

Failure to Submit Annual Accounts for Audit and Wider Governance Concerns – Llanpumsaint Community Council

Audit years: 2016-17 to 2018-19

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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 the obstruction of my audit and the consequential significant increase in audit fees, by the Clerk and Council and inadequacies in governance arrangements, financial management and internal control at Llanpumsaint Community Council.

This report sets out a number of inadequacies in the Council's governance and financial management and internal control arrangements and makes six 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

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Summary report

Introduction

- 1 This report summarises my conclusions arising from my audit of Llanpumsaint Community Council's (the Council) accounts for the 2017-18, 2018-19 and 2019-20 financial years.
- 2 Under section 22 of the Public Audit (Wales) Act 2004 (the 2004) Act, I must consider whether in the public interest I should make a report on any matter which comes to my notice in the course of my audit in order for it to be considered by (the Council or brought to the attention of the public. In considering whether or not to issue a report in the public interest or to issue statutory recommendations, I take into account the scale and impact of the issues I have identified and the action the Council has subsequently taken.
- 3 This report is an immediate report 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 the Clerk and the Council's obstruction of the audit process and to inadequacies in financial management and internal control at the Council. Given the nature of the issues I identified and the significant additional costs that have been incurred due to the conduct of the Clerk and Council, I believe it is important that the public has a full and proper awareness of the events concerning the Council and of the consequential impact on my audit fees.
- 4 While this report focusses on issues at the Council, there are lessons to be learnt not just by this Council, but by all community councils in Wales.

Llanpumsaint Community Council

- 5 The Council serves the small community of Llanpumsaint in Carmarthenshire. It spends around £8,000 annually, funded chiefly by a precept from Carmarthenshire County Council. 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.
- 6 Community councils, such as Llanpumsaint, normally rely on one key officer, the Clerk, to manage their administrative affairs. More often than not, the Clerk is also appointed as 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 The Council's current Clerk is Mr Phil Jones. For the remainder of this report, he is referred to as the Clerk. Mr Jones has asserted that he has been the Clerk to the Council for around eight years. Mr Jones is also the Council's RFO.

- 8 Notwithstanding the role of the Clerk, the Accounts and Audit (Wales) Regulations 2014 (the 2014 Regulations) make clear that 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 of the Council). 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

- 9 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.
- 10 The Council prepares its accounts on a receipts and payments basis. This means that transactions are recorded as and when payments are made or money is received. Individual transactions are classified into one of two sub-categories of receipts or payments. Receipts are recorded as either a receipt of a precept instalment or as an 'other' receipt. Payments are recorded as staff costs (salaries etc) or as an 'other' payment. At the year-end, these categories are added up and recorded in the year-end accounts.
- 11 Delays in receiving the annual returns for 2016-17 and 2017-18 led to the auditors working on my behalf to refer the Council to me. This resulted in the assignment of the audits of these accounts to a member of Wales Audit Office staff to bring them to a satisfactory conclusion.

Key findings

- 12 My statutory audit has identified that the Council has failed to meet its statutory responsibilities related to its finances. This non-compliance includes the refusal of the Clerk to discharge the responsibilities of his role on the grounds of innumeracy.
- 13 From April 2018 through to the end of 2020, the Clerk obstructed the audit by failing to provide necessary documents and explanation, while providing extensive but irrelevant adverse commentary on audit requirements. As a consequence, the cost of the audit has increased significantly. Ultimately, it is the council taxpayers of Llanpumsaint that will bear the burden of the additional costs through a higher precept or a reduction in services provided by the Council.
- 14 While the Clerk is primarily responsible for the obstruction and subsequent delays and the increasing costs of the audit, it seems to me that the Council itself has failed to take appropriate action to ensure it meets its statutory responsibilities. Indeed, it appears that the Council as a whole has supported the actions of the

Clerk. On that basis, members must accept responsibility for the failings identified and the additional costs incurred.

- 15 The Clerk's and the Council's failure to submit the accounting statements on time for audit, failure to provide supporting records and further necessary information, and failure to publish items required by statute on its website shows a lack of transparency and understanding of accountability by the Council.
- 16 The accounting records eventually provided by the Clerk were incomplete. My audit identified that the Council's accounts for 2017-18 and 2018-19 are mis-stated. I also conclude that the assertions the Council makes in its Annual Governance Statement do not accurately represent the arrangements in place in 2017-18 and 2018-19. I have therefore issued a qualified audit opinion for these financial years.
- 17 These findings are set out in detail below.

