

# Inadequate Financial Management and Losses to the Public Purse – Ynysawdre Community Council

Audit years: 2016-17 and 2017-18

Date issued: October 2021

Document reference: 2618A2021-22

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# 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 deficiencies in financial management and governance at Ynysawdre Community Council during the period July 2012 to August 2017.

These failings directly contributed to a loss to Ynysawdre in excess of £84,000 including illegitimate payments made by the Council's former clerk, Mrs Natalie Morgan, to her own bank accounts of in excess of £73,000.

The Council must consider the report and the recommendations made, in accordance with section 25 of the Public Audit (Wales) Act 2004.

## Summary report

Introduction	5
Key findings	7
Recommendations and next steps	9

## Detailed report

The majority of the financial records I would expect the Council to maintain have been lost to the Council 12

From July 2012 to August 2017 Mrs Morgan made payments to her personal bank accounts totalling £112,997 13

Of the £112,977 Mrs Morgan paid into her bank account, she had no contractual entitlement to receive £73,703 and the audit trail she created disguised the true nature of many of the transactions 15

I have been unable to establish the bona fides of two cheque payments made by the Council but I believe that one payment relates to an unlawful 'loan' of £3,277 to Mrs Morgan 16

In addition to transfers to her own account, Mrs Morgan made a series of inappropriate transfers between Ynysawdre Community Council and Llangynwyd Middle Community Council with a net transfer to Llangynwyd Middle of £6,000 17

In April 2017 Mrs Morgan set up new bank accounts without the knowledge or authorisation of the Council and established herself as the sole account signatory 19

Notwithstanding that the primary responsibility for the loss of £73,703 paid to Mrs Morgan and £6,000 transferred to Llangynwyd Middle Community Council lies with its former Clerk/RFO, Mrs Morgan, the Council's failure to exercise the required standards of financial management and governance throughout the period April 2013 to August 2017 enabled Mrs Morgan to make these inappropriate payments to herself 20

Appendices

Appendix 1: Analysis of unlawful payments made by Mrs Morgan

25

# Summary report

## Introduction

- 1 Under section 22 of the 2004 Act, the Auditor General for Wales must consider whether in the public interest he should make a report on any matter which comes to his notice in the course of the audit in order for it to be considered by Ynysawdre Community Council (the Council) or brought to the attention of the public.
- 2 In light of the serious failures in financial management by the Council itself and the significant losses to the public purse that followed these failures, I have decided to issue this report in the public interest. This report explains what happened at the Council and highlights the failures that led to the loss of over £80,000.
- 3 In making this decision, I have taken into account representations made by the Council that the majority of the current councillors and the current clerk were not in office during the period subject to audit and that readers of the report may attribute blame for the historic issues to the current members and clerk. The Council also stated its view that the issuing of such a report might have an adverse impact on individuals' willingness to stand for election to the Council in the future.
- 4 However, in my opinion, the need to draw attention to the significant failings of the Council up to August 2017 outweighs these potential impacts. I believe it is important that the public has a full and proper awareness of the events concerning the Council and that the Council has an opportunity to demonstrate the important steps already taken to improve arrangements. Furthermore, while my audit findings are specific to Ynysawdre, there are important lessons to be learnt not just by the Council, but by all community councils in Wales
- 5 The Council should use this report and the recommendations contained herein to help ensure that the risk of such losses occurring again in the future, are minimised. I have also set out below some of the actions already taken by the Council to address the historic weaknesses.

## Ynysawdre Community Council

- 6 The Council serves the small community of Ynysawdre in Bridgend County Borough. It spends around £30,000 annually, funded chiefly by a precept from Bridgend County Borough Council. The County Borough Council collects the precept through additional council tax charged to the Council's residents.
- 7 The Council derives most of its funding from the public purse. Members of the Council are elected by local residents (or may be co-opted by the Council where there are vacancies due to lack of candidates). Elections enable the Council to be held to account by the local electorate in respect of its management of public funds. The Council's accounts and audit are key to enabling such accountability.
- 8 Community councils, such as Ynysawdre, 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 and preparing the annual accounting statements.

- 9 From July 2012 until September 2017, the Council employed Mrs Natalie Morgan (Mrs Morgan) as its Clerk and RFO. Mrs Morgan was also the Clerk/RFO for Llangynwyd Middle Community Council from April 2013 until September 2017. In order to ensure clarity, where appropriate I refer to the former clerk by name for the remainder of this report.
- 10 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 it has effective and efficient financial management, rests with the Council (that is, the members of the Council). 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

