

Failure in Financial Management and Fraud – Maesteg 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 Maesteg Town Council which contributed towards a major fraud being committed against the Council by its former Clerk.

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Summary report

Introduction

- 1 This report sets out failures in financial management and governance at Maesteg Town Council (the Council) during the financial years 2015-16 to 2019-20 that contributed to the Council being defrauded of £238,000.
- 2 Acting for and on behalf of the Auditor General for Wales, 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.
- 3 My audit identified that serious failures in governance and financial management by the Council itself contributed to the ability of the former Clerk to defraud the Council of £238,000. I believe it is important that the public has a full and proper awareness of the events concerning the Council and, therefore, I have decided to issue this report in the public interest to explain these failures.
- 4 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.

Maesteg Town Council

- 5 Maesteg Town Council serves the large town of Maesteg located in Bridgend County Borough. It typically spends around £300,000 annually, placing it just outside of the largest 20 town and community councils in Wales. Expenditure is funded primarily from its precept. The precept is charged to council taxpayers in the community served by the council. **Exhibit 1** below summarises the Council's finances for the period subject to audit.

Exhibit 1: income and expenditure and financial position as at 31 March

The Council's annual income and expenditure are between £300,000 and £370,000.

	2015-16 £	2016-17 ¹ £	2017-18 £	2018-19 £	2019-20 £
Precept	288,435	295,500	297,718	362,319	302,001
Other income	16,843	15,497	11,143	10,809	27,684
Staff costs	39,860	35,281	46,624	46,770	41,904
Other payments	259,799	274,804	242,135	320,824	211,315

Source: Audit Wales analysis – Maesteg Town Council annual returns 2016-17 to 2019-20

- 6 Community and town councils, such as Maesteg, 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, preparing the annual accounting statements and dealing with the internal and external audits.
- 7 During the period covered by this report, the Council employed Mrs Margaret Buckley as its part-time Clerk and RFO (25 hours a week). The Council appointed Mrs Buckley to the role of Deputy Clerk in April 1997, a post she held until her appointment as Clerk in April 2016. She served as the Council's Clerk/RFO until January 2020.
- 8 Mrs Buckley's predecessor as Clerk was Mrs Joan Fielding (Mrs Fielding). Mrs Buckley was succeeded as Clerk by Mrs Sian Teisar (Mrs Teisar). Mrs Teisar undertook the role of Acting Clerk from January 2020 until her appointment as Clerk in October 2020.
- 9 Notwithstanding the role of the Clerk, by law (the Accounts and Audit (Wales) Regulations 2014 (the 2014 Regulations)), the responsibility for the stewardship of Council funds, including ensuring that the Council has effective and efficient financial management, rests with the Council (that is, the members of the Council).
- 10 This responsibility 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.

¹ Given its annual income and expenditure, the Council should prepare its accounts on an accruals basis. However, because of a lack of proper records, the 2016-17 and 2017-18 amounts here are stated on a cash basis (ie receipts and payments).

My audit work

- 11 My audit work is designed to be proportionate to the size of councils and the sums of public money that they manage. The audit process should be efficient and allow councils to publish audited accounts in accordance with the statutory timetable.
- 12 During the period subject to audit, my audit work was completed by BDO, an audit firm contracted to provide audit services to the Auditor General. BDO experienced significant delays on the part of Mrs Buckley in submitting the Council's 2016-17 and 2017-18 accounts for audit. Mrs Buckley also failed to provide sufficient supporting evidence for BDO to complete their audit work and misled BDO and my audit team about the date she had submitted the 2017-18 accounts for audit. In December 2018, BDO referred the Council to me for completion of the audit. At the same time, I received correspondence expressing concern over the standard of financial management at the Council. I therefore expanded the scope of my audit to look in more detail at the Council's underlying records.
- 13 My audit work carried out between 2018 and 2020 and work undertaken by the Council's internal auditor, Mr Wyn Davies (Mr Davies) in 2019, identified significant deficiencies and irregularities in the Council's accounting records. These irregularities included concerns over the validity of invoices provided for audit. As a consequence, the concerns were referred to South Wales Police in June 2020. Following a lengthy investigation, Mrs Buckley was convicted of a fraud against the Council in June 2022.
- 14 I would like to thank both Mr Davies and Mrs Teisar for the assistance they have provided to me in completing my audit.

