

Meeting of:	<b>Standards Committee</b>
Date of Meeting:	<b>Thursday, 25 November 2021</b>
Relevant Scrutiny Committee:	No Relevant Scrutiny Committee
Report Title:	Audit Wales Report: Inadequacies in Governance and Financial Management - Sully and Lavernock Community Council
Purpose of Report:	To inform Standards Committee of the publication of a public interest report undertaken by Audit Wales
Report Owner:	Debbie Marles, Monitoring Officer/Head of Legal and Democratic Services
Responsible Officer:	Karen Bowen, Principal Democratic and Scrutiny Services Officer
Elected Member and Officer Consultation:	No consultation required as this is a matter for the Standards Committee
Policy Framework:	This is a for consideration by the Standards Committee
Executive Summary:	
<ul style="list-style-type: none"> <li>• The report attached at Appendix 1 details the Audit Wales report which has been considered by the Auditor General for Wales to be issued in the public interest under Section 22 of the Public Audit (Wales) Act 2004 ('the 2004 Act').</li> <li>• The report details 9 recommendations that have been made to the Sully and Lavernock Community Council with the aim to help the Council to improve its financial management and governance arrangements.</li> </ul>	

## **Recommendations**

1. That the Standards Committee notes and considers the contents of the Audit Wales report: Inadequacies in Governance and Financial Management - Sully and Lavernock Community Council.
2. That arrangements be made for the Chair of the Standards Committee and the Monitoring Officer to meet with the Chair, Vice-Chair and Clerk of Sully and Lavernock Community Council to discuss matters arising from the Audit Wales report relating to Code of Conduct matters and that a follow up programme of Independent Members observing meetings be prepared.
3. That the intention of the Monitoring Officer to raise the matter at the Monitoring Officer's meeting with Clerks of Community Council on 24th November, 2021 be noted and a copy of the report be emailed to all Clerks of Town and Community Councils in the Vale of Glamorgan for information.

## **Reasons for Recommendations**

- 1&2 Having regard to the contents of the report.
3. In order that the contents of the report can be shared to raise awareness.

## **1. Background**

- 1.1 Audit Wales undertake audit work on Town and Community Councils via an annual return which is completed by Councils and submitted to Auditors on behalf of the Auditor General for Wales. The annual return as referred to in paragraph 8 of the report at Appendix 1 contains the annual accounting statements which set out how the Council has managed its financial affairs.
- 1.2 The report states that in May 2019 correspondence was received from a member of the Council drawing attention to the ongoing suspension of the Council's Clerk and the impact this was having both on the running of the Council and its reputation as a public body.
- 1.3 As Monitoring Officer I have been in contact with Sully and Lavernock Community Council and have provided advice and guidance in the management of meetings and in matters of Code of Conduct. However, as can be identified from this report the Council has a long history of in-fighting and conflict between Members.

## **2. Key Issues for Consideration**

- 2.1 The report at Appendix 1 identifies significant deficiencies in the Council's financial systems and financial management and in respect of the accounts for 2018/19 the report at paragraph 14 provides the following reasons:
  - the Council has not maintained proper and complete accounting records including supporting information for payroll

- there is no evidence to show that the Council has complied with its Standing Orders and financial regulations for larger payments to suppliers and contractors and
  - Audit Wales have not been provided with key records related to the Council's lettings income and was unable to conclude whether the income reported in the accounts was complete.
- 2.2** The report also advises that the Council by its own admission has failed to meet some of the standards required.
- 2.3** The detailed findings can be found at paragraphs 30 to 91 of the report with the recommendations and next steps at paragraphs 22 to 29. The 9 recommendations being noted as follows:

**Member conduct**

R1 Member conduct must improve and the Council should seek external assistance (including member training) to ensure council meetings are conducted in an orderly and professional manner.

**Clerk and Responsible Financial Officer (RFO)**

R2 Subject to the outcome of all avenues of appeal, the Council needs to secure the services of a new Clerk and RFO as soon as possible, ensuring they are provided with appropriate support and guidance to deliver the role

**Preparation and approval of accounts**

R3 The Council must ensure that the Statement of Accounts is accurately prepared and approved before 30 June each year and then promptly sent to the Auditor General for audit and publication by 30 September

R4 Before approving the annual accounts, the Council must ensure that there is an adequate audit trail between the accounting statements and the underlying accounting records

**Accounting records**

R5 The Council must ensure that it maintains proper accounting records including its cashbook and supporting documents in accordance with proper practices

R6 The Council must ensure that the Clerk prepares a bank reconciliation on a regular basis and at the year-end and that it reviews the reconciliation to establish the completeness and accuracy of the accounting records

**Electors' rights**

R7 The Council must ensure that it makes appropriate arrangements each year to facilitate the exercise of electors' rights to inspect the accounts and supporting documents at audit

### **Annual budget and precept**

R8 The Council must ensure that prior to setting its precept, it considers a budget setting out its expected income and expenditure for the year as specified by the Local Government Finance Act 1992

### **Governance arrangements**

R9 The Council must ensure that before it provides positive assurances in its Annual Governance Statement, it examines the assertions being made and takes into account all appropriate evidence to support the assurance provided, including any report provided by the internal auditor

