

Machynlleth Town Council

Management Letter Points
Years ended 31 March 2020 and 31
March 2021

21 June 2022



Service Team

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1. Purpose of work

The internal audits for 2020 and 2021 were not conducted during the relevant timescales. We have been asked to provide retrospective internal audits for both years.

Scope of review

We have performed an internal audit based on the Accounts and Audit (Wales) Regulations using the tests set out in the Town and Community Councils Annual Return.

Background information

The 2020 and 2021 years were severely impacted by Covid and the staff who were in position during the period have now left. There has been a period of transition as the new team now in place did not have any formal handover. They were not in post at any time during the period we have reviewed in this report.

We understand that the internal audit section of the annual return will be left blank in the 2020 and 2021 returns as the work was not completed in those years. In order to provide the Council with an understanding of the work completed we have used the proforma questions as set out in the Community and Town Councils in Wales Annual Return, Internal Audit Report, to report on whether, in all significant respects, the control objectives set out on pages 2-5 were being achieved throughout both financial years to a standard adequate to meet the needs of the Council.

Overall Conclusion

There were a number of control deficiencies during the period reviewed as noted on pages 2-5. Internal control recommendations are set out on pages 6-8

2. Work performed 2020

Objectives of internal control	Agreed			Not covered	Work Undertaken
	Y	N	N/a		
1. Appropriate books of account have been properly kept throughout the year.		X			Lack of audit trail throughout the year – client was unaware of where the data was held, and the records were not organised in a manner that made them easy to find.
2. Financial regulations have been met, payments were supported by invoices, expenditure was approved and VAT was appropriately accounted for.		X			We tested a sample of 30 items of expenditure. There was one invoice for which the source document could not be found. There is also another instance where we could not verify that an invoice had cleared the bank as the statements were unavailable. Of the 30 invoices selected, only 15 had evidence of Council approval for payment.
3. The body assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.	X				
4. The annual precept/levy/resource demand requirement resulted from an adequate budgetary process, progress against the budget was regularly monitored, and reserves were appropriate.	X				
5. Expected income was fully received, based on correct prices, properly recorded and promptly banked, and VAT was appropriately accounted for.		X			We tested a sample of 30 receipts. There was one sales invoice that could not be vouched back to the income being received in the bank. There was also a sales invoice which was still outstanding, which the finance officer is planning to write off.
6. Petty cash payments were properly supported by receipts, expenditure was approved and VAT appropriately accounted for.				X	Not separately covered – included in expenditure testing

2. Work performed 2020 (continued)

Objectives of internal control	Agreed			Not covered	Work Undertaken
	Y	N	N/a		
7. Salaries to employees and allowances to members were paid in accordance with minuted approvals, and PAYE and NI requirements were properly applied.		X			We noted the payroll details for payroll for each month in the year and agreed to bank payment and checked that the payment had been authorised. Wages were not approved by The Council from December to March in 2020. They were approved by the nominated councillor for every month except March. We selected a sample of 8 employees and agreed back to contract. None of the contracts were signed.
8. Asset and investment registers were complete, accurate, and properly maintained.				X	Asset register not maintained
9. Periodic and year-end bank account reconciliations were properly carried out.	X				Year end bank reconciliation agrees. We were not able to test if reconciliations had taken place on a timely basis throughout the year.
10. Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments/income and expenditure), agreed with the cashbook, were supported by an adequate audit trail from underlying records, and where appropriate, debtors and creditors were properly recorded.		X			Correct accounting statements prepared post year end. Audit trail was difficult to follow as noted in Section 3
11. Trust funds (including charitable trusts). The Council/Board/ Committee has met its responsibilities as a trustee.				X	

2. Work performed 2021




Objectives of internal control	Agreed				Work Undertaken
	Y	N	N/a	Not covered	
1. Appropriate books of account have been properly kept throughout the year.		X			Lack of audit trail throughout the year - client unaware of where the data is held and records were not organised in a manner that made them easy to find.
2. Financial regulations have been met, payments were supported by invoices, expenditure was approved and VAT was appropriately accounted for.		X			We tested a sample of 30 items of expenditure. No payments were authorised by the Council. We identified one instance of an invoice on the system not having any source document to back it up.
3. The body assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.		X			There were no board minutes available for the majority of the year.
4. The annual precept/levy/resource demand requirement resulted from an adequate budgetary process, progress against the budget was regularly monitored, and reserves were appropriate.		X			There were no board minutes for the majority of the year. It was noted by Councillors that they were not being kept up to date with the financial situation.
5. Expected income was fully received, based on correct prices, properly recorded and promptly banked, and VAT was appropriately accounted for.	X				We tested a sample of 30 receipts. There was one instance where a sales invoice was still showing as a debtor and the finance officer advised this needs to be written off.
6. Petty cash payments were properly supported by receipts, expenditure was approved and VAT appropriately accounted for.				X	Not separately covered – included in expenditure testing