- 11 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.
- 12 The Council prepares its accounts on a simple receipts and payments basis. This means that transactions are recorded as and when payments are made or money is received. Individual transactions are classified into one of two sub-categories of receipts or payments. Receipts are recorded as either a receipt of a precept instalment or as an 'other' receipt. Payments are recorded as staff costs (salaries etc) or as an 'other' payment. At the year-end, these categories are added up and recorded in the year-end accounts.
- 13 In September 2017, members of the Council drew my attention to irregularities they had identified in the Council's bank statements and concerns over bank accounts set up by Mrs Morgan. This resulted in the assignment of the audits of these accounts to a member of Audit Wales staff to bring them to a satisfactory conclusion.
- 14 At the same time, these irregularities were reported to South Wales Police. Notwithstanding my audit findings as reported below and in the detailed report attached, it is important to note that the police investigation did not lead to criminal charges being brought against any individual.
- 15 Due to the loss of almost all of the Council's records, in order to complete my audit work, I examined documents provided to me by the Council, South Wales Police and the Council's bank. I also interviewed current and former councillors and the

current clerk. The former clerk, Mrs Morgan, was asked to attend the audit but declined due to personal circumstances. I therefore presented her with a series of questions to address the issues I identified from my audit work. I have also provided her with the opportunity to comment on my audit findings and conclusions as set out in this report. Mrs Morgan has provided no response to my questions or my audit findings and conclusions.

## Key findings

- 16 On the basis of the work my team has undertaken, I am satisfied that there has been a significant loss to the public purse.
- 17 Normally, my audit examines documentation and financial records provided by the Council. These records include:
  - A cashbook or ledger that records the Council's transactions
  - Bank statements
  - Supplier invoices and receipts
  - Minutes of meetings
- 18 The Council was unable to provide most of the records I normally expect to be available for audit. The Council explained that Mrs Morgan had been responsible for holding all of the records I required. The Council informed me that Mrs Morgan had returned only very limited records to the Council. Mrs Morgan told South Wales Police that she had returned all records to the Council.
- 19 I am unable to determine whether or not Mrs Morgan did in fact return all records as she stated, and I am therefore unable to conclude why the records required for the audit are no longer available.
- 20 Based on the evidence I have been able to obtain, I have concluded that:
  - Mrs Morgan made payments to herself for which she had no contractual entitlement and which were made without the knowledge or consent of the Council. These payments were made on a regular basis and Mrs Morgan disguised the true nature of the transactions by recording inaccurate details when making the transactions.
  - throughout Mrs Morgan'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 Ynysawdre Community Council. The Council failed to establish appropriate internal controls to protect its finances and failed to adequately supervise or to scrutinise payments made by Mrs Morgan.
- 21 In particular, the Council failed to ensure that:
  - payments made by the Clerk were properly authorised
  - it adequately monitored its financial position; and
  - it secured an adequate and effective system of internal audit.

22 As a direct consequence of this failure, Ynysawdre incurred a significant financial loss. I have calculated this loss to be £84,020 as set out in **Exhibit 1**.

#### **Exhibit 1: loss incurred by Ynysawdre Community Council**

Between July 2012 and September 2017, Ynysawdre Community Council incurred losses totalling £84,020<sup>1</sup>

Excess payments made by Mrs Morgan	£73,703
Unidentified cheque payments	£4,317
Net transfer of funds to Llangynwyd Middle Community Council	£6,000
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Total loss incurred by Ynysawdre Community Council	£84,020

Source: Audit Wales analysis

- 23 I calculate that in the period July 2012 to September 2017, Mrs Morgan made non-contractual payments to herself totalling £73,703. In my opinion, Mrs Morgan had no legitimate entitlement to make and receive these payments.
- 24 During the same period, I identified two significant cheque payments totalling £4,317 that Council members do not recognise. One of these appears to be a 'loan' to Mrs Morgan of £3,227.
- 25 In addition to non-contractual payments made to herself and/or her husband, Mrs Morgan also unlawfully transferred funds between Ynysawdre Community Council and Llangynwyd Middle Community Council with a net loss to Ynysawdre Community Council of £6,000.
- 26 I have set out in more detail the nature of these losses in the attached detailed report and appendix.
- 27 I draw the reader's attention to the fact that further and similar losses to the public purse were incurred at Llangynwyd Middle Community Council.

<sup>1</sup> The detailed report and appendix attached set out in more detail how these losses arose.

## Recommendations and next steps

### Recommendations and action already taken by the Council

28 I draw the Council's attention to the following recommendations to address the deficiencies identified during the audit:

#### Exhibit 2: recommendations

Recommendations	
R1	The Council should ensure that it retains a schedule of all its key accounting records, including arrangements for the secure transfer of records when the clerk's employment ends.
R2	The Council should review its system of internal control to identify and remedy any deficiencies in its current arrangements.
R3	The Council should ensure that appropriate scrutiny and review arrangements are in place to ensure that the Clerk adequately and effectively delivers their responsibilities.
R4	The Council should ensure that it retains and securely stores, copies of key staff records, such as contracts of employment, rather than these documents being held by the Clerk.
R5	The Council should consider whether it should seek recovery from Mrs Morgan, of the £73,703 that she was not entitled to receive under her contract of employment and the £3,277 'loan' made in May 2013.
R6	The Council should negotiate with Llangynwyd Middle Community Council to recover some or all of the net transfer of £6,000 to Llangynwyd Middle.

