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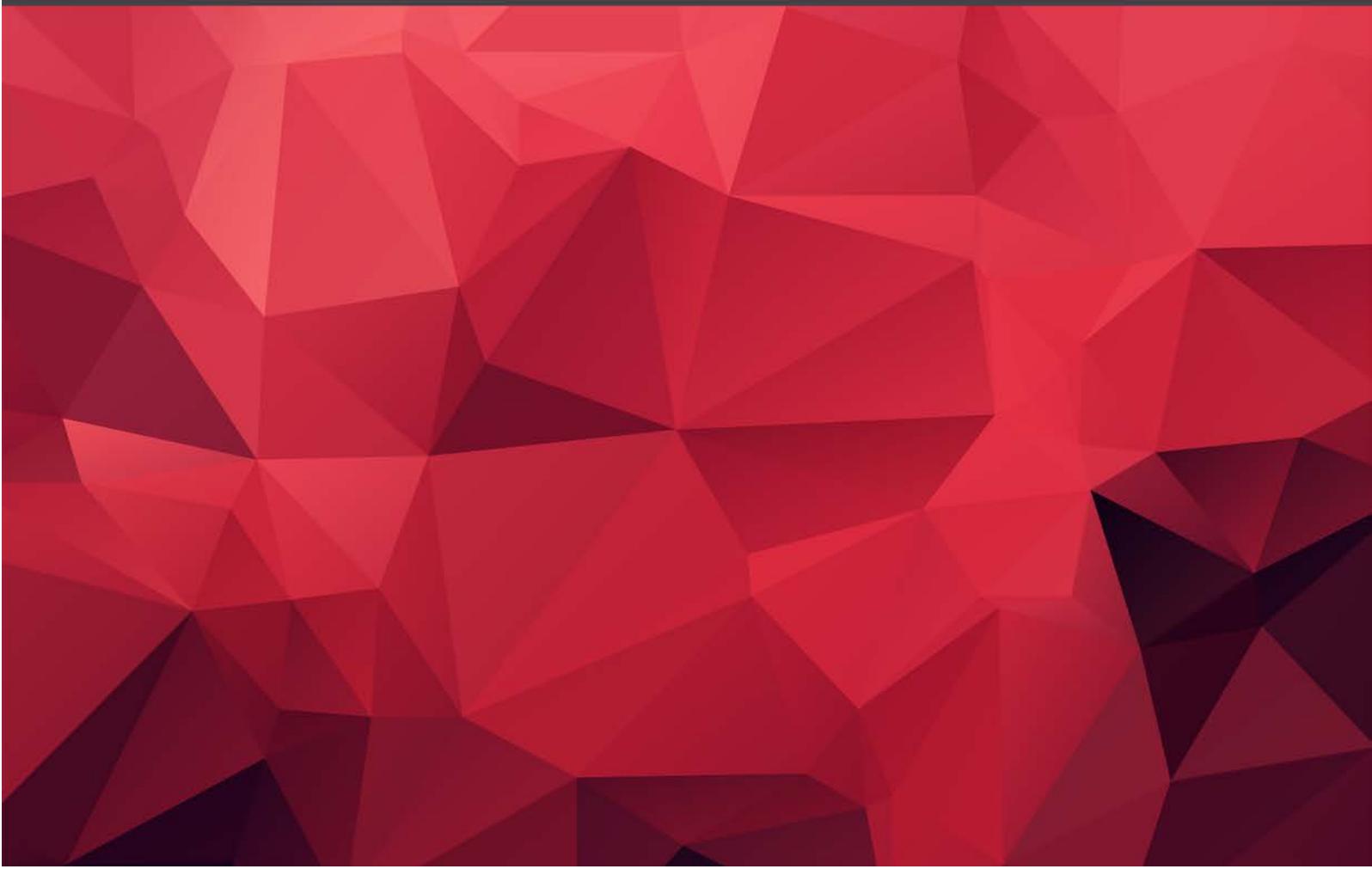
Archwilydd Cyffredinol Cymru  
Auditor General for Wales

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

Audit year: 2013-14 and 2014-15

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

The person who delivered the work was Ian Hughes, under the direction of Anthony Barrett.

# Contents

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 inadequacies in governance and financial management at Bodorgan Community Council.