Key findings

- 15 Understandably, given the prominence of the Council within the town, there has been significant interest among members of the public in, and speculation about, the events at the Council. However, it seems to me that some members have not helped the situation by putting information into the public domain at a time that could have adversely affected the criminal investigation. I consider that, in this respect, the actions of these members fell far short of the standard that should be expected of elected representatives.
- 16 Notwithstanding that the primary responsibility for the fraud lies with Mrs Buckley, I consider that Council members serving during Mrs Buckley's tenure as Clerk bear a degree of responsibility for allowing an environment that Mrs Buckley was able to exploit. My provisional findings and views are that, throughout Mrs Buckley's tenure as Clerk, the Council failed to exercise the minimum standards of financial management and governance that I would expect to see in place, in a Council such as Maesteg Town Council.
- 17 It is as a direct result of these failures by Council members, that Mrs Buckley was able to defraud the Council of at least £238,000.

- 18 In addition to clarifying how Mrs Buckley was able to exploit the Council's failure, I set out below weaknesses in the Council's governance and financial management identified during my audit. These include:
- the Council not complying with the statutory timescale for submitting its accounts for audit for 2016-17 and 2017-18;
 - significant inconsistencies and omissions in the Council's accounting systems and records – many of the figures included in the annual returns approved by the Council and submitted for audit do not agree with the Council's underlying records despite members having apparently verified the information;
 - the Council's governance arrangements being inconsistent with the positive disclosures it has made in its annual returns; and
 - the Council failed to ensure that it properly appointed an internal auditor and, consequently, did not identify that the purported internal audit reports it received were fabricated by the former Clerk.
- 19 My detailed findings are considered in more detail in the remainder of this document.

Recommendations

- 20 My audit identified significant failings by the Council over a prolonged period of time. I am therefore making a series of recommendations that will assist the Council to improve its financial management arrangements and reduce the risk that a similar fraud will occur in the future.

Exhibit 2: recommendations

I am making eight recommendations to address the issues I have highlighted in this report.

Recommendations	
R1	The Council must put its governance and financial stewardship responsibilities high on its agenda and ensure it has proper scrutiny in place for the work of the Clerk and Deputy Clerk.
R2	The Council must ensure that its proper internal controls, including authorisation of payments, are followed by all members.

Recommendations

- R3 The Council must identify the training needs of its Clerk and Deputy Clerk (particularly in relation to accounting and finance) and take steps to ensure these needs are fulfilled.
- R4 The Council must ensure that it fully complies with the external audit arrangements each financial year. This includes carefully reviewing the contents of the annual return in a full meeting of the Council before approving the return for external audit submission.
- R5 The Council must implement the recommendations made by its internal auditor in 2020 and ensure that the processes put in place are operating effectively.
- R6 The Council must prepare and approve a business continuity plan that includes arrangements to be put in place to mitigate the adverse impacts of an IT failure.
- R7 The Council must ensure it keeps accurate and up to date records of its recoverable VAT and submit claims for reimbursement on an annual basis.
- R8 The Council must ensure that it takes responsibility for the appointment of its internal auditor and that it has in place arrangements for the Council to have direct contact with the internal auditor as appropriate.

Next steps

- 21 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.
- 22 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.