## Recommendations

R7 Taking advice if necessary, the Council should ensure that it understands the taxation implications for all aspects of the Clerk's remuneration package and reports taxable benefits to HM Revenue and Customs as appropriate.

R8 The Council should ensure that it appoints its internal auditor and makes arrangements for the Council to have direct contact with the internal auditor as required.

- 29 My recommendations address the specific issues I identified during my audit. Since the commencement of my audit, the Council has undertaken a number of important steps including:
- the appointment of a new clerk and a new internal auditor; and
  - the introduction of a new system of internal control with greater scrutiny of the Council's finances.
- 30 I will examine the effectiveness of the arrangements made by the Council during future audits.

## Next steps

- 31 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 by 14 November 2021 ie within one month of the date of this report.
- 32 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.
- 33 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.

- 34 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

For and on behalf of the Auditor General for Wales

# Detailed report

**The majority of the financial records I would expect the Council to maintain have been lost to the Council**

**The Council's RFO is required by law to ensure that he/she maintains proper accounting records**

- 35 Regulation 6 of the Accounts and Audit (Wales) Regulations 2014 (the Regulations) requires that the Council's responsible financial officer (RFO) must determine on behalf of the Council, after consideration, when relevant, of proper practices, the Council's:
- accounting records, including the form of accounts and supporting accounting records, and
  - its accounting control systems.
- 36 The RFO must ensure that the accounting control systems determined by that officer are observed and that the Council's accounting records are kept up to date and maintained in accordance with legal requirements and proper practices.
- 37 The accounting records determined by the RFO must:
- be sufficient to show and explain the Council's transactions and to enable the RFO to ensure that any statement of accounts or accounting statement which is prepared for the Council complies with the Regulations; and
  - contain entries from day to day of all sums of money received and expended by the Council and the matters to which the receipts and payments accounts relate and a record of the Council's assets and liabilities.
- 38 The accounting control systems must include measures to ensure that the Council's financial transactions are recorded as soon as reasonably practicable and as accurately as reasonably possible. The control systems must also include measures to enable the prevention and detection of inaccuracies and fraud, and the ability to reconstitute any lost records.

**Following Mrs Morgan's departure from the Council, only very limited records were available for audit**

- 39 It is essential that continuity of the accounting records and supporting documents is maintained between changes of Clerk/RFO when they leave the Council. Both the Council and the Clerk/RFO must recognise that the records held by the Clerk/RFO belong to the Council and handle them accordingly.

- 40 The scope of my audit was curtailed by the significant gaps in the records available to me. Initial enquiries of the Council Chair and the current Clerk indicated that Mrs Morgan returned only very limited council records. Mrs Morgan has however stated that she returned all council records to the Council.
- 41 As a consequence of the loss of the records, I was unable to examine third party supporting documents to validate the majority of transactions in order to verify the legitimacy of the payments made.
- 42 As the Council's Clerk and Responsible Finance Officer, Mrs Morgan was entrusted with the management of the Council's finances. She managed the Council's bank accounts, initiating payments both to her personal bank accounts as well as to third party suppliers. Throughout her tenure as Clerk, Mrs Morgan used internet banking to make payments on behalf of the Council.
- 43 Due to the loss of the Council's financial records, I examined copies of the Council's bank statements (provided by the bank) to identify the nature of the transactions as far as possible from the detail recorded on the bank statements. These details were entered by Mrs Morgan when she initiated the transactions. Having identified the nature of individual transactions from the bank statements, I then followed the transactions to the payee's bank account to identify who received the funds.
- 44 It is important to note that the bank statements are an integral part of the Council's accounting records and the details entered by Mrs Morgan should provide an accurate record of the transactions including the recipient of the funds.
- 45 My audit identified numerous irregularities and these are described in more detail below.

## From July 2012 to August 2017 Mrs Morgan made payments to her personal bank accounts totalling £112,997

- 46 My audit identified £112,997 of payments made to Mrs Morgan's personal bank accounts. These include payments where the bank statement records Mrs Morgan as the recipient. My audit also identified payments made to Mrs Morgan's bank account that are recorded on the Council's bank account as a payment to a third party. **Exhibit 3** below analyses these payments across each financial year that Mrs Morgan held the post of Clerk/RFO.

### Exhibit 3: payments made to Mrs Morgan's bank account

From July 2012 to August 2017, Mrs Morgan transferred £112,997 from Ynysawdre Community Council's bank accounts to her own bank accounts.

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Payments related to Mrs Morgan's salary and employment benefits <sup>2</sup>	£4,125	£8,620	£14,490	£18,324	£15,354	£10,863	£71,777
Payments recorded as related to HM Revenue and Customs <sup>3</sup>	£0	£0	£1,618	£1,725	£6,250	£2,277	£11,870
Other payments including those recorded as paid to third parties <sup>4</sup>	£0	£97	£3,835	£10,340	£8,213	£7,528	£29,351
<b>Total</b>	<b>£4,125</b>	<b>£8,717</b>	<b>£19,943</b>	<b>£30,390</b>	<b>£29,817</b>	<b>£20,668</b>	<b>£112,997</b>

Source: Audit Wales analysis of Ynysawdre Community Council bank accounts

- 47 Almost all payments made by the Council during Mrs Morgan's tenure as clerk were made via bank transfers using internet banking facilities. Mrs Morgan confirmed to the police that she was the only person who had access to the log in details and therefore was responsible for initiating all payments made by bank transfer.
- 48 The remainder of this report explains how Mrs Morgan made payments to her personal accounts for which she had no legitimate entitlement to receive.