## Summary report

Introduction	4
Key findings	5

## Detailed findings

The Council has not complied with the statutory timescales for preparing and approving its accounts for several years	6
There is insufficient evidence to confirm whether or not proper arrangements have been made for the exercise of public rights	8
The Council's governance arrangements are inconsistent with the positive disclosures it has made in its Annual Returns	8
The Council has not maintained adequate internal controls to safeguard its assets and finances	9
The effectiveness of internal audit has been diminished by a reluctance to report concerns about poor governance directly to the Council	11
The Council has since taken several important steps to address the governance weaknesses highlighted in this report	13
Recommendations	14
Next steps	14

# Summary report

## Introduction

- 1 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 inadequacies in governance and financial management at Bodorgan Community Council (the Council). I believe it is important that the public has a full and proper awareness of the events concerning the Council.
- 2 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.
- 3 Bodorgan Community Council serves a small rural community located on the West coast of Anglesey. It typically spends just under £10,000 annually, the largest proportion of which is funded from precept and the balance met from rents and cemetery fees. It employs one part-time member of staff to undertake the roles of Clerk and Responsible Financial Officer (the Clerk). The former Clerk, Mrs Rhian Khardani, referred to throughout this report was appointed by the Council in April 2013 and resigned in September 2017.
- 4 I believe that it is important to note, by way of context, that the former Clerk also had a full-time job in local government and also held three other part time Clerk roles at the same time.
- 5 A combination of delays in receiving information from the Council together with adverse comments in the Internal Auditor's report, prompted the Council's external auditor (Hacker Young) to expand the scope of the 2013-14 audit of accounts. Despite undertaking further work, the audit was not concluded because the Council did not address a concern about the funding of computer equipment which had already been paid for by a neighbouring council. The 2013-14 audit of accounts, together with that for 2014-15, were subsequently assigned to a member of the Wales Audit Office staff, working under my direction, to bring them to a satisfactory conclusion.
- 6 My audit staff corresponded at length with the former Clerk to obtain the outstanding information in relation to both 2013-14 and 2014-15 accounts but were unsuccessful. They subsequently contacted and met with the Council's Chair who, unaware of the problems, called a special meeting of the Council to discuss the position.
- 7 The former Clerk, resigned shortly after the special meeting held in August 2017, and has since been replaced. The Council has taken several important steps to address the matters arising at audit although its efforts have been hampered by difficulties in receiving all its records and assets from the former Clerk.
- 8 My audit findings show long-standing inadequacies in governance and financial management at the Council and are summarised below. They are considered in more detail in the remainder of this document.

## Key findings

- 9 The Council has not complied with the statutory timescales for preparing and approving its accounts for several years. Whilst it is clear from the former Clerk's correspondence with the auditors that there was tardiness in the former Clerk's actions, the problem is more deep-rooted and reflects insufficient oversight and acceptance of responsibility by the Council as a whole. The Council now accepts that it should have done more to ensure that it met its legal obligations for the timely preparation and approval of its accounts and that members placed too much reliance on their former Clerk without properly scrutinising her work.
- 10 I have not been provided with sufficient evidence to demonstrate that the Council has complied with the requirements of the Public Audit (Wales) Act 2004 which (amongst other things), grant rights to the public to inspect the accounts to be audited.
- 11 The Council's governance arrangements are inconsistent with the positive disclosures it has made in its Annual Return. 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, earlier findings of either its internal or external auditor in relation to the adequacy of its governance arrangements.
- 12 The Council has not maintained adequate internal controls to safeguard its assets and finances. Record keeping at the Council has been poor.
- 13 The effectiveness of internal audit has been diminished by a reluctance to report concerns about poor governance directly to the Council. Whilst the Internal Auditor would share his concerns with the former Clerk and reflect them in discussions with the external auditor, he did not escalate matters within the Council, such as seeking Council meeting time where he could share his concerns with members directly. Alternatively, he could have submitted a detailed written report directly to the Council to support the qualifications set out on the Annual Return.
- 14 The Council has now put in place several changes that address the weaknesses and failings identified in this report. The Council has reviewed dates of meetings and re-arranged meetings to facilitate appropriate scrutiny of matters relating to governance and financial management. The Council has obtained an independent review of its arrangements and it is revising policies and procedures. In particular, the Council has strengthened payment authorisation procedures and is putting in place better arrangements to identify and properly account for the Council's income from the cemetery and property rentals.
- 15 The 2015-16 and 2016-17 audits are currently being undertaken by my new audit supplier, BDO. Although many of the issues set out in this report continue into these two years, the Council is now taking appropriate action to improve its governance and financial management.