- 23 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.
- 24 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

Detailed report

Between March 2016 and December 2019, the former Clerk defrauded the Council of £238,000

- 25 My audit work and that undertaken by Mr Davies identified that Mrs Buckley defrauded the Council of £238,000 between March 2016 and December 2019. This represents up to 27% of the Council's total non-pay expenditure in each financial year.
- 26 For the remainder of this report, I refer to Mrs Buckley as the former Clerk.
- 27 During her appointment as Deputy Clerk, the former Clerk was responsible for the day-to-day administration of the Council's finances. On her appointment as Clerk, she retained sole responsibility for administration of the finances, including bookkeeping and making payments.
- 28 The former Clerk made payments to herself, family members, Our Lady and St Patrick's RC Church, an affiliated Church fundraising group (known as the Flower Group) and a supplier to a community group. The payments made each financial year are set out in **Exhibit 3** below. Mrs Buckley has stated that none of these parties were aware of, or had any involvement in, the fraud. Other than in respect of herself, I am not aware of any knowledge of wrongdoing on the part the recipients of these payments.

Exhibit 3: fraudulent payments made by the former Clerk

From 2015-16 to 2019-20, the former Clerk made fraudulent payments to various individuals and groups totalling £238,821 representing 18% of its non-pay expenditure for the period.

	2015-16 £	2016-17 £	2017-18 £	2018-19 £	2019-20 £	Total £
M Buckley	2,310	12,632	18,515	15,170	31,968	80,595
Family members	0	3,350	500	0	0	3,850
Our Lady and St Patricks RC Church	0	8,163	9,116	1,587	0	18,866
The Flower Group	49,144	48,207	25,780	8,745	3,019	134,895
A supplier to a community group	0	615	0	0	0	615
Total	51,454	72,967	53,911	25,502	34,987	238,821
Fraud as a % of total non-pay expenditure	19.8%	26.6%	22.3%	8.0%	16.6%	18.2%

Source: Audit Wales analysis based on data provided by Maesteg Town Council for South Wales Police

- 29 The key sources of evidence supporting the schedule of fraudulent payments above include the Council's cashbook and copies of paid cheques ie cheques that had cleared the Council's bank account. These enabled the identification of payments that had not been recorded fully, accurately, or at all, in the Council's cashbook and enabled the identification of the recipients of the cheque payments.
- 30 No accounting records were available from the Council for the period before April 2015. However, the £49,144 of payments to the Flower Group during 2015-16 include £13,212 of cheque payments that were issued before April 2015. It is therefore possible that more irregular payments were made before April 2015.
- 31 The Council's losses were made good via an insurance claim under a fidelity guarantee. The insurance company made a settlement payment of £234,590 in December 2021.

Council members acted improperly when confidential information regarding the then alleged fraud was posted to social media

- 32 During the course of my audit and the police investigation it became clear that Council members were posting confidential information on social media, including details of the internal audit undertaken by Mr Davies and of the subsequent insurance claim and settlement.
- 33 In early 2020, the Council appointed Mr Davies to provide an internal audit service covering the 2019-20 financial year. In July 2020, Mr Davies reported his findings to the Council, highlighting irregularities, including apparently falsified invoices.
- 34 When approving the 2019-20 accounts, members asked that the then acting Clerk (Mrs Teisar) place a copy of the internal audit report on the Council's website. Once this was done, a link to the report was published on the Llynfi Labour Party Facebook page with comments regarding the then controlling group.
- 35 At this point in time, the police investigation was in its early stages. It was therefore wholly inappropriate for members to have published information concerning the investigation and to have publicly commented on it. To limit any further inappropriate publication of confidential information and to limit adverse consequences, both South Wales Police and my audit team advised Mrs Teisar not to provide members with any further detailed information regarding the fraud.
- 36 Subsequent to his July 2020 report, the Council extended the scope of his audit. Mr Davies then examined the Council's accounting records from April 2015 to December 2019, comparing the payments recorded in the cashbook to available receipts and invoices. My audit team assisted Mr Davies, providing details of cheque payments from copies of paid cheques.
- 37 In November 2020, Mr Davies issued to the Council, a report on the outcome of his internal audit work. This report highlighted his concerns over potentially irregular transactions. Mr Davies stated in his report that it was inappropriate for further details to be disclosed due to the ongoing police investigation.