- 2.4** It is important to note that the Standards Committee have agreed to observe meetings of Town and Community Councils on an annual basis having regard to Code of Conduct matters and the conduct of meetings. Sully and Lavernock Community Council have been observed as part of this process and any matters identified by Independent Members following the observations are relayed to the Clerk and Chair of a Community Council in order to raise standards. It is noted within the report that the Community Council has not had a full-time Clerk for some time and there have been changes in the position of Chair of the Community Council.
- 2.5** Committee's attention is drawn to paragraph 26 of page 8 of the report under Next Steps which refers to the Council arranging a meeting within one month of the issuing of the Auditor's recommendations. The Principal Democratic and Scrutiny Services Officer has sought clarity from the Clerk of the Community Council on this recommendation as it appears from the Community Council's website that an agenda with this item has been published although no date, time and venue is listed. There are however meeting notes on the website for 9<sup>th</sup> November, 2021 which appear to correlate with this agenda. The Principal Democratic and Scrutiny Services Officer will verbally update Committee at the meeting following receipt of clarification from the Clerk.
- 2.6** The Standards Committee will continue to schedule observations of Town and Community Councils and following the Local Government Elections in 2022 a revised programme will be prepared.
- 2.7** The Standards Committee is requested to consider this report and the Audit Wales report at Appendix 1 having regard to the Members' Code of Conduct.
- 2.8** In reference to the Audit Wales report it is also recommended that arrangements be made for the Chair of the Standards Committee and the Monitoring Officer to meet with the Chair, Vice-Chair and Clerk of Sully and Lavernock Community Council to discuss matters arising from the Audit Wales report relating to Code of Conduct matters and that a follow up programme of Independent Members observing meetings be prepared.

### **3. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?**

- 3.1** The role of the Standards Committee is to promote and maintain high standards of conduct by Councillors, Co-opted Members and Church and Parent Governor Representatives. It is intended that the process adopted within this report will aim to promote that role.

### **4. Resources and Legal Considerations**

#### **Financial**

- 4.1** There are no financial implications as a direct result of this report save for Independent Members observing Town and Community Councils as part of the work programme of the Standards Committee.

#### **Employment**

- 4.2** No implications as a direct result of this report.

#### **Legal (Including Equalities)**

- 4.3** The role of the Standards Committee is to promote and maintain high standards of conduct by Councillors, Co-opted Members and Church and Parent Governor Representatives.

### **5. Background Papers**

# Inadequacies in Governance and Financial Management – Sully and Lavernock Community Council

Audit year: 2018-19

Date issued: October 2021

Document reference: 2573A2021-22

This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000.

The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and Audit Wales are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to Audit Wales at [infoofficer@audit.wales](mailto:infoofficer@audit.wales).

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

# 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 significant failures in decision making and inadequacies in financial management and internal control at Sully and Lavernock Community Council.

## Summary report

Introduction	4
Key findings	5
Recommendations and next steps	7
Detailed report	
Urgent action is needed to address the long-standing cultural issues at the Council	10
The Council has failed to properly maintain its accounting records and to maintain a sound system of internal control in the year	11
The Council has failed to prepare its annual accounts on a timely basis as required by the 2004 Regulations	13
The Council has not made appropriate arrangements for the exercise of electors' rights to inspect the annual accounts and supporting documents	16
Due to the deficiencies identified during my audit, I will issue a qualified audit report setting out that I am unable to provide an opinion on the accounts and that the Council has failed to make proper arrangements to secure value for money	17
The Council has not established proper arrangements for setting its annual budget and precept and the Council did not set a lawful precept for 2018-19 or 2019-20	18
The Council's assertions in its Annual Governance Statement disregard the Internal Auditor's findings in relation to risk management	21
Appendices	
Appendix 1: Annual Governance Statement Assertions	22

# Summary report

## Introduction

- 1 This document has been prepared to enable me as the Auditor General for Wales to consider whether I should issue a report in the public interest under section 22 of the Public Audit (Wales) Act 2004 (the 2004 Act) or issue written recommendations under section 25 of the Act.
- 2 Under section 22 of 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 Sully and Lavernock Community Council or brought to the attention of the public.

## Sully and Lavernock Community Council

- 3 Sully and Lavernock Community Council (the Council) serves the community on the coast of the Vale of Glamorgan, Wales, stretching from Sully to Lavernock. There are eight members on the Community Council, most of whom have sat on the Council for many years.
- 4 The Council spends around £125,000 annually on local services including the running and maintenance of a number of facilities including the Jubilee Hall, a sports pavilion, bowling green and other recreational facilities. It funds this by means of a precept of some £88,000 from the Vale of Glamorgan Council and income from lettings and fees of around £30,000. The County Borough 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.
- 5 Community councils such as Sully and Lavernock, by their very small local nature, normally rely on one key officer, the Clerk, to manage their administrative affairs. More often than not, the Clerk is also appointed in the capacity of Responsible Financial Officer (RFO). The RFO is responsible for administering the financial affairs of the Council on a day-to-day basis. In particular, this involves receiving and recording income, preparing cheque payments for signing by members, maintaining the accounting records and preparing the annual accounting statements.
- 6 Over the last three years the Council has not had a full time Clerk in post due to the suspension and subsequent dismissal<sup>1</sup> of its Clerk. During the intervening period the Council has employed two part time interim Clerk/RFOs from late 2017 until April 2019. The Council then had no Clerk/RFO until the then Chairman of the Council was appointed to an unpaid role of Clerk/RFO from July 2019. Following the appointment of the Chair as Clerk/RFO, the Council obtained and paid for the

<sup>1</sup> The former Clerk passed away in 2020.

services of an accountant to help with its book-keeping and day-to-day administration. This arrangement continued until the appointment of a new Clerk/RFO in September 2020.