Recommendations and next steps

- 18 I draw the Council's attention to the following recommendations to address the deficiencies identified during the audit:

Exhibit 1: recommendations

Recommendations	
R1	The Council must ensure that all information requested for the purposes of the annual statutory audit is provided on a timely basis each year.
R2	The Council should ensure that it appoints a responsible financial officer with appropriate skills to undertake the role.
R3	The Council should ensure the Clerk and individual members required to attend the audit do so upon request from the auditor.
R4	The Council should ensure that it publishes all documents that it is required to publish by law.

Recommendations

- R5 Prior to approving its Annual Governance Statement the Council should satisfy itself that it has sufficient and appropriate evidence in support the positive assertions made in the statement.
- R6 Before it sets its precept each year, the Council should ensure that it has properly calculated its budget requirement in accordance with the Local Government Finance Act 1992.

Next steps

- 19 Sections 25 to 27 of the Public Audit (Wales) Act 2004 sets out the steps that the Council now needs to take in response to this report.
- 20 In summary, the Council must now consider the report and its recommendations at a public meeting of the Council within one month of the date that I issue the report.
- 21 Prior to the meeting, the Council must place a notice advertising the meeting in a newspaper circulating in the area. This notice must set out the date and time of the meeting and how members of the public can attend.
- 22 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.
- 23 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.

Ann-Marie Harkin

Executive Director – Audit Services

Audit Wales

For and on behalf of the Auditor General for Wales

Detailed report

For two years, the Council has not met its statutory responsibilities to prepare statements of accounts and submit them for audit on time

The Council's responsibility to prepare annual accounts and to submit them for audit is set out in law

- 24 Under Section 13 of 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 Act by the Auditor General for Wales.
- 25 The Accounts & Audit (Wales) Regulations 2014 require the Council to prepare its accounts in accordance with proper practices. Proper practices are set out in the One Voice Wales/SLCC publication **Governance and Accountability for Local Councils in Wales: A Practitioners Guide** (the Practitioners Guide).
- 26 Regulation 15 of 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 (by signing and dating) that the accounts properly present the Council's receipts and payments. The Council, meeting as a whole, must then consider and approve the accounting statements for submission to the auditor by 30 June following the end of the financial year. The auditor must complete the audit by 30 September.
- 27 The Council must also publish its accounts together with any audit certificate, opinion or report by 30 September. If this publication takes place before the conclusion of the audit and no such opinion has been given, it should include a declaration and explanation that, at the date of publication, the auditor has given no opinion.

The form of accounts that the Council is required to prepare is not complex

- 28 The Practitioners Guide sets out the proper accounting practices that the Council is required to follow. These requirements are not complex and apply to all smaller community councils across Wales.
- 29 As a small council, Llanpumsaint is required to prepare its accounts on a receipts and payments basis. Transactions are to be recorded as money is received or payments are made. No adjustments are required to reflect the timing of transactions, such as where invoices for services received in the year of account are paid after the year-end. Receipts are classified as a receipt of the precept or as

an 'other' receipt. Payments are classified as staff costs (salaries etc) or 'other' payments.

- 30 In order to prepare the annual accounts, the sum of the transactions in each class is entered onto a proforma accounting statement on an annual return provided to the Council. The closing balance is then calculated as instructed on the annual return using basic arithmetic.

Despite reminders from my audit team and clear guidance, the Clerk did not prepare accounts for 2017-18 and 2018-19 until January 2020

- 31 The audit team at Grant Thornton referred the Council to me in September 2019, due to the Clerk's failure to prepare the annual accounts for 2017-18 and 2018-19. I have yet to receive accounts for 2019-20.
- 32 My audit team wrote to the Clerk in September 2019 informing him of his and the Council's responsibilities. Given the Clerk's refusal to co-operate following receipt of that letter, I prepared a document to assist me to consider whether or not to issue a report in the public interest. This document (known as a 'Consideration Document') was sent to both the Clerk and the Chair (Councillor Arwel Nicholas) on 31 October 2019, and I requested comments on the factual accuracy of the document and the conclusions drawn to be submitted by 5 December 2019. I requested responses from both the Clerk and the Council.
- 33 On 2 December, my audit team contacted the Chair to enquire about progress in providing views on the Consideration Document. Notwithstanding that there had been a Council meeting held on 6 November 2019, the Chair confirmed that neither he nor the Clerk had presented the Consideration Document to the Council. The Chair then called an extraordinary meeting on 4 December 2019. According to the minutes of the meeting as provided by the Chair, the members present at the 4 December meeting were councillors Arwel Nicholas, Pamela Jones, Dylan Jones, Eirion Evans, Elfed Davies, Danny Davies and Derick Lock. Apologies were provided by Gethin Edwards.
- 34 The issue of the Clerk's failure to prepare accounts was discussed during this meeting. I comment further on the proceedings of this meeting in **paragraphs 46 to 48** below.
- 35 Mr Jones subsequently provided the accounts for audit following a Council meeting on 8 January 2020. However, he continued his refusal to provide the other information required to undertake the audit, eventually providing only limited documentation.