- 38 In November 2021, the Council's insurers agreed to settle the Council's claim under its Fidelity Guarantee insurance for £234,590. This was discussed by the Council in a closed meeting on 16 November 2021.
- 39 The meeting itself was held remotely and the minutes record some disturbance and background noise:
- 'Since going into Committee it became apparent that there were some Members in 2 meetings at the same time due to the background noise and feedback being heard. The Mayor asked that members decide which meeting they would like to attend as we were now in Committee and have excluded the public. Following this initial request, background noise could still be heard...'
- 40 Furthermore, details of the insurer's proposal were sent to members in advance of the meeting as required by law. Within days of the settlement offer, details had been posted via social media by an individual who was neither a member nor an attending official. Mrs Teisar brought this to members' attention at the 16 November 2021 meeting:
- 'The Clerk advised that the contents of the Confidential Email had been discussed with members of the public. The clerk received a telephone call from the previous ROW contractor and the Chair of Finance advised that there had been a post on Twitter made by [redacted] and another post saying the Labour Party upset that the original settlement figure had been disclosed.'
- 41 As the information about the settlement was provided to members for a closed meeting, members were fully aware that it was confidential and not to be discussed outside of the meeting. I have not been able to establish which member disclosed the confidential information to the person who posted on social media.
- 42 In my opinion, it was wholly irresponsible and likely in breach of the Code of Conduct, for individual members to place in the public domain information that was confidential. Such disclosure could have prejudiced the then ongoing police investigation.

The members of the Council serving during the former Clerk's tenure failed to ensure that the Council's proper financial procedures were followed

- 43 The former Clerk's fraudulent activity was made easier by members failing to properly scrutinise the financial information that she presented at Council meetings, and by members failing to ensure that Finance Committee meetings were regularly and properly convened. It was also facilitated by individual members circumventing the Council's proper procedures by signing blank cheques.

The Council as a whole failed to properly scrutinise the financial information presented by the former Clerk

- 44 Notwithstanding the deficiencies found during my audit and explained below, the Council's minutes record that members did in fact discuss and approve the accounts following a verification process.
- 45 For example, the minutes for the Finance Committee meeting held in April 2017 record:
- 'The Clerk confirmed that in compliance with the Risk Assessment Policy document and Council's Financial Regulations, the quarterly risk assessment/annual risk assessments and verifications on accounting procedures and practices had been undertaken by the Mayor, Deputy Mayor and Chair of Finance Committee. It was therefore Recommended that Council confirm that the appropriate controls are in place and adhered to.
- Members studied the documents, raised several questions, which were clarified/information supplied and confirmed. Members, being fully satisfied with the year-end documentation, agreed to Recommend to Council that the Year End Accounts 2016-2017 and supporting reports be approved and confirmed.'
- 46 The minutes of the Finance Committee meetings held in July 2016 and May 2018 record the same statements in relation to the 2015-16 and 2017-18 accounts respectively.
- 47 However, as reported below, my audit identified that the accounts approved by the Council did not in fact agree with the underlying records.
- 48 The minutes also record that a schedule of payments made by the Council was presented at each full Council meeting. For example, the minutes of the Council meeting in July 2017 record:
- 'Resolved: That the List of Payments made by the Council during the month of June 2017, copy of which had been circulated to Members, be accepted, confirmed and signed by the Mayor.'
- This statement is replicated in the minutes for each full Council meeting.
- 49 The former Clerk has stated that these schedules were presented monthly and were sent to members in advance of the meetings. Members have noted that these schedules were at times incomplete.
- 50 The Council does not appear to have questioned in detail the level of expenditure being incurred. As shown in **Exhibit 3** above, the fraudulent payments in 2016-17 exceeded 25% of the Council's total non-pay expenditure. At no point does it appear that members questioned what the money was being spent on.
- 51 It is clear therefore that the level of scrutiny members gave to the Council's financial information, financial position and its year-end accounts was not sufficiently robust.