- 7 Notwithstanding the role of the Clerk/RFO, by law [the Accounts and Audit (Wales) Regulations 2014 (the 2014 Regulations)], the responsibility for the stewardship of Council funds, including ensuring that it has effective and efficient financial management, rests with the Council (that is, the members). This includes such things as establishing an appropriate system of internal control, including internal audit, and approving the annual accounting statements prior to submission to the external auditor for examination.

## My audit work

- 8 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.
- 9 In May 2019, we received correspondence from a member of the Council drawing our attention to the ongoing suspension of the Council's Clerk and the impact this was having both on the running of the Council and its reputation as a public body. The Clerk had been suspended on full pay since September 2017 and there was concern amongst local residents about the cost and whether the allegations about financial misconduct were being appropriately dealt with. This resulted in the assignment of the audit of the accounts to an Audit Wales team, working under my direction, to bring them to a satisfactory conclusion. This work has now been concluded.
- 10 I am now considering whether, in the light of the findings of the audit of the 2018-19 accounts, I should make a report in the public interest. These findings, which reveal unacceptable conduct by members, poor governance and inadequate financial management, are summarised below and considered in more detail in the remainder of this document.

## Key findings

- 11 The Council has a long-standing history of in-fighting and conflict between members. The situation has been exacerbated due to the suspension of the Clerk and various complaints being made by members about the conduct of their peers, including to the police. It has been unable to retain the services of an interim Clerk and two temporary Clerks have left the Council's employment citing the unreasonable behaviour of members as a reason for their departure. The Council appears to have become dysfunctional to the detriment of its reputation amongst local residents.

- 12 The 2004 Act requires the Council to make up its accounts to 31 March each year and to submit the accounts to me for audit. Before the accounts are submitted for audit, the following certification and approval process must be followed:
- the Responsible Financial Officer (RFO) must certify that the accounts properly present its receipts and payments and its financial position; and
  - the Council must approve the accounts at a meeting of the Council.
- This process must be completed by 30 June immediately following the year-end.
- 13 The Council did not approve the accounts until September 2019. The accounts have been certified by the former acting RFO, Cllr Ian Barlow. Cllr Barlow has also signed the accounts as the chair of the meeting at which the accounts were approved.
- 14 My audit work identified significant deficiencies in the Council's financial systems and financial management. As a consequence of this, I will issue a disclaimer in relation to my audit opinion on the accounts for 2018-19 for the following reasons:
- the Council has not maintained proper and complete accounting records including supporting information for payroll;
  - there is no evidence to show that the council has complied with its standing orders and financial regulations for larger payments to suppliers and contractors; and
  - I have not been provided with key records related to the Council's lettings income and am therefore unable to conclude on whether the income reported in the accounts is complete.
- 15 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.
- 16 I consider it is important to note that the standards required to be disclosed by the Annual Governance Statement are the minimum standards that the electors of Sully and Lavernock Community Council should expect to be upheld.
- 17 The Council's assertions made in its Annual Return for 2018-19 are summarised in **Appendix 1** along with my assessment as to whether or not the assertions made by the Council are supported by the evidence available for audit.
- 18 I draw attention to the fact that the Council has, by its own admission, failed to meet some of these standards.
- 19 I am also concerned that the Council has provided assurances that contradict the evidence available for audit. I have highlighted those areas, where I consider the Council's assertions that it has put appropriate arrangements in place to be inaccurate.
- 20 What is clear to me is that during 2018-19, the Council failed to take sufficient steps to satisfy itself that its governance arrangements are effective. Council

members have not sufficiently recognised or acted upon issues in relation to the adequacy of their governance arrangements.

- 21 The detailed findings set out in the next section of this report set out the deficiencies and weaknesses in the Council's arrangements that have been readily apparent to me during the audit.

## Recommendations and next steps

### Recommendations

- 22 I am making nine recommendations to the Council. These recommendations aim to help the Council to improve its financial management and governance arrangements. My recommendations to the Council are set out below.

#### Exhibit 1: my recommendations

I am making nine recommendations for improvement to the Council's financial management and governance arrangements

#### Recommendations

##### Member conduct

- R1 Member conduct must improve and the Council should seek external assistance (including member training) to ensure council meetings are conducted in an orderly and professional manner.

##### Clerk and Responsible Financial Officer (RFO)

- R2 Subject to the outcome of all avenues of appeal, the Council needs to secure the services of a new Clerk and RFO as soon as possible, ensuring they are provided with appropriate support and guidance to deliver the role.

##### Preparation and approval of accounts

- R3 The Council must ensure that the Statement of Accounts is accurately prepared and approved before 30 June each year and then promptly sent to the Auditor General for audit and publication by 30 September.