The Clerk appears not to have provided the Council with appropriate advice on accounts and audit, and the Council's minutes either record little discussion of these matters or have not been made available for audit

- 36 The minutes of the Council meeting held on 4 April 2018 record:
'Clerk opened discussions as to the need for the External Audit as the annual budget was minute. Clerk to reply to the WAO and enquire about not returning the Annual Audit.'
- 37 On 15 April 2018, the Clerk wrote to Deryck Evans at the Wales Audit Office stating:
'It is likely that we won't send the Audit Return in future due to the unfairness of the administrative burdens on us, and Llanpumsaint Councillors would prefer to contribute the moneys [sic] saved from the cost of the Annual Return towards a charity or an organisation providing welfare or doing good locally.'
- 38 On 18 April 2018, Deryck Evans wrote to the Clerk informing him of the Council's legal responsibility for the preparation of annual accounts.
- 39 The minutes of the Council meeting held on 1 May 2018 record:
'Wales Audit Office – Clerk had received a letter today but had not read it; agreed to discuss response in next meeting.'
- 40 The minutes of the 4 June 2018 meeting record:
'Wales Audit Office – Clerk summarised the contents of a letter received from Deryck Evans of the WAO.'
- 41 The Council's 2018 minutes do not record any further discussion or decision in relation to the audit. This may indicate that the Council is not aware of or does not understand its responsibilities for accounting for public money.
- 42 Although the Council is required to publish its minutes on its website, the minutes for 2019 and 2020 are not available on the Council website. The Clerk has refused to provide copies of the minutes for review. Therefore, it has not been possible to establish if the Council had considered its position through 2019 and 2020.

Council members have not ensured the preparation and submission of accounts in accordance with the statutory framework nor secured the co-operation of the Clerk

- 43 The failure of the Clerk to prepare the annual accounts is a significant issue because it breaches the Council's statutory duties. The Council itself is responsible for ensuring that it acts lawfully. The Clerk is an employee of the Council. As his employer, the Council should ensure that the Clerk discharges the duties for which he is employed.

- 44 The Clerk claims to have acted with the full knowledge and consent of the Council and indeed referred to the Council's April 2018 meeting to support his refusal to provide the accounts.
- 45 I have seen no evidence to suggest that any councillor checked or disputed whether or not the Council should submit accounts for audit. Furthermore, I have seen no evidence that any accounts in any form were prepared during 2018 and 2019.
- 46 The minutes of the Council meeting held on 4 December 2019 record that the Council members unanimously supported the Clerk.
- 47 In my opinion, by not ensuring that the Clerk prepared accounts and in failing to moderate his conduct, councillors individually and collectively have not met their duties and, in this respect, have fallen short in serving the community of Llanpumsaint.

The Chair has also not co-operated in providing necessary information

- 48 Given the Clerk's refusal to provide information, in December 2019, I notified the Chair, Councillor Nicholas, that he was also required to attend the audit. There were (and remain) specific questions that I needed to ask him in order to clarify the Council's arrangements.
- 49 In an email dated 20 December 2019, the Chair stated:
'I note the dates in January you have proposed for a meeting in relation to the audits. I respectfully give notice and apologise that I will not be able to attend on your proposed dates.
'I draw your attention to the fact that all financial matters in relation to the audits are dealt with by our Clerk, Mr Philip Jones. I am not in a position to provide any additional information regarding the audits. However, I have emphasised to our Clerk that he needs to complete these audits as a matter of urgency and he has assured me that this is being done without delay. My understanding is that the first audit shall be submitted to you shortly and quickly followed by the second. This should make clear and clarifies my position on the matter.'
- 50 Apart from the need to ensure that necessary information is provided, it is important that members of a Council attend the audit if required to do so under section 52 of the 2004 Act. Refusal to comply with the legal requirements sets a poor example to others, such as the Clerk.
- 51 The Council's failure to properly address the behaviour of the Clerk including his refusal to co-operate means they must bear responsibility for the failings identified and the increased cost of the audit.