<sup>2</sup> These payments record N Morgan as the recipient. These payments are not exhaustive. For example, they do not include numerous small value payments that appear to be miscellaneous reimbursements eg travel expenses.

<sup>3</sup> The bank statements record payments to Mrs Morgan eg NKMorgan HMRC, and directly to HMRC eg HMRC PAYE XXNNNNNNX (NI number redacted).

<sup>4</sup> The bank statements identify a third party as the recipient of funds, whereas in reality the funds were transferred to Mrs Morgan's personal bank account.

## Of the £112,977 Mrs Morgan paid into her bank account, she had no contractual entitlement to receive £73,703 and the audit trail she created disguised the true nature of many of the transactions

49 My audit has identified that Mrs Morgan made payments totalling £73,703 to her personal bank accounts that, in my opinion, she was not contractually entitled to receive. These excess payments represent a significant proportion of the total payments Mrs Morgan made to her own bank accounts. In 2014-15, these payments amounted to 41% of total Council expenditure. In 2015-16 and 2016-17, they represented 52% of total expenditure.

### Exhibit 4: Excess payments made to Mrs Morgan's bank account

From July 2012 to August 2017, Mrs Morgan made excess payments from Ynysawdre Community Council's bank account to her own bank accounts totalling £73,703

Purported purpose	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Salary and benefits	£0	£2,320	£7,244	£10,325	£6,355	£6,788	£33,032
HMRC	£0	£0	£1,618	£1,725	£6,250	£2,277	£11,870
Other payments	£0	£97	£3,835	£9,615	£7,727	£7,528	£28,802
<b>Total</b>	<b>£0</b>	<b>£2,417</b>	<b>£12,697</b>	<b>£21,665</b>	<b>£20,331</b>	<b>£16,593</b>	<b>£73,703</b>

Source: Audit Wales analysis

- 50 These payments include payments that are clearly identified as being made to Mrs Morgan in relation to salary and other benefits. Based on the above data, in my opinion Mrs Morgan was not entitled to receive 46% of the payments she made related to salary and benefits.
- 51 I have significant concerns over the legitimacy of £11,870 that appears to be payments to HM Revenue and Customs and £28,802 that includes payments that appear to be made to third parties and not Mrs Morgan.
- 52 In making these payments, Mrs Morgan entered details into the Council's internet banking facility that do not reflect the nature of the transactions themselves. In this way, Mrs Morgan disguised the true nature of the payments made to her account and created a false accounting record.

53 In **Appendix 1** to this report, I set out a more detailed analysis of these payments and explanations as to why I consider that Mrs Morgan had no contractual entitlement and no legitimate reason to pay herself these monies.

## I have been unable to establish the bona fides of two cheque payments made by the Council but I believe that one payment relates to an unlawful 'loan' of £3,277 to Mrs Morgan

54 During my audit, I noted two large-value cheque payments made by the Council during Mrs Morgan's tenure as Clerk. These payments are unusual as Mrs Morgan made most other payments by bank transfer. Although there are a small number of cheques issued in the period July 2012 to July 2013, these are generally of small value (less than £250). No further cheques were issued after July 2013. The unusual payments were:

- on 29 May 2013, a cheque for £3,277 cleared the Council's bank; and
- a second cheque for the sum of £1,040 cleared the Council's bank account on 10 June 2014.

55 Due to the passage of time, the bank no longer retains copies of cleared cheques and therefore I am unable to fully conclude on the identity of the cheque payee.

56 When asked if she had borrowed money from the Council, Mrs Morgan informed the police that 'on one occasion she did borrow money from Ynysawdre however [the former chair] knew all about that... she paid off the loan by doing extra work such as watering the flowers and maintenance work around Ynysawdre... all in all she borrowed around £3,000, instead of employing a handy man or cleaner for the council she would do the work herself and pay off the debt that way. [the former chair] passed away in 2016'.

57 My examination of the Council's bank account identified only one payment of around £3,000, being the cheque for £3,277 that cleared the Council's bank account in May 2013. It appears to me to be probable that this cheque is the 'loan' referred to by Mrs Morgan.

58 My examination of the Council's minutes did not identify any Council approval of a loan to Mrs Morgan. Although Mrs Morgan claims that the former chair 'knew all about that', the former chair had no authority to approve of such a loan. As the former chair is now deceased, I am unable to confirm whether he was in fact aware of and approved this 'loan'.