## Recommendations

---

- R4 Before approving the annual accounts, the Council must ensure that there is an adequate audit trail between the accounting statements and the underlying accounting records.
- 

### Accounting records

- R5 The Council must ensure that it maintains proper accounting records including its cashbook and supporting documents in accordance with proper practices.
- 

- R6 The Council must ensure that the Clerk prepares a bank reconciliation on a regular basis and at the year-end and that it reviews the reconciliation to establish the completeness and accuracy of the accounting records.
- 

### Electors' rights

- R7 The Council must ensure that it makes appropriate arrangements each year to facilitate the exercise of electors' rights to inspect the accounts and supporting documents at audit.
- 

### Annual budget and precept

- R8 The Council must ensure that prior to setting its precept, it considers a budget setting out its expected income and expenditure for the year as specified by the Local Government Finance Act 1992.
- 

### Governance arrangements

- R9 The Council must ensure that before it provides positive assurances in its Annual Governance Statement, it examines the assertions being made and takes into account all appropriate evidence to support the assurance provided, including any report provided by the internal auditor.

## Action taken by the Council

- 23 During the clearance process, the current Clerk notified me that the Council has taken the following steps to address the deficiencies identified by my audit:
- appointed a new Clerk in September 2020;

- agreed to purchase accounting software to enable the Council to administer its financial affairs effectively;
  - reviewed its reserves and budget; and
  - reviewed its standing orders and the use it makes of working groups.
- 24 My audit team has not conducted any additional fieldwork to confirm that these actions have been completed.

## Next steps

- 25 Sections 25 to 27 of the 2004 Act require the Council to take certain steps in order to respond to my report and recommendations.
- 26 The Council must now arrange a meeting within one month of the issuing of my recommendations. The meeting must be advertised by placing a notice in a local newspaper. This notice must set out the date and time of the meeting and the purpose of the meeting, ie to consider the report in the public interest relating to unlawful expenditure and inadequate arrangements to secure value for money.
- 27 The Council should note that The Local Authorities (Coronavirus) (Meetings) (Wales) Regulations 2020 have recently been amended. As a result of the amendments, it is not permissible for the public to be excluded from a meeting held under the requirements of section 25 of the 2004 Act. The notice of the meeting, if held remotely, will need to state how the public may access the meeting.
- 28 At the meeting, the Council will need to decide:
- whether the report requires it to take any action;
  - whether the recommendations in the report are to be accepted; and
  - what action (if any) to take in response to the report and recommendations.
- 29 The Council will then need to prepare a written response and agree the wording of that response with me before publishing its response in a local newspaper.

Ann-Marie Harkin  
Executive Director – Audit Services  
For and on behalf of the Auditor General for Wales

September 2021

# Detailed report

## Urgent action is needed to address the long-standing cultural issues at the Council

- 30 In May 2019, we received correspondence from a member of the Council drawing our attention to the ongoing suspension of the Council's Clerk and the impact this was having both on the running of the Council and its reputation as a public body. The Clerk had been suspended on full pay since September 2017 and there was concern amongst local residents about the cost and whether the allegations about financial misconduct were being appropriately dealt with.
- 31 Two members of my audit team attended a meeting of the Council which was held on 11 June 2019. Our attendance served two purposes:
- to meet with members to get their views on the issues raised with us in the correspondence; and
  - to observe the conduct of a monthly meeting of the Council.
- 32 My team members attended the public part of the meeting and by mutual agreement attended the first part of the closed session with members. The open part of the meeting was very well attended by local residents. This is quite unusual for a meeting of a community council.
- 33 Notwithstanding that councillors were aware of my audit team's attendance at the meeting, the conduct of members fell below that which is to be expected of councillors. Incidents of poor behaviour included acrimonious disagreements between members, and the Chair adjourning the meeting for a short period. As the open part of the meeting ended, one local resident told us that it had been 'a good meeting compared to other ones'. The resident also stated that the members had been well behaved because my audit team was in attendance.
- 34 I have seen a written account of part one of the meeting by another local resident who was in attendance. In their account they state:
- 'A very loud and heated argument then ensued between [the Chairman and another member] with contributions from the other councillors. The Chairman eventually adjourned the meeting for 5 minutes to let everyone cool down. If ever there was a moment to demonstrate the complete disharmony in our dysfunctional council, this was it. And in front of the Wales Audit Office too!'
- 35 Members of my audit team subsequently met with the Council, a sub-group of the Council and individual members on a number of occasions and found them to be polite and co-operative.
- 36 However, there is a range of evidence to support the dysfunctional and unhealthy culture within the Council. This includes:
- we have seen the resignation letters written by the Council's last two interim Clerks) which refer to unreasonable behaviour of members as a reason for their departure;

- we have seen testimonials from two Councillors who resigned from the Council, again citing the unreasonable behaviour of other members as a reason for their departure;
- we have seen large numbers of complaints about members to the Public Services Ombudsman, many being submitted by fellow members;
- we are aware of three occasions where the police have been asked to look into matters relating to the conduct of members of the Community Council and/or its former Clerk;
- we have spoken to the Monitoring Officer at the Vale of Glamorgan Council, who believes, as a result of their experience in supporting the Council to deal with various complaints and grievances, that member conduct must improve; and
- we have been shown extracts from local social media pages where it is clear the Council has a poor standing and is often a source of ridicule.

37 It is clear to me that member conduct must improve at the Council, particularly in two areas. The first relates to how members conduct themselves during formal Council meetings and secondly how members engage with the Clerk. There is scope to learn from others eg by members attending other Council meetings to observe proceedings and adopting good practice employment practices and policies.