The Council's Clerk has refused to discharge significant responsibilities and obstructed the audit process

The Clerk has repeatedly refused to discharge the responsibilities of his role claiming he lacks the necessary skills for the role

- 52 The Regulations make it clear that the Clerk is responsible for presenting the annual accounts to the Council for approval. However, despite this being a key part of the Clerk's role, he initially refused to prepare accounts and submit them for audit.
- 53 On 10 September 2019, my audit team wrote to the Clerk explaining that due to the delays and his refusal to provide accounts for audit to the Grant Thornton audit team that usually carries out the audit, Grant Thornton had referred the Council to me. I determined that the audit would therefore be completed by staff of the Wales Audit Office. My audit team's letter explained to the Clerk that he was required to attend the audit along with the Chair of the Council¹ and to provide the accounts and documents required for the audit. The letter also explained to the Clerk that it is an offence not to comply with the request for information and to attend the audit. It was also made clear to the Clerk that additional costs would be incurred.
- 54 The Clerk responded to this letter on 15 September 2019 setting out his view that he is innumerate and lacks the ability to prepare the accounts.
- 55 The Clerk also set out that he had volunteered to take the minutes of Council meetings on the death of his predecessor but did not realise that this would lead to him becoming the RFO. Subsequently, he had thought that his use of his own accountant would address this issue. When he was informed by Grant Thornton (working for and on behalf of the Auditor General) that it was not appropriate to use the same accountant to both prepare the financial statements and provide internal audit, he decided that he would simply not prepare accounts.
- 56 Modestly remunerated or not, I have sympathy with anyone who finds that his or her offer of help is taken to be more extensive than intended and so faces tasks more difficult than expected. In my view, however, rather than deciding to simply omit key and statutory aspects of the role, it would be more appropriate to raise the issue of finding the RFO role onerous with the Council, in order that the Council could make appropriate alternative arrangements.
- 57 The Clerk further indicated that the Council would be hard pressed to find a bilingual person who was both willing to undertake the role of Clerk and sufficiently numerically skilled to be the RFO. He indicated that, as he saw use of the Welsh

¹ Councillor Arwel Nicholas.

language as a more pressing requirement, the provision of bilingual minutes should be prioritised over the provision of accounts. Again, I recognise that securing the skills to meet the various requirements on councils is challenging. I note, however, that while the positions of Clerk and RFO are usually held by the same person, this does not have to be the case; further options are available to the Council. I do not accept that the provision of bilingual minutes justifies neglect of accounts. To do so would not just be contrary to law but would also mean that local taxpayers in substantially Welsh-speaking areas (who will tend to be Welsh speakers) must accept inferior financial management and accountability.

The Clerk does not consider that the Council's accounts should be subject to audit

- 58 In addition to the Clerk considering himself to be innumerate, he has stated that he considers the Council is small and that he does not see the purpose of preparing accounts for audit. The Clerk also expressed the view that information routinely required for verification purposes is irrelevant:
- 59 At best, these views indicate a worrying lack of appreciation of the need to be accountable for the use of public money. In any event, as the audit of the Council's accounts is a statutory requirement, the Clerk's views do not justify non-compliance.

The Clerk continually obstructed the audit process leading to significant additional audit fees being incurred

- 60 As noted above, the audit of accounts is a statutory requirement and councils' co-operation with the audit team helps to ensure that the audit process is completed as efficiently as possible. My audit fees are based on hourly charges. Therefore, co-operation with the audit team means that the burden of the audit fee for the Council will be minimised.
- 61 Since September 2019, the Clerk has not engaged constructively in the audit process. As noted above, initially, he refused to prepare accounts, and, subsequently, notwithstanding that it has been explained to him why certain information has been requested for audit, he repeatedly refused to provide information necessary to undertake the audit.
- 62 As Audit Wales staff have explained to the Clerk, refusing without reasonable excuse to provide information that the Auditor General considers necessary for audit is an offence under section 53 of the 2004 Act.
- 63 The Clerk nevertheless seems to disregard the seriousness of his refusal to provide information. Since September 2019, rather than providing the information requested, he has written numerous lengthy emails and letters. His failure to co-operate has meant that I was unable to complete the work required to complete my audits for 2017-18 and 2018-19 until May 2021.