59 Mrs Morgan's explanation that she repaid the 'loan' by undertaking additional work does not stand up to scrutiny. Throughout 2013, 2014 and 2015, the Council's bank accounts record numerous payments related to cleaning and maintenance including payments made to Mrs Morgan's bank account described as 'Handyman' as set out above.

- 60 Members do not recognise either of these cheque payments and there is no record in the Council minutes of such payments being made.
- 61 In my opinion, it is probable that Mrs Morgan made these cheque payments to herself.

## In addition to transfers to her own account, Mrs Morgan made a series of inappropriate transfers between Ynysawdre Community Council and Llangynwyd Middle Community Council with a net transfer to Llangynwyd Middle of £6,000

- 62 As noted above, Mrs Morgan was Clerk/RFO at both Llangynwyd Middle Community Council and Ynysawdre Community Council. At both councils, Mrs Morgan managed the bank accounts and was responsible for making all transactions from the two councils' accounts.
- 63 In 2017, Mrs Morgan transferred funds between the two councils on three separate occasions.

### Exhibit 5: funds transfers between Llangynwyd Middle Community Council and Ynysawdre Community Council

Mrs Morgan made three transfers with a net value of £6,000 in favour of Llangynwyd Middle Community Council, between accounts held by Llangynwyd Middle and Ynysawdre Community Councils.

		Llangynwyd Middle CC	Ynysawdre CC
25 April 2016	Transfer from Llangynwyd Middle CC to Ynysawdre CC	(£3,000)	£3,000
9 May 2016	Transfer from Ynysawdre CC to Llangynwyd Middle CC	£4,000	(£4,000)
3 April 2017	Transfer from Ynysawdre CC to Llangynwyd Middle CC	£5,000	(£5,000)
	Net receipt/(payment)	£6,000	(£6,000)

Source: Audit Wales analysis of bank statements

- 64 Mrs Morgan informed the police that if transfers were made between the two councils, then 'it was not intentional as when she would log in to the internet banking facility both council bank accounts would be displayed together as they were all with NatWest, if for instance she had to transfer money from Llangynwyd savings account in to the business account she may have accidentally transferred funds from one council account to the other'.
- 65 Mrs Morgan also stated to the Police that 'in the past she has paid a bill for Ynysawdre and accidentally taken it from the account of Llangynwyd however has moved the funds back, this would have been accidental and has tried to rectify it by paying the money back'.
- 66 However, Mrs Morgan's explanation does not stand up to scrutiny.
- 67 The transfers were made between the two councils' HSBC accounts and not the NatWest accounts Mrs Morgan set up at a later date (see below).
- 68 Immediately preceding the transfers between the councils on both 25 April 2016 and 3 April 2017, Mrs Morgan transferred funds from the paying council's deposit account to its current account. This provided the funds in the current account to make the transfer to the other council. As this was a two-stage process, I consider it to be highly improbable that this was an administrative error.
- 69 Furthermore, it is clear that at the point at which the 25 April 2016 and 3 April 2017 transfers were made, the receiving council was short of funds to make payments:
- immediately before Mrs Morgan transferred £3,000 from Llangynwyd Middle's account to Ynysawdre on 25 April 2016, Ynysawdre CC's current account was overdrawn by £29 and its deposit account held only £0.02. The transfer to Ynysawdre therefore had the effect of making funds available from Ynysawdre's account.
  - from 25 April 2016 until 29 April 2016, when Ynysawdre received its first precept instalment, Mrs Morgan made payments to herself from Ynysawdre's account totalling £2,453.
  - immediately before Mrs Morgan transferred £5,000 from Ynysawdre's account to Llangynwyd Middle on 3 April 2017, Llangynwyd Middle held only £4 in its current account and £11 in its deposit account. The transfer to Llangynwyd Middle therefore had the effect of making funds available from Llangynwyd Middle's account.
  - following the 3 April 2017 transfer of £5,000 from Ynysawdre to Llangynwyd Middle, Mrs Morgan made payments to herself from Llangynwyd Middle totalling £3,008 prior to Llangynwyd Middle receiving its first instalment of the precept at the end of April.
- 70 It appears to me that the funds were transferred from one council to the other simply to enable Mrs Morgan to make payments to herself from the account receiving the funds transfers.

## In April 2017 Mrs Morgan set up new bank accounts without the knowledge or authorisation of the Council and established herself as the sole account signatory

- 71 Until April 2017, the Council had two accounts open with HSBC, a current account and a deposit account. In April 2017, Mrs Morgan opened two new accounts (a current account and a deposit account) at NatWest bank.
- 72 Mrs Morgan has claimed that following the closure of the HSBC branch in Maesteg, the local branch for Ynysawdre, the Council decided to open new accounts with NatWest. She stated to South Wales Police that the Council had approved the transfer of accounts.
- 73 In interview, members of the Council stated that this matter was not discussed at a Council meeting and that they were unaware that Mrs Morgan had opened the accounts.
- 74 I have examined the Council's minutes, prepared by Mrs Morgan as Clerk, and can find no reference to Mrs Morgan being authorised to open accounts at NatWest.
- 75 Changing the Council's bank is a significant matter that I consider should have been discussed with and approved by the Council. This is of even greater importance given that no members were signatories to the bank accounts. Had such discussions taken place then the decision to change banks should have been recorded in the Council's minutes.
- 76 Therefore, I do not consider Mrs Morgan's explanation to be credible. It appears to me that Mrs Morgan acted without the knowledge or consent of the Council in opening new accounts and transferring the Council's balances to the new accounts.