## The Council has failed to properly maintain its accounting records and to maintain a sound system of internal control in the year

### The Council is required to maintain a sound system of internal control and to maintain up-to-date accounting records

- 38 Regulation 5 of the 2014 Regulations requires the Council to ensure that there is a sound system of internal control which facilitates the effective exercise of that body's functions and which includes:
- arrangements for the management of risk; and
  - adequate and effective financial management.
- 39 Regulation 6 of the 2014 Regulations requires the responsible financial officer to determine the accounting records and accounting control systems that are to be kept and to ensure that the accounting controls are observed and the accounting records kept up to date. The accounting records must contain entries from day to day of all sums of money received and expended by the body and the matters to

which the income and expenditure or receipts and payments accounts relate and a record of the Council's assets and liabilities.

- 40 In the Annual Governance Statement, the Council has provided positive assertions that it has put in place arrangements for effective financial management during the year and has maintained an adequate system of internal control, including measures designed to prevent and detect fraud and corruption, and reviewed its effectiveness.

### **My audit identified several significant deficiencies in the Council's accounting records and system of internal control**

- 41 The core accounting record maintained by the Council is its cashbook. At the time of my audit, the Council had a complete cashbook prepared on an Excel workbook.

- 42 However, the internal auditor's report for 2018-19 identifies:

- the cashbook first provided for the internal audit did not contain an analysis of each transaction incurred by the Council. This work was completed by the Council after the financial year-end; and
- the original cashbook provided to the internal auditor contained 'many errors' that were subsequently corrected.

In my view, the Council did not meet the requirements of Regulation 6 to maintain accounting records containing entries of all sums received and spent.

- 43 The internal auditor also highlighted deficiencies in the record keeping of petty cash, resulting in an unidentified petty cash surplus of £35.08. The internal auditor stated that cash receipts from the hire of the hall had been used to supplement the petty cash account 'on the instruction of Councillors'.
- 44 In respect of hall lettings, the internal auditor noted that the Council had not adopted his previous recommendation to introduce a system of invoicing users of the hall. He also identified deficiencies in the receipt book used by the Council to record hall lettings.
- 45 My audit confirmed the internal auditor's findings. In my view, the Council does not have adequate internal controls to ensure that it accurately and completely records and banks hall lettings. I understand that these arrangements have been in place for some time and leave the Council at risk of losses due to fraud.
- 46 An important internal control is the regular completion of a bank reconciliation. The purpose of the bank reconciliation is to prove the completeness and accuracy of the Council's accounting records by checking transactions recorded in the cashbook against third party evidence ie the bank statements. The reconciliation process will identify errors and omissions in the cashbook. Once these have been corrected, any remaining reconciling items should reflect timing differences between transactions being recorded by the Council and clearing the Council's bank account. A reconciliation should be carried out whenever the Council receives

a bank statement. It is good practice for this reconciliation to be checked and then reported to the Council.

- 47 The internal auditor reported that in-year reconciliations had not been undertaken, and he identified a number of unusual transactions related to bank charges and compensation from the bank for errors in the account. The Council carried out a year-end bank reconciliation at the internal auditor's request.
- 48 In my view, the failure to carry out periodic bank reconciliations is a serious deficiency in internal control.

## The Council has failed to prepare its annual accounts on a timely basis as required by the 2014 Regulations

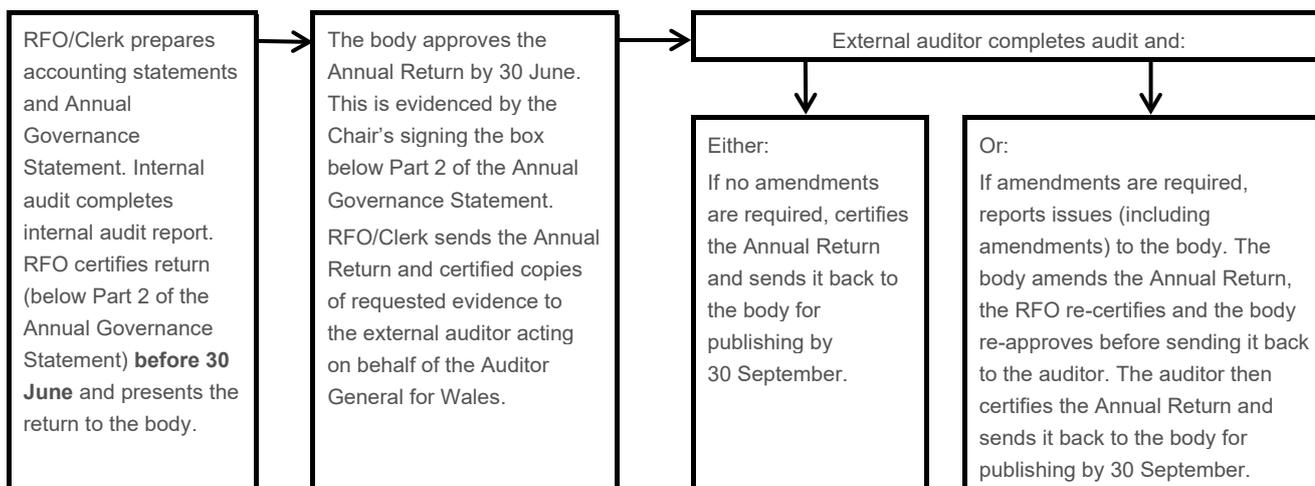
### The Council is required to prepare and approve its accounts by 30 June each year