Members failed to ensure that the former Clerk properly convened meetings of the Council's Finance Committee and when it did meet failed to examine the Council's financial position in an effective manner

- 52 The Council has a long-established Finance Committee. However, during the former Clerk's tenure, the committee did not meet on a regular basis (see **Exhibit 4** below). I am informed that the former Clerk would convene meetings but that they would then be cancelled at short notice.

Exhibit 4: Finance Committee meetings

Although long established, the Finance Committee did not meet on a regular basis during the former Clerk's tenure as Clerk

	2016-17	2017-18	2018-19	2019-20
Number of meetings ²	5	3	1	3 ³

Source: Maesteg Town Council minutes

- 53 The former Clerk has stated that meetings were cancelled for a number of reasons including documentation not being available prior to the scheduled meeting eg due to an IT failure and meetings not being quorate. I have seen no evidence that members took steps to ensure that meetings that were convened actually took place. The repeated cancellation of meetings appears to have been accepted by members without concerns being raised.
- 54 My examination of the Finance Committee minutes did, however, identify several incidences of members expressing concern that, despite being requested to do so on more than one occasion, the former Clerk failed to provide financial information to members in advance of meetings. This failure will have limited Council members' ability to properly consider and scrutinise the information presented at the meetings and led to members making decisions that were not based on a proper understanding of the Council's financial position.

² Number of meetings held during the financial year April to March.

³ Number of meetings held between April and December 2019 prior to the former Clerk's departure.

Members who were cheque signatories failed to follow proper process and signed ‘blank’ cheques, thereby facilitating the fraud committed by the former Clerk

- 55 Throughout the former Clerk’s tenure, the Council made payments by cheque. Its internal control arrangements required that each cheque be signed by the incumbent Clerk and two members. Members were to sign the cheques following sight of an original invoice and prior completion of payee details etc on the cheques themselves.
- 56 The minutes of the Council’s extraordinary meeting held on 19 February 2020 record:
- ‘Current account signatories had been deceived; they were shown invoices but details not written on the cheques.’
- 57 The former Clerk has stated that she did not always provide copies of invoices to members but that an ‘invoice file was available for councillors’ information’. It was members’ willingness to sign cheques without those cheques being properly completed in advance and without inspecting supporting invoices, that contributed most to the former Clerk’s ability to defraud the Council.
- 58 As part of the audit process, I interviewed both current and former members who had been in office and were authorised signatories during the former Clerk’s tenure, together with Mrs Fielding, who had been the Clerk while the former Clerk had served as deputy Clerk. Without exception, all admitted to having signed blank cheques ie cheques where no details of payees or amounts had been entered on the cheque. Some claimed that this only happened occasionally.
- 59 However, I do not believe that it is credible that these were isolated or occasional incidents or that members scrutinised invoices before they signed the blank cheques:
- the number of fraudulent cheque payments and the frequency with which the payments were made indicates that the signing of blank cheques was not an unusual process.
 - some of the cheque payments made to the former Clerk, the Church and the Flower Group were for several thousand pounds. Had members scrutinised any supporting invoices they should have asked questions about why the Council was incurring the expenditure.
- 60 In my opinion, there was a systemic failure by all authorised signatories to scrutinise the payments made. Each cheque signatory failed to properly discharge the responsibility delegated to them by the full Council.

The Council has not complied with the statutory timescale for submitting its accounts for audit

- 61 Under Section 13 of the Public Audit (Wales) Act 2004 the Council must:
- make up its accounts each year to 31 March; and
 - ensure that its accounts are audited in accordance with the Act by the Auditor General for Wales.
- 62 The accounts are prepared in the form of a simple annual return sent to the Council each year. Regulation 15 of the Accounts and Audit (Wales) Regulations 2014 (the Regulations) requires that the Council approves the accounts before 30 June following the end of the financial year. The Council must then send the accounts to the Auditor General and publish its audited accounts by 30 September.
- 63 Whilst the Council met the accounts approval deadline for both 2016-17 and 2017-18, it did not comply with the statutory timescale for submitting its accounts for audit for either financial year (**Exhibit 5** below). These delays are both significant and unacceptable.