# Detailed findings

## The Council has not complied with the statutory timescales for preparing and approving its accounts for several years

- 16 Under Section 13 of the Public Audit (Wales) Act 2004, 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.
- 17 Further details regarding the requirements for the preparation, approval and audit of Town and Community Councils are set out in the Accounts and Audit (Wales) Regulations 2014<sup>1</sup> and supplemented by guidance set out in a Practitioners' Guide.<sup>2</sup>
- 18 Regulation 15, sets out the timetable for the preparation and approval of the annual accounts:
- the Council's Responsible Financial Officer (RFO)<sup>3</sup> must prepare and certify that the statement of accounts properly presents the Council's receipts and payments, 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; and
  - these actions must be completed by 30 June following the end of the financial year.

<sup>1</sup> And previously the Accounts and Audit (Wales) Regulations 2005.

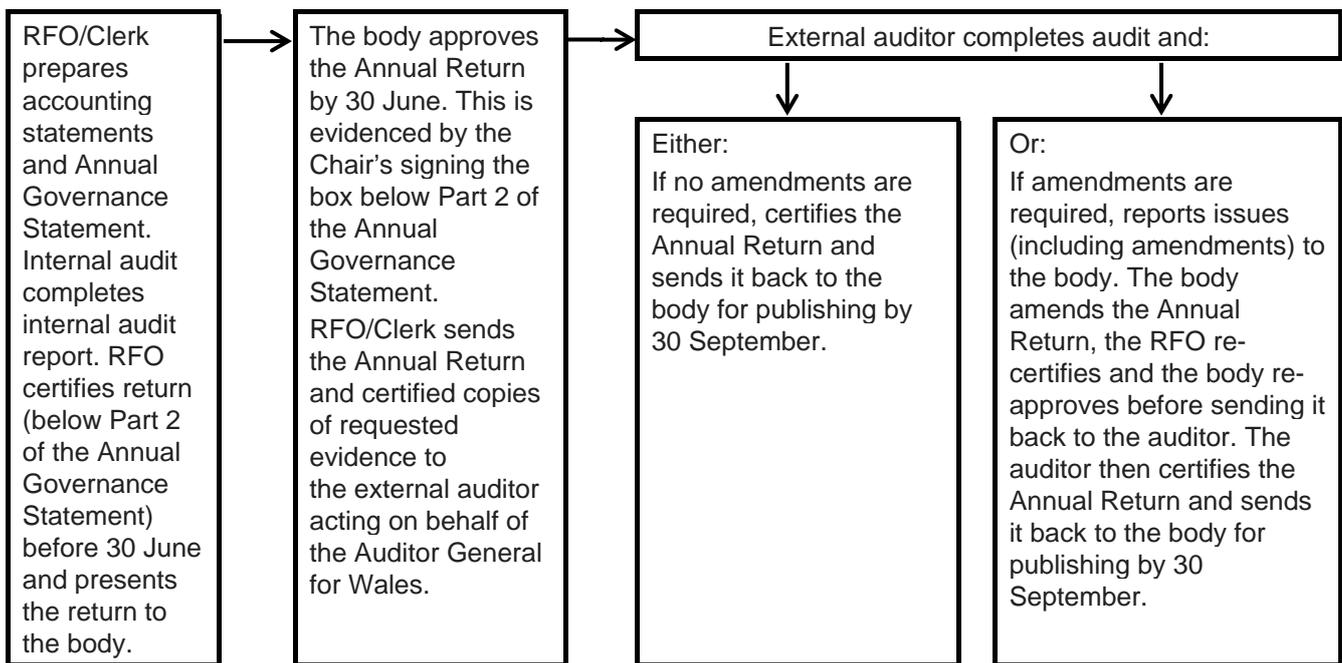
<sup>2</sup> Governance and Accountability for local councils in Wales – a practitioners' guide (2011).

<sup>3</sup> Usually the Clerk in practice but the RFO is a separate legal role to that of the Clerk

19 As soon as possible after the Council has approved the annual return it must be sent to the external auditor. The process is summarised in **Exhibit 1** below:

**Exhibit 1: the accounts and audit process**

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



20 Bodorgan Community Council has not complied with the statutory timescales set out above for preparing and approving its accounts for several years (see **Appendix 1**). The 2013-14 accounts were not completed and approved until the end of April 2015, some ten months after the statutory deadline had elapsed. The 2014-15 accounts were not completed until the end of September 2015, some three months after the statutory deadline had elapsed. Work is ongoing to complete the 2015-16 and 2016-17 accounts.

