounts.
- Unpresented cheques have been excluded from the cashbooks for 2016-17 and 2017-18.
- Supporting documents for expenditure incurred in both 2016-17 and 2017-18 has not been retained by the Council.
- 2016-17 reimbursement of VAT in relation to VAT paid in 2015-16 does not accurately reflect the VAT paid in 2015-16 as recorded in the Council's cashbook.

50 For 2018-19, the Clerk 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.

51 The Council has stated that it is currently migrating to a new accounts software package that will assist it to prepare its annual accounts on time.

The Council has insufficient records to support expenditure made from cash balances

52 During the audit, the then interim Clerk drew my audit team's attention to a cheque for £5,000 that had been drawn for cash in December 2018. The Council's cashbook records this as 'petty cash'. The interim Clerk reported to my team that £420 remained in the Council office and that £300 of this was banked in February 2019.

53 Petty cash transactions provide convenience for small transactions for which issuing a cheque is unreasonable or unacceptable. Examples of transactions that petty cash is commonly used for include:

- Office supplies e.g. stationery and other consumables
- Reimbursing an employee for small work-related expenses

54 The use of petty cash can circumvent internal controls. It is therefore important that petty cash transactions are fully recorded and undergo periodic reconciliations, with transactions also recorded on the Council's financial statements. While the use of petty cash has advantages in the form of its' convenience and ease of use its disadvantages include vulnerability to theft and misuse.

55 It appears that the £5,000 cheque was drawn to reimburse members for expenses they incurred on behalf of the Council. However, despite the efforts made by the then interim Clerk, supporting documentation could not be provided for the £4,580 payments made from the cash drawn.

- 56 We also identified entries in the 2017-18 cashbook that record £2,700 of withdrawals from the current account for cash. However, the Council did not have any petty cash records to identify how these monies were used.
- 57 My attention was also drawn to a sum of £983 in cash that had been found by the interim clerk in amongst records recovered from the former clerk and the former Council Chair. Following the appointment of the interim Clerk, she had attempted to obtain documentation from her predecessor and also the Council Chair who appeared to have taken on an administrative role following the resignation of the former clerk. The records eventually handed over to the interim Clerk were not adequately sorted or filed and contained an envelope containing £983 in cash. This was banked on 15 February 2019.
- 58 No explanation has been provided as to where this money came from and whether it is the residual sum left from the £2,700 after meeting expenditure incurred by the former Clerk and/or the former Chair. Given the lack of records and the time that has elapsed, it is unlikely that the Council will be able to verify what these cash sums were used for.
- 59 The Council has stated that following the appointment of the current Clerk, petty cash is used for small value transactions.

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 2016-17 to 2018-19 properly present the Council's receipts and payments

- 60 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 2016-17 to 2018-19 are a complete and accurate record of the Council's receipts and payments. I will therefore disclaim to issue an opinion on whether these accounts present fairly the Council's receipts and payments.

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

The Council is required to publish certain information electronically

- 61 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.

- 62 The changes introduced by the 2013 Act enhance accountability of local councils to their electorate. In 2015, the Council received £500 in Welsh Government funding to assist in the development of a website.

The Council's website provides only a limited amount of the information the Council is required to publish electronically

- 63 My audit identified that while the Council has established a website, it has not published the information it is required to publish electronically.
- 64 Although the minutes of the Council's meetings are published on the website, in many cases, these are draft minutes and not the final approved minutes. As at 11 March 2022, minutes were only published for meetings up to and including 25 October 2021. Minutes for meetings up to and including 19 May 2022 had been published by 21 October 2022. At this time, no minutes had been published for meetings held between 13 June and 29 September 2022. Furthermore, the website does not include a copy of the Council's register of members' interests, notices of audit or audited accounts.
- 65 The Council has stated that it is currently developing a new website.