Exhibit 5: the dates the Council's accounts were approved and submitted for audit

Financial year	Date accounts approved by the Council	Date submitted for audit
2016-17	2 May 2017	13 February 2019
2017-18	6 June 2018	4 February 2019

Source: Audit Wales analysis

- 64 The former Clerk attributed the delay reported above to the Council experiencing IT problems, the loss of some of its records and the need to restore them. I address this issue later in this report.
- 65 In any event, I had to press the former Clerk over a lengthy period to provide the necessary documentation. This created additional audit work and increased cost that have to be met by the local taxpayer. I did not receive any records until August 2018, and those I received then were incomplete. The former Clerk initially omitted to provide rental documents and at least 19 invoices relating to over £130,000 of transactions. After continual chasing, I finally received copies of these invoices in mid-April 2019, although I subsequently identified some of these to be fakes.

66 Of wider concern is the fact that there is no reference in any of the minutes of the Council's meetings to the significant delays in completing the annual audits. I do not consider that the Council as a whole gave sufficient consideration to its duty of accountability for its use of public money to the local taxpayers of Maesteg. Some members have noted that the Council was not aware of the failings reported above and that individual councillors and the former Clerk did not report to the Council their contacts with my audit team.

There are significant inconsistencies and omissions in the Council's accounting systems and records

- 67 Town councils are required to maintain proper accounting records to show their financial transactions and to enable their Clerk⁴ to prepare such accounting statements as are required under the Accounts and Audit (Wales) Regulations. The Clerk must ensure that the accounting records are kept up to date and are maintained in accordance with proper practices. These accounting records should be consistent with the figures contained in the annual accounts presented within the annual return.
- 68 My audit identified significant inconsistencies and omissions in the Council's accounting systems and records. Importantly, many of the figures included in the annual returns approved by the Council and submitted for audit do not agree with the Council's underlying records.

I have identified deficiencies in the Council's accounting systems

- 69 I have set out in **Exhibit 6** below the areas where the accounting systems and records are deficient.

⁴ The roles of Clerk and Responsible Financial Officer are legally distinct, but I have used the term Clerk in this report as both roles are undertaken by the same employee. The preparation of the accounting statements is the legal responsibility of the Responsible Financial Officer.

Exhibit 6: deficiencies identified in the Council's accounting systems and records

Accounting area	Audit finding
The Council should have a cashbook or other form of financial ledger within which are recorded the Council's financial transactions ⁵ .	The former Clerk explained that the Council had experienced difficulties with its computer and lost several records which had to be re-created. This included its cash book. There were significant delays in providing me with a copy of the Council's cash book, and it did not record all transactions.
The entries in the cashbook or ledger should be supported by original documentation such as receipts and invoices.	As mentioned above, there was a significant delay in providing invoices and rental agreements to support receipts and payments recorded within the cash book, and some of the invoices were fakes.
The Council's cash book balance should be reconciled to the Council's bank account(s) on a regular basis.	There were differences between the cash book and accounts balances and the bank statements for both 2016-17 and 2017-18. Entries for two uncashed cheques should have been made in the cash book.

⁵ Proper practices are set out in the One Voice Wales/Society of Local Council Clerks' publication 'Governance and Accountability for local councils in Wales'.

Accounting area	Audit finding
<p>The Council should prepare its Annual Returns based on its 'income and expenditure', with a schedule of its year-end balances⁶.</p>	<p>The annual return for 2017-18 has a balance for debtors and stock of £129,984. This is much higher than the balance reflected in underlying records of £93,352.</p> <p>Much of the valuations for 'stock and debtors' (£93,352) came from a listing of assets such as office furniture and equipment and civic memorabilia. These items should have been included within the separate balance for 'Fixed assets and long-term assets' as their expected useful lives will run beyond a single year.</p> <p>Payroll transactions have been recorded on a receipts and payments basis rather than an accruals basis as required by proper accounting practice.</p>

⁶ Required by the Regulations where councils have a turnover in excess of £200,000 per annum.