Notwithstanding that the primary responsibility for the loss of £73,703 paid to Mrs Morgan and £6,000 transferred to Llangynwyd Middle Community Council lies with its former Clerk/RFO, Mrs Morgan, the Council's failure to exercise the required standards of financial management and governance throughout the period April 2013 to August 2017 enabled Mrs Morgan to make inappropriate payments to herself

### **The Council is responsible for ensuring that it has an adequate and effective system of internal control**

- 77 An internal control is a process or procedure put in place to protect assets, promote effective operations, and ensure accurate accounting and record keeping. An effective system of internal control incorporates a series of checks and balances and helps to prevent and detect errors and irregularities.
- 78 Regulation 5 – Responsibility for internal control and financial management of the Accounts and Audit (Wales) Regulations 2014 sets out that the Council must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and which includes adequate and effective financial management.

### **The Council failed to establish key internal controls that should have prevented or limited the ability for Mrs Morgan to make unlawful payments to herself**

- 79 For community councils, there are six key internal control procedures that make a system of internal control effective:
- Separation of duties
  - Access controls
  - Approval authority
  - Internal audit
  - Periodic reconciliations
  - Financial reporting and monitoring

80 **Exhibit 6** summarises where the Council’s arrangements were deficient in these areas.

**Exhibit 6: deficiencies in the Council’s system of internal control**

The Council’s procedures were weak across all areas of internal control.

Key procedures	Audit finding and impact
<p><b>Separation of duties</b></p>	<p>One of the most important aspects of an effective system of internal control is the separation of duties. In common with most small councils, the Council only employed one officer with responsibility for administering its affairs. This significantly limits the ability for the Council to separate duties related to its financial affairs eg by having one officer set up payments and another officer undertake the accounting for activities. It was therefore essential for the Council to establish alternative controls to safeguard its finances.</p> <p>The Council failed to recognise that the Council’s arrangement increased the risk of losses due to misappropriation.</p> <p>The small size of the Council means that members must take an active part in the system of internal control. However, the Council allowed its Clerk to take sole responsibility for its finances.</p>
<p><b>Access controls</b></p>	<p>The former Clerk was the only one with access to the Council’s bank account. This meant that members were unable to access the bank accounts online and identify that the former Clerk was making inappropriate payments to herself.</p>

Key procedures	Audit finding and impact
<p><b>Approval authority</b></p>	<p>The online banking arrangements established by the former Clerk meant that she was able to set up and complete payments without any form of scrutiny.</p> <p>For small councils such as Llangynwyd Middle, good practice would be to establish arrangements whereby the Clerk is able to set up a payment but the payment is not made until it is authorised by another person – usually a member. The member would be required to verify that the payment is genuine before it is approved and completed.</p> <p>A key control for smaller councils is for the Council to receive and approve a schedule of all payments made, including the provision of supporting invoices etc. The schedule may request approval for payments to be made or record payments made since the last meeting.</p> <p>Members indicated that Mrs Morgan did not provide full details of all transactions and they did not see invoices for any payments. The minutes also make clear that the Council's finances were not always discussed at Council meetings.</p>
<p><b>Internal audit</b></p>	<p>Although the Council believed it had an internal auditor, it never actually had any contact with the auditor. As noted in <b>Appendix 1</b>, it is my belief that Mrs Morgan did not engage an internal auditor and simply completed the annual internal audit reports herself, providing false assurance to the Council.</p> <p>By allowing its clerk to identify and appoint an internal auditor, the Council failed to take sufficient steps to ensure that an auditor was appropriately independent or even in fact, appointed. No steps were taken by the Council to verify the identity of the auditor nor to initiate any contact between the Council and the auditor.</p> <p>Had the Council insisted on making the appointment itself, it could have interviewed prospective applicants and ensured that the auditor was genuine.</p>

