

12, Glan yr Afon,
Cwmfelin,
Maesteg,
CF34 9HU

Tel: 01656 736751

02 July 2020

Mrs Sian Teisar
Clerk to Maesteg Town Council
Council Offices,
Maesteg

Dear Clerk to the Council

Maesteg Town Council
Annual Return 2019/20 - Internal Audit Report

Your Council has given me the opportunity to audit its accounts for the financial year 2019/2020 and to follow the guidelines as set out by Audit Wales (formerly Wales Audit Office).

I have not been given a specific brief, but would recommend that in future and for good practice the attached draft contract should be approved by council and finally adopted by your future internal auditors.

Most of my responses to the internal audit section of the Annual Return will be a mix of Yes/No answers. For the period April to November 2019 the accounts, records and supporting evidence were totally inadequate. However from December 2019 March 2020 you adopted new bookkeeping methods which were totally adequate and easy to follow.

My findings:-

1. Expected practice - ***Appropriate Books of Accounts have been properly kept throughout the year:***

As mentioned above I have to give a negative answer to this, but, practices have changed and I am satisfied that the final quarter of the financial year is accurate and that the work done in updating previous quarters reflect correct totals.

2. Expected practice - ***Financial regulations have been met, payments were supported by invoices, expenditure was approved and VAT appropriately accounted for:***

I discovered that the council did not have a set of financial regulations ready to hand. A new set was drawn up towards the end of the financial year and is now being adhered to. Not all payments were supported by invoices; in fact some were falsified in order that former Clerk could make illegal payments to herself. Members were obviously not supplied with all details of expenditure and although VAT was shown in the cash book it was not appropriately accounted for. I have therefore marked this as a "No" on the Annual Return

3. Expected of Council - ***The council assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these***

It is apparent that the council failed to assess any risks associated with its objectives. In fact there have been no risks assessments carried out for a number of years.

To overcome this I am providing you with a four page draft risk assessment schedule which will allow you to identify potential risk areas, assess the potential consequence and likelihood of that risk, classify it and adopt measures that can be taken to reduce, minimise or control them.

Your Members may find this useful

4. Expected practice – ***The Annual precept demand request resulted from an adequate budgetary process; progress against the budget was regularly monitored and reserves were appropriate***

The precept demand was not supported with current accurate expenditure as accurate cost analysis was non-existent; in fact the RFO was told ensure that local council tax payers would not be charged more than a specific amount e.g. £50.00 per annum. This was not the correct procedure.

For Members to agree an appropriate precept the RFO should provide up to date cash statements, expenditure details on various cost heads and coupled with details of other sources of income that could possibly reduce overall expenditure.

Members were not given accurate details of expenditure on matters such as Rights of Way, the provision of dog waste bags, the public toilets and staff costs etc. and equally important were unaware of sources of income.

The RFO did not keep a reserve, but instead depended on bank balances to be adequate enough for day to day expenditure.

5. Expected practise – ***Expected income was fully received and based on correct prices then properly recorded and promptly banked with VAT appropriately accounted for:***

During my investigation I discovered that VAT expenditure had not been reclaimed for many years, the only receipt found dated back to 2008. HMRC only allowed council to reclaim for the past three financial years. The loss of income to Maesteg Town Council could probably run into hundreds of thousands of pounds, (***this is a crude estimate based on recent figures.***) To date approximately £80,000.00 has been reclaimed and I am pleased to report that a system is in place that allows council to make a claim at the end of each quarter thereby ensuring a regular flow of income.

I also found that Rights of Way expenditure had not been claimed for the past few years. Bridgend CBC allowed council to back date claims for two years. Total received including year in question being approximately £9,000.00.

6. ***Petty Cash*** – Not applicable, although cash was found in the office that probably related to Christmas donations and raffle ticket sales.

7. Expected practise - ***Salaries to employees and allowances to Members were paid in accordance with Minuted approvals and PAYE and NI requirements were properly applied.***

This is now the practice of the Clerk, I could not identify if the former Clerk had actually given council expenditure schedules highlighting this type of expenditure.

8. Expected practice – ***Asset and Investment Registers were complete, accurate and properly maintained***

I regret to report that this is not the case and action is necessary to construct a new register as soon as possible.

9. Expected practice – ***Periodic and year-end bank reconciliations were properly carried out.***

Up to December 2019 there is no evidence of the cash and bank accounts being reconciled, in any case the poor recording of transactions would not have allowed for an accurate reconciliation. The 2019/20 cash book has since been revamped in order to allow all transactions to be recorded.