21 Audit records indicate a long-standing issue at the Council of delayed approval and submission of its Annual Return for external audit covering the tenure of two different Clerks. Whilst the correspondence on the audit file shows tardiness in the Clerk's actions, the problem is more deep-rooted and reflects insufficient oversight and acceptance of responsibility by the Council as a whole.

22 The Council now accepts it should have done more to ensure that it met its legal obligations for the timely preparation and approval of its accounts and that members placed too much reliance on their Clerk without properly scrutinising the work of the Clerk.

## There is insufficient evidence to confirm whether or not proper arrangements have been made for the exercise of public rights

- 23 Sections 30 and 31 of the Public Audit (Wales) Act 2004, 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 Act.
- 24 Regulation 17 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.
- 25 I have not seen any evidence to demonstrate that the Council complied with the requirements of the Act and the Regulations. Therefore, I have appointed 11 January 2019 as the date from which local electors may exercise their rights for the 2013-14 to 2016-17 accounts under the Act.

## The Council's governance arrangements are inconsistent with the positive disclosures it has made in its Annual Return

- 26 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.
- 27 Whilst the actual wording of the Annual Governance Statement can vary from one year to another, it typically covers:
- the proper preparation and approval of the accounting statements;
  - ensuring a proper opportunity is afforded for the exercise of elector's rights to inspect the accounts;
  - the completion of an annual assessment of the risks facing the Council and setting out what action has been taken to manage these risks;
  - maintaining an adequate system of internal control, including measures designed to prevent and detect fraud and corruption; and
  - maintaining an adequate and effective system of internal audit.
- 28 For the two audit years considered in this report, 2013-14 and 2014-15, the Council has completed the returns on the basis it is compliant with both legislation and published guidance. It has not qualified its responses or provided explanations on areas where it is either deficient or working to secure improvements.
- 29 As I have referred to above, the Council has not properly prepared and approved its accounts for the financial years from 2013-14 to 2016-17 and neither has it provided evidence to demonstrate that elector's rights have been observed.

- 30 The 2013-14 and 2014-15 Annual Returns assert that the Council had undertaken a formal risk assessment and that steps had been taken to manage the risks identified. The internal auditor's report for 2013-14 stated that there was no evidence to support this assertion. For 2014-15, the internal auditor highlighted that a new policy on risk had been introduced. The Council told my staff that this new policy was a work in progress. I understand that the risk assessment policy has now been completed.
- 31 Both the 2013-14 and the 2014-15 Annual Returns assert that the Council has maintained an adequate system of internal control, including measures designed to prevent and detect fraud and corruption. The next section of this report sets out several deficiencies and weaknesses in the Council's internal controls that have been readily apparent to internal and external audit.
- 32 The governance disclosures made by the Council are therefore, in my view, inconsistent with the position reflected in its documentation and indeed the contents of their own internal auditor's report which is also contained in the Annual Return.
- 33 It is clear to me that during this period, the Council did not take sufficient steps to satisfy itself that its governance arrangements were effective and fairly disclosed. Council members now accept that they have not sufficiently recognised or acted upon earlier findings of either their internal auditor or the external auditor in relation to the adequacy of their governance arrangements.

## The Council has not maintained adequate internal controls to safeguard its assets and finances

- 34 The publication **Governance and Accountability in Wales – a Practitioners' Guide** (2011) sets out the types of internal controls town and community councils should have over their activities and transactions. These are set out in [Exhibit 2](#) below together with the actual arrangements that the Council's internal auditor and I have found to be in place at the Council.