2. Work performed 2021 (continued)

Objectives of internal control	Agreed				Work Undertaken
	Y	N	N/a	Not covered	
7. Salaries to employees and allowances to members were paid in accordance with minuted approvals, and PAYE and NI requirements were properly applied.		X			We noted the payroll details for payroll for each month in the year and agreed to bank payments and checked that the payment had been authorised. Wages were not authorised by The Council or the nominated councillor prior to payment for any month in 2021. The payroll details did not agree to the payment made in January-March. We selected a sample of 8 employees and agreed back to contract. None of the contracts were signed.
8. Asset and investment registers were complete, accurate, and properly maintained.				X	Asset register not maintained
9. Periodic and year-end bank account reconciliations were properly carried out.	X				Year end bank reconciliation agrees. We were not able to test if reconciliations had taken place on a timely basis throughout the year.
10. Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments/income and expenditure), agreed with the cashbook, were supported by an adequate audit trail from underlying records, and where appropriate, debtors and creditors were properly recorded.		X			Correct accounting statements prepared post year end. Audit trail was difficult to follow as noted in Section 3
11. Trust funds (including charitable trusts). The Council/Board/Committee has met its responsibilities as a trustee.				X	


3. Design & operating effectiveness of controls – 2020 and 2021


This section of our report includes recommendations for improvements in systems or controls that were identified during the course of our internal audit work:


-  **Low Risk** – Matters that are not considered fundamental but where improvements can be made
-  **Medium Risk** – Matters that are considered significant that should be addressed within 3 – 6 months
-  **High Risk** – Matters that are considered fundamental against which management should take action as soon as possible





Observation	Implication	Recommendation	Management Response
1 During this period purchase invoices were not approved by the council prior to payment.	 Risk of potential fraud or error within expenditure	Ensure a list of all purchase invoices to be paid are circulated to the council every month for approval and that their approval is documented.	Management has changed since this period. Please see 2022 report for comments relating to the issues which are still ongoing
2 The staff at Machynlleth TC were unable to locate the purchase invoices for three of our samples over the 2 years.	 Risk of potential fraud or error within expenditure	Ensure all purchase invoices entered onto the system have evidence of the source document and ensure this is filed appropriately.	
3 For four months in 2020 and throughout the whole of 2021 there was no evidence of the wages being approved by the council prior to payment.	 Risk of potential fraud or error within wages	Ensure all wages are authorised by the council prior to payment.	
4 No fixed asset register is maintained.	 There is no written record of the assets held by the Council. Increased risk of fraud or theft of Council assets.	Fixed asset register should be compiled to ensure that all assets held by the Council are recorded. An up to date fixed asset register is also a requirement of the Accounts and Audit (Wales) regulations.	

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 **Low Risk** – Matters that are not considered fundamental but where improvements can be made

 **Medium Risk** – Matters that are considered significant that should be addressed within 3 – 6 months


 **High Risk** – Matters that are considered fundamental against which management should take action as soon as possible




Observation	Implication	Recommendation	Management Response
5 The Staff at Machynlleth TC are unaware of the data which is held on site.	 Risk of noncompliance with GDPR regulations.	All data and paperwork to reviewed to ensure anything not required is destroyed	
6 Employer pension payments and PAYE need reconciling each month to ensure that the correct amount is being paid.	 Increased risk of fraud or error	A wages reconciliation should be performed each month and the PAYE and pension payments should be annotated to indicate which month they relate to.	Management has changed since this period. Please see 2022 report for comments relating to the issues which are still ongoing
7 The Council did not hold regular board meetings during Covid and when they did start meeting again they did not circulate financial information or invoices to be paid.	 Risk of The Council being unaware of it's current financial position. Increased risk of fraudulent/incorrect payments being made.	Ensure regular board meetings are held where financial data including budgets, bank balances, invoices and wages to be paid are considered. We note that improvements have been made in this area since the arrival of the new Finance Officer.	
8 Employee contracts were unsigned in all instances.	 Risk that if any employment disputes occurred the Council has no signed documentation to back up its position.	All employees should have a signed contract kept on site.	

This section of our report includes recommendations for improvements in systems or controls that were identified during the course of our internal audit work:

 **Low Risk** – Matters that are not considered fundamental but where improvements can be made

 **Medium Risk** – Matters that are considered significant that should be addressed within 3 – 6 months

 **High Risk** – Matters that are considered fundamental against which management should take action as soon as possible

	Observation	Implication	Recommendation	Management Response
9	There is a sales invoice from February 2020 that is still outstanding at today's date.	 The debtors ledger is not a true reflection of the money owing to the Council at any one point in time.	Councillors should review the old debts with the aim of clearing old debts to tidy the ledgers up.	
10	There is a sales invoice that could not be vouched back to the income being received in the bank but has been paid per Sage.	 Risk of income being understated	Ensure all sales invoices are banked in a timely manner.	
11	Audit trail – we encountered a number of issues finding both purchase invoices and sales invoices during our visit. Historic invoices were not in any particular order however, the majority of source documents needed were eventually located. There was no record of the board minutes/the information circulated during meetings on site. This was eventually provided by a councillor who kept a folder of all information provided.	 Increased risk of fraud or error	The system need to be improved so that there is an adequate audit trail for all transactions. Going forward, it appears that since the appointment of the new finance team in September 2021 the audit trail has improved	Management has changed since this period. Please see 2022 report for comments relating to the issues which are still ongoing