- 49 The requirements for the approval and publication of the Council's accounts are set out in statute.
- 50 Under Section 13 of the Public Audit (Wales) Act 2004 (the 2004 Act), the Council must:
- make up its accounts each year to 31 March or such other date as the Welsh Ministers may generally or in any special case direct; and
  - ensure that its accounts are audited in accordance with the 2004 Act by the Auditor General for Wales.
- 51 Regulation 15 of the 2014 Regulations sets out the timetable for the preparation and approval of the annual accounts.
- 52 The Council's Responsible Financial Officer (RFO) must prepare and certify that the accounts properly present the Council's receipts and payment, or present fairly the Council's financial position and income and expenditure. The certification is evidenced by the RFO signing and dating the accounting statements. Provision for signature and date are made in an annual return.
- 53 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.
- 54 These actions must be completed by 30 June following the end of the financial year.

55 As soon as possible after the Council has approved the annual return it must be sent to the external auditor who, in turn, must complete their audit by no later than 30 September. The process is summarised in **Exhibit 2** below:

**Exhibit 2: the accounts and audit process**

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



Source: Annual return

56 The Council must also publish its accounts together with any audit certificate or report by 30 September, or if this publication takes place before the conclusion of the audit and no such opinion has been given, it includes a declaration and explanation that, at the date of publication, the auditor has given no opinion.

57 In its Annual Governance Statement, the Council asserts that it has put in place arrangements for the preparation and approval of the accounts.

**The Council failed to comply with the statutory timescales for preparing and approving its accounts for 2018-19**

58 Notwithstanding that the Council's former clerk was suspended from September 2017 until being dismissed in October 2019, the Council retains responsibility for the submission of accounts for audit. During the former clerk's suspension, the Council appointed acting Clerks.

59 The Council has failed to ensure that the annual accounts were prepared in accordance with the Regulations for both 2017-18 and 2018-19.

### Exhibit 3: approval of the annual accounts

The Council has failed to meet the statutory timetable for preparation, approval and publication of the annual accounts for two years.

Statutory requirement	2017-18	2018-19
RFO to certify accounts by 30 June	Certified 9 October 2018.	Approved 8 October 2019.
Council to approve accounts by 30 June	Approved 24 September 2019.	Approved 24 September 2019.
Council to publish audited accounts including audit certificate by 30 September	Accounts published online without the qualified audit certificate.	Audit not yet complete. No evidence accounts published.

Source: Sully and Lavernock Community Council annual returns 2017-18 and 2018-19

- 60 Although the Council has published its 2017-18 annual return online, it has not published the qualified audit opinion setting out its failures to meet certain statutory requirements. These included the failure to prepare the 2017-18 accounts in accordance with the Regulations.

## The Council has not made appropriate arrangements for the exercise of electors' rights to inspect the annual accounts and supporting documents

### The 2004 Act and the 2014 Regulations require the Council to make arrangements for local electors to inspect the accounts and supporting documents

- 61 Section 30 of the 2004 Act provides local electors with the right to inspect the accounts and supporting documents at audit and to ask the auditor questions about or make objections to the accounts.
- 62 The Regulations require the Council to make the accounts and supporting documents available for inspection for 20 working days before the date appointed by the Auditor General, for electors to ask him questions or to make objections. The inspection period must be advertised by a notice placed in a conspicuous place and on the Council's website.
- 63 In its annual governance statement, the Council positively asserts that it has provided proper opportunity for the exercise of electors' rights in accordance with the requirements of the Regulations.

### The Council has not provided evidence that it has made appropriate arrangements for the exercise of electors' rights

- 64 Section 30 of the 2004 Act provides local electors with the right to inspect the accounts and supporting documents at audit and to ask the auditor questions about or make objections to the accounts.
- 65 In October 2019, the then Chair and acting RFO, Cllr Barlow, wrote to my audit team at Grant Thornton stating 'The Notice of Audit advising electors of their ability to exercise their rights in accordance with the provisions of the Public Audit (Wales) Act 2004 has not yet been published.' The audit team was asked to provide further guidance on when the notice should be published.
- 66 I have examined the Council's website and note that the Council has not placed a copy of the required notice on the website. No further evidence has been provided to me to demonstrate that the Council has discharged its responsibility to make arrangements for the exercise of electors' rights.
- 67 In my view, the Council has not made appropriate arrangements for the exercise of electors' rights. Prior to my completion of the audit, I will appoint a new date for electors to exercise their rights.

Due to the deficiencies identified during my audit, I will issue a qualified audit report setting out that I am unable to provide an opinion on the accounts and the Council has failed to make proper arrangements to secure value for money

**The 2004 Act requires me to conclude on whether or not the Council's accounts are prepared in accordance with the Regulations, comply with statutory requirements and proper practices have been followed**

68 Section 17 of the 2004 Act sets out my general responsibilities when auditing the Council's accounts. Section 17 of the 2004 Act states:

The Auditor General for Wales must, by examination of the accounts and otherwise, satisfy himself of these things:

- a) that the accounts are prepared in accordance with regulations under section 39;
- b) that they comply with the requirements of all other statutory provisions applicable to the accounts;
- c) that proper practices have been observed in the compilation of the accounts;
- d) that the body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

**The deficiencies in the accounting records and internal control systems identified during the audit mean I am unable to conclude whether or not the accounts are complete and accurate**

69 My audit identified a number of key deficiencies that mean I am unable to conclude that the accounts are complete and accurate:

- the lack of a sufficient audit trail related to the hall and playing field lettings means that I cannot be satisfied that the income recorded by the Council is complete. The Council does not have in place appropriate records to evidence when the hall and playing fields were let and if the required fees have been paid in full.
- hall lettings have been used to supplement petty cash, resulting in discrepancies in the year-end petty cash balance. Therefore, I cannot be satisfied that the year-end balances are fairly stated.

