

Machynlleth Town Council

Management Letter Points
Year ended 31 March 2022

28 June 2022



Service Team

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1. Purpose of work

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.

The matters raised in this report are only those which will have come to our attention arising from, or relevant to, our internal audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and in particular we cannot be held responsible for reporting all risks in your organisation or all internal control weaknesses.

This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during the course of our work.

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. The new team have only been in post for the latter 6 months of this year.

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 the financial years to a standard adequate to meet the needs of the Council.

We note that the internal audit covers the whole year and therefore due to the issues noted above, there are still a number of deficiencies as detailed in the body of this report. We note that the position did improve in the second part of the year and management are working towards rectifying the position.

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 4-6

2. Work performed 2022

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 during the first 6 months of the year – finance staff were unaware of where the data was held for the earlier part of the year, and the records were not organised in a manner that made them easy to find. The position improved from September 2021
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. Back up documentation was available for all items of expenditure tested. From September there is a log of all payments, and all receipts were readily identified 2 items had trivial differences between the invoice and payment amounts. Of the 30 invoices selected, only 13 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. No issues noted
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 2022 (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			<p>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 or the nominated councillor at all during the year.</p> <p>We selected a sample of 8 employees and agreed back to contract. All but one of the contracts were signed.</p>
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 – 2022

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 a number of 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.	This has now been actioned and a report is submitted for approval at each council meeting
2	Throughout the whole of 2021/2 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.	The new financial regulations allow these contractual payments to be paid and then reported. However as payday is the week after full council payments of wages are submitted to council before payment as we consider it good practice.
3	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. An up to date fixed asset register is also a requirement of the Accounts and Audit (Wales) regulations.	Fixed asset register should be compiled to ensure that all assets held by the Council are recorded.	Clerk to ensure that a fixed asset register is produced and put before council during this financial year.

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


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Observation	Implication	Recommendation	Management Response
4 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	Clerk to submit a retention and disposal policy for approval at the September meeting, and if adopted, to ensure it is complied with in this financial year.
5 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.	This will be done and submitted to the quarterly Finance Committee for scrutiny. PAYE is now calculated by an external accountancy firm.
6 The Council did not hold regular board meetings during Covid and when they did start meeting again they did not circulate financial information or approve payroll	 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.	Budgets and bank balances will be reviewed every quarter as per the legal requirement. This will take place at the Finance Committee and then be submitted to council for approval. As per the responses above, a schedule of payments which includes wages is now put before council on a monthly basis.

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Observation	Implication	Recommendation	Management Response
<p>7 Audit trail – we encountered a number of issues finding both purchase invoices and sales invoices for the first 6 months of the year. Historic invoices were not in any particular order however, all the source documents needed were eventually located.</p>	<p> Increased risk of fraud or error</p>	<p>The system needs to be improved so that there is an adequate audit trail for all transactions.</p> <p>Going forward, it appears that since the appointment of the new finance team in September 2021 the audit trail has improved. A log of payments and receipts is now in place</p>	<p>Clerk during the financial year to review the new improved system and ensure that it is adequate to meet the needs of good governance</p>
<p>The position improved from September onwards</p>			