- 64 As the audit team has had to spend time reiterating and explaining requests and reading the Clerk's extensive but largely unhelpful communications, the cost of the audit has increased far beyond what would normally be the case. In most cases, the annual audit fee for a council of a similar size to Llanpumsaint would be £200 to £400. For 2017-18 and 2018-19 therefore, I would normally expect the audit fee to be no more than £800 in total. To 31 May 2021, the accumulated audit fee was £3,456. This represents the cost of dealing with Mr Jones' obstruction of the audit which will ultimately be borne by the community. It should also be noted that due to Mr Jones' obstruction we were not able to make significant progress with the audit until early 2021 and in order to do so, had to obtain additional information from the Council's bank.
- 65 In addition to omitting to provide necessary information, throughout the audit process, the Clerk has used language and displayed behaviour that is, in my view, offensive. Such behaviour may present risks to the Council achieving economy, efficiency and effectiveness in its use of resources if it reduces the willingness of the public or other public bodies to engage with the Council.

The Council is failing to meet the basic standards of governance and transparency required of community councils

- 66 In addition to the failure to prepare annual accounts, the Council is failing to meet its responsibilities for transparency in terms of publication of other material.

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

- 67 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 electronically on its website. The 2013 Act also requires every council to publish their register of members' interests, public notices and audited accounts electronically. These requirements of the 2013 Act are designed to enhance the accountability of local councils to their electorates.
- 68 My audit identified that while the Council has established a website, as at 31 May 2021, it had not published all the information it is required to publish electronically.
- 69 In the minutes of the Extraordinary meeting of 4 December 2019, the Council records:
'As meetings are now held on alternate months, the web page is incomplete by no more than two Minutes Documents.'
- 70 However, this statement is inaccurate. While the Council does publish some minutes on its website, these are not up to date. As at 1 September 2020, the last minutes published were for the Council's meeting held on 3 April 2019. Although

other minutes are referenced in material on the website, they were not accessible. Minutes for the Council meetings held on 1 May, 3 July, 4 September and 6 November 2019 and for 8 January 2020 were published post 1 September 2020.

- 71 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 they do have an interest that should be disclosed, the fact that there is an interest and the nature of that interest should be disclosed 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.
- 72 Councils are required by section 81 of the Local Government Act 2000 to maintain a register of disclosed interests and to publish that register electronically.
- 73 The minutes of the 4 December 2019 meeting record:
'Councillors referred to every Minutes Document on web page as they all include 'Declaration of Interest'.'
- 74 The Council has not provided sufficient evidence to demonstrate it has complied with the requirements of the Local Government Act 2000 and maintained a register of interests. Although members may be aware of the need to declare interests at meetings, they have not recognised that the Council must also maintain and publish a register. Furthermore, their reliance on the minutes to record interests is flawed, particularly, as noted above, since the Council has not made appropriate arrangements to publish the minutes in a timely manner.

The Council's accounts for 2017-18 and 2018-19 are mis-stated and its Annual Governance Statements do not reflect the financial management and governance arrangements in place at the Council and consequently, I have issued a qualified audit opinion

- 75 I have now completed my audit work on the 2017-18 and 2018-19 annual returns. My audit has identified errors in the accounting statements and misrepresentations in the Annual Governance Statement.

The accounting statements for 2017-18 and 2018-19 are mis-stated

- 76 The Council's annual accounting statement as set out in its Annual Return should reflect the transactions recorded in the Council's cashbook. The financial records provided by the Council were inadequate for the preparation of a statement of

accounts and did not support the accounts presented for audit for the 2017-18 and 2018-19 financial years. In particular, the Council did not provide:

- a properly maintained cashbook;
- a reconciliation between the Council's records and the accounting statements presented for audit; nor
- supporting documentation for individual payments, eg invoices, for the 2017-18 and 2018-19 financial years.

- 77 Therefore, it was necessary for me to obtain additional information, including copies of paid cheques, from the Council's bank and to prepare a cashbook. My analysis of this cashbook identified that the Council's accounts as presented for audit are mis-stated and were not prepared in accordance with proper practices.
- 78 It is important to note that, notwithstanding the incomplete nature of the records provided by the Council, I have undertaken sufficient audit work to satisfy myself that I have not identified any misappropriation of the Council's finances.
- 79 **Exhibit 2** sets out the Council's annual accounts on a proper practice basis.

Exhibit 2: Llanpumsaint Community Council restated accounts

Based on my analysis, the Council's accounts should be restated as set out below to ensure they are prepared in accordance with proper practices.