Key procedures	Audit finding and impact
<p><b>Periodic reconciliations</b></p>	<p>Periodic bank reconciliations should be carried out between the Council's cashbook and its bank account. The purpose of the reconciliation is to provide assurance over the completeness and accuracy of the transactions recorded in the cashbook. These reconciliations should be reviewed for accuracy by someone other than the preparer.</p> <p>There is no evidence available to suggest that Mrs Morgan prepared regular bank reconciliations.</p> <p>At smaller councils, it is also important to reconcile payments approved by the Council to payments recorded in the cashbook. Again, this should be completed by members rather than the Clerk. There is however no evidence to suggest that members ever looked at the accounting records in any detail. Had they done so, it is likely that the Council would have identified the inappropriate payments made by Mrs Morgan at an early stage.</p>
<p><b>Financial reporting and monitoring</b></p>	<p>It is important that the Council understands how it is spending its money and how this compares with its budget.</p> <p>Mrs Morgan appears to have presented some form of financial information to the Council on a regular basis. For example, January 2016 minutes record that 'All accounts were agreed.' The July 2016 minutes record that 'All accounts were agreed unanimously.'</p> <p>Unfortunately, no other records are available to establish what information was presented to the Council to support councillors' agreement of the accounts.</p> <p>Councillors have made clear that Mrs Morgan only provided limited information. On being presented with copies of the bank statements, Councillors stated they did not recognise the transactions recorded therein.</p> <p>Councillors made clear that they gave only cursory scrutiny to the information presented by Mrs Morgan. Greater scrutiny of the financial information provided by Mrs Morgan would likely have identified the inappropriate payments at a much earlier stage.</p>

Source: Audit Wales analysis on internal controls at the Council

- 81 The Council appears to have relied on its Clerk to properly carry out her responsibilities without any form of meaningful supervision. Its failure to introduce a sound system of internal control effectively allowed Mrs Morgan to make payments to herself that she was not entitled to receive.

# Appendix 1

## Analysis of unlawful payments made by Mrs Morgan

82 My audit has identified that Mrs Morgan made payments totalling £73,703 to her personal bank accounts that in my opinion, she was not contractually entitled to receive.

### Exhibit 7: excess payments made to Mrs Morgan's bank account

As noted in **Exhibit 4**, from July 2012 to August 2017, Mrs Morgan made excess payments from Ynysawdre Community Council's bank account to her own bank accounts totalling £73,703.

Purported purpose	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Salary and benefits <sup>5</sup>	£0	£2,320	£7,244	£10,325	£6,355	£6,788	£33,032
HMRC <sup>6</sup>	£0	£0	£1,618	£1,725	£6,250	£2,277	£11,870
Other payments <sup>7</sup>	£0	£97	£3,835	£9,615	£7,727	£7,528	£28,802
Total	£0	£2,417	£12,697	£21,665	£20,331	£16,593	£73,703

Source: Audit Wales analysis

83 The following sections of this Appendix provide further analysis and explanation of the payments made by Mrs Morgan.

<sup>5</sup> Further detail is provided in **Exhibit 8** and **paragraphs 82 to 118**.

<sup>6</sup> Further detail is provided in **Exhibit 13** and **paragraphs 119 to 134**.

<sup>7</sup> Further detail is provided in **Exhibit 14** and **paragraphs 135 to 159**.

**Notwithstanding her claim not to have a contract of employment, during her tenure as Clerk Mrs Morgan paid herself excess salary and other benefits totalling £33,032 that she was not entitled to receive under her contract of employment**

**Exhibit 8: excess salary and other payments**

Mrs Morgan paid herself a total of £33,032 of excess salary, other payroll adjustments and non-contractual allowances during her time as Clerk.

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Salary <sup>8</sup>	£0	£983	£3,837	£5,625	£2,365	£5,300	£18,109
Payroll adjustments <sup>9</sup>	£0	£700	£2,313	£3,191	£3,004	£1,000	£10,208
Non-contractual allowances <sup>10</sup>	£0	£637	£1,094	£1,509	£986	£488	£4,714
Total	£0	£2,320	£7,244	£10,325	£6,355	£6,788	£33,031

Source: Audit Wales analysis

**Although she told South Wales Police that she had no contract of employment, I have been provided with an unsigned contract setting out the terms and conditions of her employment by the Council that is consistent with the payments made to Mrs Morgan during her first year of employment**

- 84 The Clerk as an officer of the Council, is an employee of the Council. Anyone who works for an employer for a regular wage or salary automatically has a contract of employment. Although the complete contract does not have to be in writing, the employee must, as a minimum, be given a written statement of terms of employment.
- 85 Employment contracts provide clarity on the role and status of the Clerk and the remuneration arrangements for the post. Therefore, it is good practice for all Council employees to have a written contract of employment.

<sup>8</sup> Further analysis is provided in **Exhibit 9**.

<sup>9</sup> Further analysis is provided in **Exhibit 10**.

<sup>10</sup> Further analysis is provided in **Exhibit 12**.

- 86 In her statement to South Wales Police, given during their investigation into the irregularities reported to them by the Council, Mrs Morgan stated that although she was fully employed by the Council, she never signed a contract of employment.
- 87 During the course of my audit, I was provided with a copy of an unsigned contract of employment that was found in papers left at the Council's office. I have seen no reference in the Council's minutes to a contract of employment.
- 88 However, while the contract is unsigned it does refer to Mrs Morgan's salary on appointment being £5,500. No reference is made to any other allowances.
- 89 From July 2012 to March 2013. Mrs Morgan paid herself a monthly salary of £458.33, this being 1/12 of an annual salary of £5,500.
- 90 Taking this evidence into account, I do not consider Mrs Morgan's assertion to South Wales Police that she had never signed a contract of employment, to be a credible statement.
- 91 I am satisfied that the contract provided to me is an unsigned copy of Mrs Morgan's original contract of employment.