- discrepancies in payroll records identified by the internal auditor mean I cannot be satisfied that payments to employees have been made in accordance with contracts of employment. Furthermore, the Council was unable to provide copies of contracts of employment for employees.

### **Due to a failure to follow its own Standing Orders and Financial Regulations, the Council has failed to make proper arrangements to secure economy, efficiency and effectiveness in its use of resources**

- 70 The internal auditor reported to the Council that his audit work had identified that the Council does not routinely obtain quotations for high price items.
- 71 My audit work identified that the Council did not have quotations available for contracts let during the year that exceeded the threshold set out by the Council's standing orders and financial regulations.

### **The Council has not established proper arrangements for setting its annual budget and precept and the Council did not set a lawful precept for 2018-19 or 2019-20**

#### **The Council is required by law to calculate its budget requirement and precept annually**

- 72 The Local Government Finance Act 1992 (the 1992 Act) requires councils to calculate and approve the annual budget. Section 41 of the 1992 Act allows councils to issue a precept, the basis of which is determined, in accordance with Section 50, by the calculation of the budget requirement.
- 73 The budget requirement is calculated by taking the aggregate sum of the following items:
- a) the expenditure the Council estimates it will incur in the year in performing its functions;
  - b) such allowance as the Council estimates will be appropriate for contingencies account for the year;
  - c) the financial reserves which the Council estimates it will be appropriate to raise in the year for meeting its estimated future expenditure;
  - d) such financial reserves as are sufficient to meet so much of the amount estimated by the Council to be a deficit for any earlier financial year as has not already been provided for;

- e) the sums which the Council estimates will be payable to it for the year other than sums which it estimates will be so payable in respect of any precept issued by it; and
  - f) the amount of the financial reserves which the Council estimates that it will use in order to provide for the items of expenditure mentioned in paragraphs a) to d) above.
- 74 If the aggregate expenditure calculated as above under items a) to d) exceeds the aggregate resources available as calculated above under items e) to f) the Council must calculate the amount equal to the difference. The amount calculated as the difference is its budget requirement for the year and results in the precept set by the Council.
- 75 Regardless of this statutory requirement, the budget is important as:
- it results in the setting of the precept for the year;
  - it allows the Council to spend money in accordance with approved spending plans and financial regulations; and
  - it provides a basis for monitoring progress during the year by comparing actual to planned spending.
- 76 The budget is a crucial element of effective financial management and accountability and, ultimately, reduces the amount of time councils spend managing their financial resources. It ensures that the Council has sufficient funds to deliver the services it plans to deliver and that an excessive precept is not raised. In the absence of adequate budget setting and monitoring arrangements, councils are unable to effectively manage public funds and demonstrate compliance with statutory requirements.
- 77 In its Annual Governance Statement, the Council asserts that it has put in place arrangements for effective financial management during the year.

## **The Council's arrangements for setting the precept significantly fail to meet the requirements of the 1992 Act**

- 78 It does not appear that the Council is provided with a budget prior to setting the precept.
- 79 In response to a document setting out my draft findings, the former Chair explains: 'The Annual Precept of [the Council] is considered each January at (a) a meeting of the Finance Working Group of the Council (this is a Working Group not a Committee/Sub Committee in terms of the provisions of relevant statute and (b) subsequently by an Extraordinary Meeting of the Council. Following that Extraordinary Meeting the Precept, as determined by this process, is served upon the Vale of Glamorgan County Borough Council. Relevant Minutes/supporting documentation in relation to the 2019/20, 2018/19 and previous financial year's [sic] determining of Precept will be available from the current Clerk to the Council.'

- 80 The minutes of the Extraordinary Meeting held on 23 January 2018 record the approval of the 2018-19 budget and state:  
'2017/2018 To Consider and Agree the Precept in Relation to the 2018/19 Financial Year  
'The recommendation of the Finance Working Group held on 17th January 2018 that the Precept in relation to the 2018/19 Financial Year be set at £89,114 was unanimously approved and it was agreed to advise the Vale of Glamorgan County Borough Council accordingly.'
- 81 I have been unable to identify any consideration of the precept for the 2019-20 financial year in the Council's minutes. The minutes of the Council meeting held on 29 January 2019 record:  
'The Council had agreed, when considering the Precept at the Finance Working Group Meeting on the 22 January 19, that there be a 5% increase in hire charges to long term hirers and of an increase to £10 per hour for casual users.'
- 82 The Council has not provided any records of the meeting of the Finance Working Group. It should be noted that the Council is required to keep minutes of meetings held by any of its committees. No minutes of the Finance Working Group have been published. I have not been provided with a copy of any budget considered at the Finance Working Group.
- 83 I am informed by the former Chair, Councillor Barlow, that the Finance Working Group is not a committee of the Council. However, the Council's minutes of 29 January 2019 appear to refer to a decision being made at the working group rather than a Council meeting. The Council's minutes record the approval of the working group's recommendation but do not indicate that the Council properly considered its budget and, therefore, I consider it acted unreasonably in setting the precept.
- 84 As a consequence of these failures, I consider that the Council did not lawfully set its precept for 2018-19 or 2019-20.
- 85 Furthermore, I have not been provided with any evidence that the Council monitors its financial position during the financial year. This issue has also been highlighted by the internal auditor.
- 86 In a response to a draft of my initial findings, the former Chair stated that financial monitoring took place at meetings of the Finance Working Group. However, the former Chair also noted that the Finance Working Group is not a committee of the Council and therefore does not have delegated authority to monitor the Council's finances. The absence of minutes taken for these meetings means I am unable to conclude whether or not the working group did monitor the Council's finances.