10. Expected practice – ***Accounting statements prepared during the year were done on the correct accounting basis (Income and Expenditure or Receipts and Payment) agreed with the cash book, supported with an adequate audit trail from underlying records and where appropriate debtors and creditors were properly recorded.***

This has only been the case since January 2020.

11. Trust Funds – the council has no Trust Funds

12. ***Risk areas identified by the Council.***

I refer to item 3 where you will note from the schedule provided some potential risk areas. You and council members can study this document and identify those areas considered to be of major importance.

Conclusion:-

This report is what is expected of me from Audit Wales and will be shown in the Annual Return; it does regrettably for part of 2019/20 paint a poor picture of the council's failure to identify the problems created by the former Clerk. However, the council can be pleased that they agreed to an investigation and of its results which were - reclaiming of monies totalling approximately £95,000, accounts brought up to date, a new financial reporting system which Members can easily understand. Proper budgetary control is now in place and future two or three years financial planning can be adopted.

Possible fraudulent activities by the former Clerk/RFO have been identified and are now awaiting physical evidence from the council's bank to confirm as such. Until the accusations are proven the figures on the Annual Return will not be totally accurate. For example it is believed that approximately £20,000 of expenditure in 2019/20 is fraudulent and in 2018/19 the figure being approximately £14,000

South Wales Police is now involved and we have both been interviewed by a CID officer concerning our suspicions. This can be a long process with no guarantee of success.

It follows from this that the council members must complete an Annual Governance statement confirming that to the best of their knowledge and belief with respect to the accounting statements for the year ended 31st March 2020 that: - (my answers)

1. **Effective financial management** - Is now properly setting its budget and managing its finances and is approving its accounting statements as prescribed by law
2. **Internal Controls** - Has now put in place an adequate system of internal control including measures to prevent and detect fraud and reviewed its effectiveness.
3. **Compliance with Laws** – is only doing that which it has legal power to do so
4. **Electors rights** – Will give all interested persons the opportunity to inspect the council's accounts
5. **Are due to carry out an assessment** of the risks facing the council
6. **Internal Audit** - Have arranged for a competent person to carry out the internal audit
7. Will disclose everything it should about its business during the year including events taking place after the year-end
8. We are now taken appropriate action on matters raised by the internal auditor

Part 2 is straight forward

Other matters not relating to accounts: -

1. **Terms of reference** – Council should consider drawing up terms of references for their various committees and contracts etc. (as an example I attach the Internal Auditors terms of reference for you)
2. **Wellbeing of future generations Wales Act 2015** – a daunting task but councillors should be made aware of its implications and their responsibilities towards it. Maesteg Town Council has a duty to adhere to this Act as its precept has exceeded £200,000 for the past three years.
3. It is worthwhile notifying the council's insurers of the police involvement as the policy should include a fidelity guarantee or bond.
4. Risk assessment schedule attached

I would like to thank you for your help and assistance during the past five months, which, for you must have been quite harrowing and distressful and I hope that Maesteg Town Council members appreciate what you have done to bring this matter to a near conclusion.

This will probably be my last action for Maesteg and therefore I wish you and all the town councillors the very best for the future.

I trust that you will accept the above report and if you need further clarification please do not hesitate to contact me.

Sincerely

G. W. Davies MBE

Internal Auditor

Notes to the Annual Return

Box	2018/19	2019/20	Variance
	£	£	
1. Balances B/f	29,119	34,653	Self explanatory
2. Precept	362,319	302,001	
3. Other income	10,809	27,684	
4. Staff costs	-46,770	-41,904	
5. Other expenditure	<u>-320,824</u>	<u>-211,355</u>	
	<u>34,653</u>	<u>111,079</u>	
6. Debtors	40,726	20,531	
7. Cash/investments	63,665	91,356	
9. Creditors	<u>-69,738</u>	<u>-808</u>	
	<u>34,653</u>	<u>111,079</u>	

2019/20 Other income is made up as follows: -

Rights of Way	2,937.00
Vault rental	1,500.00
Grants	11,022.46
Deposits	1,934.27
Llan MCC	1,474.12
Frauds reclaim	6,689.07
Business rebate	1,609.31
Bank interest	87.88
Cheque W/off	<u>430.00</u>
	27,684.11
	<u>Rounded down to £27,684</u>

Other expenditure

As per cash Book	342,719.93
Add 2019/20 expenditure paid in 2020/21	<u>808.50</u>
	343,528.43
Deduct 2018/19 expenditure paid in 2019/20	<u>69,738.98</u>
	273,789.45
Less Staff costs	<u>41,904.32</u>
	231,885.13
Less 2019/20 VAT payments	<u>20,531.50</u>
Total	<u>211,354.63</u>
	<u>Rounded up to £211,355</u>