Exhibit 2: expected and actual internal controls in place at the Council

Expected internal control	What we have found to be in place
<p>The annual precept requirement results from an adequate budgetary process, progress against the budget is regularly monitored, and reserves are adequate.</p>	<ul style="list-style-type: none"> <li>• There is no evidence to show that the Council set an annual budget which was monitored effectively throughout the year.</li> </ul>
<p>A reconciliation between the Council's accounts and independent banking records, ie bank statements. The bank reconciliation together with the year-end bank statements provide important assurance to the Council that the accounts prepared by its Clerk are complete and reflect the money deposited with the bank.</p>	<ul style="list-style-type: none"> <li>• The Council did not complete a year end bank reconciliation to accompany the annual accounts included in its Annual Return for 2013-14 and 2014-15.</li> <li>• In both these years the Council's Internal Auditor completed a bank reconciliation to satisfy themselves the accounts agreed with the bank records.</li> </ul>
<p>Expenditure controls ensure that only necessary and authorised purchases are made. Controls also ensure that the Council makes payments only for goods and services actually received and at agreed prices. As a body covered by Section 33 of the Value Added Tax Act 1994, the Council is able to reclaim VAT incurred on purchases. In order to do so, the Council should obtain proper VAT receipts and invoices setting out the relevant details of VAT paid and the supplier's VAT registration number.</p>	<ul style="list-style-type: none"> <li>• Payments are not always supported by sufficient information.</li> <li>• The Council issued the Clerk with a cheque of £350.00 towards the cost of a laptop which had already been paid for in full by a neighbouring council where the Clerk also worked.</li> <li>• The Council did not make a VAT reclaim until May 2015.</li> </ul>
<p>As an employer, the Council must deduct Income Tax and employees' National Insurance Contributions (NICs) from employees' pay and send the amounts deducted to HMRC each month or quarter along with employers' NICs. This system is called Pay as You Earn (PAYE). PAYE deductions must be paid to HMRC.  All employers must also keep payroll records.</p>	<ul style="list-style-type: none"> <li>• Proper payroll records have not been kept as required.</li> <li>• There was a lack of proper arrangements to operate PAYE as required by HMRC.</li> <li>• The Council has accepted at face value representations made by the Clerk that they have appropriate deductions for their Council earnings through HMRC's Self-Assessment process.</li> <li>• The Clerk did not register the Council as an employer with HMRC until July 2017.</li> </ul>

Expected internal control	What we have found to be in place
Internal controls should ensure the Council accurately maintains accounting records of income.	<p>There are incomplete records maintained in respect of income arising from:</p> <ul style="list-style-type: none"> <li>• burials and opening of graves; and</li> <li>• from tenants' rents.</li> </ul>
Internal controls should be in place to safeguard the assets and investments held by the council from loss or damage and to ensure their proper use within the community.	<ul style="list-style-type: none"> <li>• The Council did not maintain an asset register.</li> <li>• It has started work on one recently.</li> <li>• The Council did not have an arrangement for sharing costs or ownership of assets (Laptop and Printer) with a neighbouring council which also employed the same Clerk.</li> </ul>

## The effectiveness of internal audit has been diminished by a reluctance to report concerns about poor governance directly to the Council

- 35 The Accounts and Audit Regulations require all town and community councils in Wales to have an adequate and effective system of internal audit in place. The role of internal audit is to examine several key areas of the Council's governance and financial management and highlight any material deficiencies.
- 36 Whilst the exact requirements set out annually for internal audit in the Annual Return can vary slightly from year to year, the following taken from the 2014-15 return provide a typical example of the areas to be examined:
- the Council's financial regulations have been met, payments are supported by invoices, expenditure was approved and VAT was appropriately accounted for;
  - the Council assesses the significant risks to achieving its objectives and reviews the adequacy of arrangements to manage these;
  - the annual precept requirement resulted from an adequate budgetary process, progress against the budget is regularly monitored, and reserves are appropriate;
  - expected income was fully received, based on correct prices, properly recorded and promptly banked, and VAT was appropriately accounted for;
  - salaries to employees and allowances to members are paid in accordance with council approvals, and PAYE and National Insurance requirements were properly applied;
  - asset and investment registers are complete, accurate and properly maintained;
  - periodic and year-end bank account reconciliations are properly carried out; and

- accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed with the cashbook, were supported by an adequate audit trail from underlying records, and where appropriate, debtors and creditors were properly recorded.
- 37 The Council's Internal Auditor had been engaged by the Council for many years and provided an internal audit service to the majority of town and community councils on Anglesey. He retired from the role in the autumn of 2017. The Internal Auditor was very experienced having previously served as the Director of Finance of a principal local authority. He also had established good working relationships with Hacker Young, the Council's external auditor up until 1 April 2015.
- 38 Given his experience, independence and long-term association with the Council, the arrangements governing his appointment were largely informal. The Council had not approved an up-to-date terms of reference for the Internal Auditor and his appointment was not formally reviewed and minuted on an annual basis. The Internal Auditor completed the internal audit report in full on the Annual Return but did not provide the Council with any additional report or correspondence elaborating on his audit findings.
- 39 The internal audit reports for both 2013-14 and 2014-15 highlighted several weaknesses and omissions in the Council's governance arrangements. These reports, together with delays on behalf of the Council in submitting the Annual Return for audit prompted Hacker Young to undertake a full external audit of the Council's 2013-14 accounts. This audit was, however, not concluded because of the lack of an adequate response from the Council in relation to the contribution of £350 towards the cost of a laptop which is referred to earlier in this report.
- 40 It is clear from our discussions with the Council's current Chairman that the Council was aware that there was a strained relationship between the Internal Auditor and the former Clerk. The former Clerk was unhappy about the service provided by the Internal Auditor and wanted the Council to make a new appointment. Whilst the Council was made aware of this by the former Clerk, the Internal Auditor's concerns about governance and financial management were not communicated as prominently.
- 41 From a review of the Council's minutes, it is apparent that very little time was given in Council meetings to discuss the Annual Return and the disclosures made in relation to its governance and financial management by the Internal Auditor.
- 42 It was only after the former Clerk resigned and Council papers were returned that the Chairman discovered the extent of the concerns being raised in correspondence by Hacker Young. The Council was unaware that Hacker Young had instigated a full audit of the 2013-14 accounts and had not been able to make any significant progress with the 2014-15 accounts.
- 43 It is also the case that whilst the Internal Auditor would share his concerns with the former Clerk and reflect them in discussions with the external auditor, he did not escalate matters within the Council, for example by seeking time at a Council

meeting where he could share his concerns with members directly. Alternatively, he could have submitted a detailed written report directly to the Council to support the concerns set out in the Annual Return. Had he done so I believe matters may have been resolved sooner.

- 44 The Chairman accepts that, with the benefit of hindsight, the Council did not afford the former Clerk sufficient or appropriate levels of scrutiny. This lack of oversight and control meant the former Clerk was able to withhold important matters raised at audit from the Council. The Chairman concedes that there was insufficient scrutiny and oversight of the Annual Return.
- 45 The retirement of the Council's Internal Auditor means the Council now needs to find a replacement. It is important that the Internal Auditor is independent of the Council and is engaged to deliver an agreed programme of work. The Council must ensure the auditor is able to report any concerns about the Council's governance and financial management without undue control and influence of the Clerk. The performance of the internal auditor should be considered annually and reappointment minuted.

### The Council has since taken several important steps to address the governance weaknesses highlighted in this report

- 46 Since my audit staff met the Council in August 2017 to raise concerns about its governance and financial management it has reflected carefully on both its arrangements and culture. In its response to my initial findings, the Council emphasised that although there had been communications between the appointed auditor and the former clerk and former chairmen, the issues reported above had not been made known to the Council as a whole either by the former clerk or the former chairmen. Several important changes have taken place at the Council since that time.
- 47 The mind-set of Council members is said to have changed and it has now become a member led organisation rather than one working to an agenda set by the Clerk. The dates of meetings have been reviewed and re-arranged to facilitate appropriate scrutiny of matters relating to governance and financial management.
- 48 The Council has obtained an independent review of its arrangements, and it is introducing revised policies and procedures. In particular, it has strengthened payment authorisation procedures and is putting in place better arrangements to identify and properly account for the Council's income from the cemetery and property rentals.

## Recommendations

49 My recommendations to the Council are set out in **Exhibit 3** below.

### Exhibit 3: recommendations to the Council

Recommendations	
R1	The Council should set aside sufficient time for scrutiny of the Annual Return before it is sent to the external auditor.
R2	The Council should introduce a comprehensive suite of internal financial controls and document its financial management arrangements.
R3	The Council should invite the internal auditor to the annual meeting where the internal audit report is discussed to facilitate an open and honest exchange of views.
R4	The Council should ensure it receives a copy of the external auditor's annual report and certificate and that it is formally considered in a meeting of the Council.
R5	The Council should ensure that it complies with statutory requirements to facilitate elector's rights to inspect the annual accounts and engage with the external auditor, and it should keep evidence of that compliance.

## Next steps

50 Section 25 of the Public Audit (Wales) Act 2004 now requires the Council to consider the report at a full meeting of the Council within one month of the date of the report. 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.

51 The Council will then need to prepare a written response and agree the wording of that response with me before publishing its response.



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30 January 2019



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