## The Council's assertions in its Annual Governance Statement disregard the Internal Auditor's findings in relation to risk management

### The 2014 Regulations require the Council to make proper arrangements for the assessment and management of risk

- 87 Regulation 5 of the 2014 Regulations requires the Council to put in place a system of internal control that includes arrangements for the management of risk. Under Regulation 6, the Council's accounting control system must include measures to ensure that risk is appropriately managed.
- 88 In its annual governance statement, the Council provides a positive assertion that it has carried out an assessment of risks and taken appropriate steps to manage those risks including the introduction of internal controls. This assurance was provided by the Council following receipt of the internal auditor's report.

### The internal auditor's report draws attention to the fact that the risk assessment has not been updated but this is not reflected in the positive assurance provided by the Council

- 89 In previous years, the Council was unable to provide the internal auditor with a documented risk assessment.
- 90 For the 2018-19 internal audit, the internal auditor notes:  
'I asked to see a copy of the Council's risk register and unlike in 2017/18 I was provided with a copy by Councillor [redacted]. It was clear however that this requires updating and I would recommend that the risk register is reviewed on an annual basis which it appears has not been the case.'
- 91 Notwithstanding the comments made by the Internal Auditor, the Council provided a positive assertion in its Annual Governance Statement. In my view, the positive assurance provided by the Council misrepresents the actions taken by the Council.

# Appendix 1

## Annual Governance Statement Assertions

In its Annual Governance Statement for 2018-19, the Council makes a series of positive assertions that are inconsistent with the evidence provided for audit.

	Council response	Audit assessment	'YES' means that the Council:
We have put in place arrangements for: <ul style="list-style-type: none"> <li>• effective financial management during the year; and</li> <li>• the preparation and approval of the accounting statements.</li> </ul>	Yes	No	Properly sets its budget and manages its money and prepares and approves its accounting statements as prescribed by law.
We have maintained an adequate system of internal control, including measures designed to prevent and detect fraud and corruption, and reviewed its effectiveness.	Yes	No	Made proper arrangements and accepted responsibility for safeguarding the public money and resources in its charge.

	<b>Council response</b>	<b>Audit assessment</b>	<b>'YES' means that the Council:</b>
We have taken all reasonable steps to assure ourselves that there are no matters of actual or potential non-compliance with laws, regulations and codes of practice that could have a significant financial effect on the ability of the Council/Board/Committee to conduct its business or on its finances.	Yes	No	Has only done things that it has the legal power to do and has conformed to codes of practice and standards in the way it has done so.
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	Has given all persons interested the opportunity to inspect and to ask questions about the body's accounts.
We have carried out an assessment of the risks facing the Council and taken appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required.	Yes	No	Considered the financial and other risks it faces in the operation of the body and has dealt with them properly.

	<b>Council response</b>	<b>Audit assessment</b>	<b>'YES' means that the Council:</b>
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	Yes	Arranged for a competent person, independent of the financial controls and procedures, to give an objective view on whether these meet the needs of the body.
We have considered whether any litigation, liabilities or commitments, events or transactions, occurring either during or after the year-end, have a financial impact on the Council and, where appropriate, have included them on the accounting statements.	No	No	Disclosed everything it should have about its business during the year including events taking place after the year-end if relevant.
We have taken appropriate action on all matters raised in previous reports from internal and external audit.	No	No	Considered and taken appropriate action to address issues/weaknesses brought to its attention by both the internal and external auditors.

	<b>Council response</b>	<b>Audit assessment</b>	<b>'YES' means that the Council:</b>
We have adopted standing orders and financial regulations as appropriate.	Yes	Unable to conclude	Has met the requirements of the Local Government Finance Act 1989 in setting the budget requirement and precept for the financial years.
We have ensured that the Council's standing orders and financial regulations have been followed for all relevant transactions.	Yes	Yes	Has kept an appropriate record of grants awarded and ensured that the expenditure is commensurate with the benefit to the community.
All committees and sub-committees of the council have been properly established and provided with appropriate terms of reference setting out the delegated responsibilities to make decisions or recommendations.	N/A	N/A	Has ensured that where applicable, the Council has properly delegated its responsibilities to committees.

Source: Sully and Lavernock Community Council Annual Return 2018-19 and Audit Wales analysis



Audit Wales  
24 Cathedral Road  
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: [info@audit.wales](mailto:info@audit.wales)

Website: [www.audit.wales](http://www.audit.wales)

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