Accounting area	Audit finding
<p>The entries in the annual accounts should agree with the Council's cash book and underlying records.</p>	<p>I have not been given a complete set of working papers to show how all the entries on either of the Annual Returns were derived. Many of the entries in the annual return do not agree with the underlying records and the cash book (see comments on debtors and stocks above). These entries included those for 'other receipts', 'staff costs' and 'debtors and stocks'. My audit found four other instances where there were mis-matches between the Annual Return entries and the records provided to me. The Council's Annual Returns show a precept of £295,500 for the financial year 2016-17. However, the Council's 'Special Meeting' meeting of 12 January 2016 resolved to set a precept of £293,877 for 2016-17. A day later, the Clerk advised Bridgend County Borough Council that the precept request would be £295,500 and this was the amount received.</p>
<p>The entries in the accounts should be shown gross, and income and expenditure on activities should not be shown net.</p>	<p>The share of ticket income is netted off against the costs of hall hire and catering services in relation to the Annual Festival.</p>

Source: Audit Wales analysis

The Council failed to maintain proper arrangements to administer payroll and PAYE

- 70 As an employer, the Council must deduct Income Tax and employees' National Insurance Contributions (NICs) from employees' pay and send the amounts deducted to HM Revenue and Customs (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.

71 Based on the evidence I have seen in respect of payroll and PAYE at Maesteg Council, I have concluded that that the payroll was not operated correctly during both 2016-17 and 2017-18. IT problems and the reliance for a time on temporary agency cover for the Deputy Clerk have contributed to the difficulties the Council has experienced.

72 Specifically, I have found that:

- the Deputy Clerk's contract of employment is incomplete;
- salary payments to both the Clerk and the Deputy Clerk have been made below the amounts specified on the relevant National Joint Council (NJC) pay scales;
- the Council has failed to apply pay progression increments for 2017-18;
- there has been an underpayment of tax due to the HMRC;
- payments to employees are made on an irregular basis due to difficulty in getting enough cheque signatories; and
- errors have been made in pension contributions to the Local Government Pension Fund.

73 All of the discrepancies noted above have now been corrected.

The Council has lost income because of its failure to recover VAT on eligible payments

74 As a body covered by Section 33 of the Value Added Tax Act 1994, the Council can reclaim VAT incurred on purchases. 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.

75 However, my audit did not find any evidence of tax being recovered from HM Revenue and Customs during 2016-17 or 2017-18. From the sample of 85 purchases for which invoices were eventually found, 19 payments included VAT. The unrecovered VAT on those invoices amounted to £23,129. This is income potentially lost to the Council that has to be made up by other means, in this case from the precept which is ultimately funded by the local taxpayer.

76 Mr Davies and Mrs Teisar subsequently compiled a VAT claim for the financial years 2017-18 to 2019-20 and were able to recover VAT totalling £68,684. The Council was not able to recover VAT for any prior years.

The Council's governance arrangements are inconsistent with the positive disclosures it has made in its annual returns

77 In addition to presenting the accounts for a given year, the Regulations require the Council to publish a statement on internal control alongside the accounts. To meet this requirement, the annual return incorporates an annual governance statement

in which the Council makes a series of assertions about the arrangements it has in place for its governance and financial management.

- 78 Whilst the actual wording of the Annual Governance Statement can vary from one year to another, it broadly covers the items ('assertions' or statements about the Council's governance) set out in **Exhibit 7** (for 2017-18). **Exhibit 7** also shows the Council's response to those matters and my audit assessment for 2017-18.

Exhibit 7: Maesteg Town Council Annual Governance Statement for 2017-18

The Council's assertions in its Annual Governance Statement are inconsistent with my assessment of the Council's arrangements.