Notwithstanding that it was aware that I was considering issuing a report in the public interest, the Council has failed to consider my audit findings and disregarded my communications on two separate occasions

On 30 September 2021, I issued to the Council a document setting out my audit findings and requesting comments on its factual accuracy but the Council failed to acknowledge its receipt or to consider its findings

- 66 Section 22 of the 2004 Act requires me to consider whether, in the public interest, I should make a report on any matter which comes to my notice during the audit, in order for it to be considered by the body or brought to the attention of the public.
- 67 When I identify significant failings during the course of my audits, it is my standard practice to provide councils with an opportunity to comment on my audit findings. I do this by providing the Council with a document that summarises my audit findings and which is prepared to assist me to consider whether or not to issue a

report in the public interest. I refer to these documents as 'consideration documents'.

- 68 On 30 September 2021, I sent a copy of such a consideration document to the Clerk, Mr Morgan. I invited comments from the Council as a corporate body and stated that individual members could also provide individual comments if they wished to do so. I explained that the document should be considered at a properly convened full Council meeting, and not by a working group of members.
- 69 I received no acknowledgement of receipt of the document from Mr Duncan and no comments from the Council or individual members. I do not know whether or not Mr Duncan distributed copies of the document to members. I have examined copies of the Council's meeting agendas and minutes as published on its website and have seen no reference to the receipt or discussion of the consideration document.

On 6 January 2022, I sent a further copy of the consideration document to the Clerk, Mr Morgan, and also sent a copy to individual members but again the Council, including its members as individuals, did not acknowledge or consider its contents

- 70 On 6 January 2022 Cllr Emyr John contacted my audit team asking for confirmation of 'the official audit position for Ammanford Town Council for the last few years'. Cllr John highlighted that he was 'getting very limited information from the Clerk'.
- 71 Having confirmed that the Council had not considered the document issued in September 2021, my audit team provided a further copy of the consideration document and explained that it was our intention to issue a final report towards the end of February 2022. The report was provided to the Clerk (Mr Morgan) and the following councillors:
- Colin Evans
 - Deian Harries
 - Emyr John
 - Geraint Jones
 - Gruff Harrison
 - Gwennlian Harries
 - Helen Rees
 - Julia Rees
 - Llio Davies
 - Lyn Broderick
 - Rhodri Jones
 - Rhys Fisher

- Sam Jones
- Stefan Butler
- Stephen Davies

- 72 I have examined the Council's website and note that the document was not included for discussion on the agenda for the Council meeting to be held on 17 January 2022. However, I did subsequently receive comments from councillors Emyr John and Stephen Davies.
- 73 The Council eventually considered the document at an Extraordinary General Meeting held on 28 February 2022. This meeting was only convened following a further communication from my audit team on 11 February 2022 explaining that I intended issuing my final report towards the end of February. The Council requested an extension to the deadline for comments.
- 74 While it is clear to me that in September 2021 Mr Morgan failed to ensure that he drew the Council's attention to the serious deficiencies identified by my audit, it is also clear that from January 2021, the councillors themselves also failed to ensure that the matters raised were properly considered by the Council.

Appendix 1

Annual Governance Statement

	2016-17	2017-18
<p>1. We have put in place arrangements for:</p> <ul style="list-style-type: none">• effective financial management during the year; and• the preparation and approval of the accounting statements.	No	No
<p>2. We have maintained an adequate system of internal control, including measures designed to prevent and detect fraud and corruption, and reviewed its effectiveness.</p>	No	No
<p>3. We have taken all reasonable steps to assure ourselves that there are no matters of actual or potential non-compliance with laws, regulations and codes of practice that could have a significant financial effect on the ability of the Council to conduct its business or on its finances.</p>	No	No
<p>4. We have provided proper opportunity for the exercise of electors' rights in accordance with the requirements of the Accounts and Audit (Wales) Regulations 2014.</p>	No	No
<p>5. We have carried out an assessment of the risks facing the Council and taken appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required.</p>	No	No
<p>6. We have maintained an adequate and effective system of internal audit of the accounting records and control systems throughout the year and have received a report from the internal auditor.</p>	No	No
<p>7. We have considered whether any litigation, liabilities or commitments, events or transactions, occurring either during or after the year-end, have a financial impact on the Council and, where appropriate, have included them on the accounting statements.</p>	No	No
<p>8. We have taken appropriate action on all matters raised in previous reports from internal and external audit.</p>	No	No



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