	2017-18 annual return		2019-20 annual return	
	2016-17	2017-18	2018-19	2019-20 ²
1. Balances brought forward	£3,120	£3,300	£5,649	£3,759
2. Income from local taxation	£7,018	£7,074	£7,204	£8,067
3. Other receipts	£644	£100	£0	£118
4. Staff costs	£1,545	£1,306	£914	£522
5. Loan repayments	£0	£0	£0	£0
6. Other payments	£5,937	£3,519	£8,180	£1,909
7. Balances carried forward	£3,300	£5,649	£3,759	£9,513
8. Debtors	£0	£0	£0	£0
9. Cash and investments	£3,300	£5,649	£3,759	£9,513
10. Creditors	£0	£0	£0	£0
11. Balances carried forward	£3,300	£5,649	£3,759	£9,513

Source: Audit Wales analysis

80 I have provided the Council with a copy of the cashbook prepared for audit purposes.

The Council's Annual Governance Statements for 2017-18 and 2018-19 do not reflect the financial management and governance arrangements in place for these financial years

81 Regulation 5 of the 2014 Regulations requires the Council to conduct a review at least once in a year of the effectiveness of its system of internal control. Following this review, which must be considered by the full Council, the Council must

² I have provided figures for 2019-20 to assist the Council to complete its 2019-20 and 2020-21 accounts

approve a statement on internal control prepared in accordance with proper practices.

- 82 In addition to the accounting statements, annual return incorporates an Annual Governance Statement (AGS). Guidance issued by the Welsh Government confirms that the AGS meets the requirement to produce a statement on internal control.
- 83 The AGS requires the Council to make a formal declaration in relation to the arrangements it has in place for its governance and financial management.
- 84 For the two audit years considered in this report, 2017-18 and 2018-19, the Council has completed the returns as above on the basis it is compliant with the expectations set out in both legislation and published guidance. The Council's responses are set out in **Exhibit 3** below. Where a positive assertion has been made, it has not qualified its responses or provided explanations on areas where it is either deficient or working to secure improvements.
- 85 My audit work has identified that the Council's governance arrangements are inconsistent with the positive assertions it has made in its AGS for both 2017-18 and 2018-19.
- 86 The governance disclosures made by the Council are therefore, in my view, inconsistent with the position reflected in its documentation.
- 87 What is clear to me is that the Council has not taken sufficient steps to satisfy itself that its governance arrangements are effective and fairly disclosed. Council members have not sufficiently recognised or acted upon issues in relation to the adequacy of their governance arrangements.

Exhibit 3: Annual Governance Statement

The Council has made positive assertions in its annual governance statements for 2017-18 and 2018-19 that are not supported by evidence available for audit

Assertion	Council Response	Audit assessment	Audit finding
<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. 	Yes	No	As set out in the remainder of this report, the Council has not maintained proper accounting records or prepared and approved accounts in accordance with the Regulations. My review of the Council's minutes indicate there is little, if any, scrutiny of the Council's finances by members. This includes an ongoing failure to consider its budget requirement before setting its precept.
<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>	Yes	No	My audit has identified no evidence that the Council has reviewed its system of internal control.
<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 Authority to conduct its business or on its finances.</p>	Yes	No	The Council does not operate PAYE as it is required to do under the Income Tax (Earnings and Pensions) Act 2003. Failure to operate PAYE exposes the Council to the risk of fines and/or penalty charges being imposed by HM Revenue and Customs.

Assertion	Council Response	Audit assessment	Audit finding
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.	Yes	No	The Council did not prepare accounts for inspection by the public and has not made any arrangements for inspection of the accounts as required by section 30 of the 2004 Act and Regulations 16, 17 and 22 of the 2014 Regulations.
5. We have carried out an assessment of the risks facing the Authority and taken appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required.	Yes	No	My examination of the limited records provided by the Clerk and the Council's minutes did not identify any evidence that the Council has established arrangements for the management of risk as required by Regulation 5 of the 2014 Regulations.
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.	Yes	No	Notwithstanding that the internal audit report on the reverse of the annual returns for both 2017-18 and 2018-19 have been marked to indicate that an internal audit has been undertaken, no internal audit was carried out.
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 Authority and, where appropriate, have included them on the accounting statements.	Yes	Not applicable	My audit did not identify any issues recorded in the Council minutes. As the accounts are prepared on a receipts and payments basis, any liabilities would only be recorded in the accounts when they are paid.
8. We have taken appropriate action on all matters raised in previous reports from internal and external audit.	Yes	No	The Council did not take action in relation to matters raised in the 2015-16 and 2016-17 external audit reports regarding errors in the accounts and late approval of the accounts.



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We welcome correspondence and telephone calls in Welsh and English.
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.