Assertion	Council response	Audit assessment
Properly prepared and approved the accounting statements.	Yes	Non-compliant and Council response is inaccurate (see paragraphs 62 – 70).
Maintained and reviewed the effectiveness of an adequate system of internal control, including measures designed to prevent and detect fraud and corruption.	Yes	Non-compliant and Council response is inaccurate.
Taken steps to ensure there are no matters of non-compliance with laws, regulations and codes of practice.	Yes	Non-compliant and Council response is inaccurate.
Provided proper opportunity for the exercise of electors' rights in relation to the accounts.	Yes	To be completed once my audit work has been concluded.
Carried out an assessment of the risks facing the council.	Yes	Non-compliant and Council response is inaccurate.

Assertion	Council response	Audit assessment
Maintained an adequate and effective system of internal audit.	Yes	Non-compliant – the internal auditor whose name appears on the 2016-17 and 2017-18 annual returns as originally submitted, has not been identified.
Considered the financial impact of any litigation, liabilities or commitments, events or transactions.	Yes	Not reviewed.
Appropriate action has been taken in relation to internal and external audit reports.	No	The Council has disclosed that it is still working to address the recommendations made by its internal auditor.
Taken into account the level of reserves held by the Council when setting its budget.	No response	The Council has not provided any evidence in respect of this.
Maintained a separate account of grants made under section 137 of the Local Government Act 1972.	No response	Non-compliant.

Source: Maesteg Town Council Annual Governance Statement and Audit Wales analysis

The Council's assertions in its Annual Governance Statement are factually inaccurate and misleading

- 79 For the first two years covered by my audit, 2016-17 and 2017-18, the Council completed its returns on the basis it was fully, or almost fully, compliant with the expectations set out in both legislation and published guidance. The only deficiency reported was that the Council had not taken appropriate action during 2017-18 to address the issues and weaknesses brought to its attention by its internal and external auditors.
- 80 Based on my audit work and the matters I have reported on in this document, in my view the Council's assertions are factually inaccurate and misleading.

81 Furthermore, in its statement for 2017-18, the Council did not provide an answer to three matters. These were whether:

- reserves were considered when the budget was set, with plans set for their use;
- records were kept of grants given under section 137 of the Local Government Act 1972 and consideration given to the value of any benefits arising; and
- any gratuities were given to employees and, if so, whether the Council had a lawful obligation to pay them (the accounts do not include any gratuity payments to employees).

82 In these cases, I have concluded that:

- the Council has not complied with its statutory responsibilities in relation to reserves and s137 grants; and
- in relation to service gratuities, the Council does not have any contractual obligation to make such payments and has not done so.

The Council did not establish an adequate and effective system of internal audit prior to the appointment of Mr Davies in 2019

83 Internal audit is an important element of any council's system of internal control and provides much of the assurance needed for the Council to approve its annual governance statement. It is therefore important that the Council understands the work being undertaken by the internal auditor and receives reports directly from the auditor.

84 Based on the annual returns submitted for audit by the former Clerk for the three financial years 2015-16, 2016-17 and 2017-18, the internal audit was provided by a P James.

85 Neither I nor the Council has been able to establish the identify of P James and contact him/her. Members were unable to explain how he/she had been appointed. During this period, there was no direct contact between the Council and P James.

86 Although the internal audit reports did apparently identify some issues, primarily related to IT failures, it is clear that the assurances provided to the Council are not supported by the evidence obtained by my audit team and Mr Davies.

87 Based on this evidence, I conclude that the Council did not in fact appoint an internal auditor and that the internal audit reports are a fabrication. The issues reported on the 2017-18 annual return are designed to support the former Clerk's explanations why documents were not available for audit.

88 In a response to my provisional audit findings, the former Clerk stated that she concurs with my conclusion.

89 In 2019, the Council appointed Mr Davies to undertake an internal audit. Mr Davies made a series of recommendations to the Council to improve its financial management arrangements and to reduce the risk of repetition of the failures

between 2015-16 and 2019-20. It is important that the Council ensures it makes the changes recommended by Mr Davies.



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