### **Mrs Morgan's contract of employment sets out the key terms of her employment including the provisions made for her remuneration, including periodic reviews of salary**

- 92 Mrs Morgan's contract of employment makes the following provisions in relation to remuneration:
- 4.1 Mrs Morgan's working hours were to be 10 hours per week.
  - 5.1 Mrs Morgan was appointed to a fixed salary of £5,500.
  - 5.1 Salary is to be paid monthly on 4th of each month.
  - 5.2 The Council would review Mrs Morgan's salary periodically, although the frequency of such a review is not specified.
  - 6.1 Annual leave was 28 days per year pro rata to Mrs Morgan's working hours. In practice this meant eight days per year.

### **From 2013 to 2017, Mrs Morgan overpaid herself salary totalling £18,109**

- 93 Throughout her employment as the Council's Clerk/RFO Mrs Morgan paid herself excessive numbers of salary payments. In total, although she only worked for the Council for 62 months, she paid herself 86 months salary. **Exhibit 9** identifies the total value and number of payments of salary Mrs Morgan paid to herself while employed by the Council.

## Exhibit 9: excess salary payments made by Mrs Morgan

From 2013 to September 2017, Mrs Morgan paid herself excess salary totalling £18,109.

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Salary paid in year	£4,125	£7,532	£10,415	£8,908	£8,083	£7,540
Number of salary payments made	9	13	17	20	15	12
Months employed by Council	9	12	12	12	12	5
Salary paid in April each year	£458.33 <sup>11</sup>	£525.00 <sup>12</sup>	£603.75	£666.67	£750.00	£815.00 <sup>13</sup>
Salary increase	N/A	15%	15%	10%	12%	9%
Estimated salary due for the year <sup>14</sup>	£4,125	£6,300	£7,245	£8,000	£9,000	£4,075
Excess payment	£0	£983	£3,837	£5,625	£2,365	£5,300

Source: Audit Wales analysis

- 94 Although Council members have confirmed that Mrs Morgan's salary was reviewed periodically, there is no evidence in the Council's minutes of any Council approval of salary increases. The minutes prepared by Mrs Morgan do not provide any detail related to her salary. Furthermore, the Council does not have any payroll records from Mrs Morgan's tenure as Clerk/RFO.
- 95 My analysis in **Exhibit 9** is therefore based on the assumption that the salary payment recorded by Mrs Morgan in April of each financial year was her approved salary. However, Council members have stated that they do not recognise the amounts paid as being her approved salary. The annual salary increases appear to be excessive and far in excess of general wage inflation and salary increase norms for the community council sector.
- 96 Mrs Morgan stated to the Police that her 'salary was agreed by the chairman who has since passed away, if there are any discrepancies then these are not intentional and were accidental'.

<sup>11</sup> This salary payment is in accordance with the unsigned contract of employment provided to me.

<sup>12</sup> For 2013-14 onwards, I have assumed that the salary payment in April each year was the salary agreed by the Council.

<sup>13</sup> £725 is the net salary for April 2017 calculated by the accountants engaged by the Council to prepare payroll calculations. Mrs Morgan paid herself £815.

<sup>14</sup> Calculated as salary paid in April x number of months employed in year. This represents the full-year salary Mrs Morgan was entitled to receive.

97 I do not consider Mrs Morgan's explanation to be credible and it does not stand up to scrutiny:

- the chairman of the Council had no authority to agree Mrs Morgan's salary without reference to the full Council;
- on 26 May 2015, Mrs Morgan paid herself twice for her May 2015 salary;
- Mrs Morgan paid herself her monthly salary on 22 September, 27 September and 28 September 2015;
- in October 2015, her salary was paid on 21 October and 28 October;
- in November 2015, her salary was paid on 9 November, 29 November and 30 November;
- Mrs Morgan's January 2016 salary was paid on 25 January and again on 28 January 2016;
- Mrs Morgan's March 2016 salary was paid on 19 March 2016, on 25 April 2016 and again on 29 April 2016; and
- Mrs Morgan paid her salary for April 2017 on 3 April, 25 April and 28 April 2017.

98 I consider it highly improbable that Mrs Morgan could have made this many duplicated payments in error.

**In addition to her basic salary, Mrs Morgan paid herself unauthorised overtime, non-contractual bonuses and back pay and other payroll adjustments totalling £10,208**

**Exhibit 10: additional payroll related payments made by Mrs Morgan**

From April 2013 to August 2017, Mrs Morgan made various salary related payments to herself totalling £10,208

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Overtime	£0	£0	£1,252	£1,326	£1,504	£0	£4,081
Bonus payments	£0	£250	£500	£1,250	£1,500	£1,000	£4,500
Backpay	£0	£279	£21	£462	£0	£0	£762
Other payroll adjustments	£0	£171	£540	£154	£0	£0	£865
<b>Total excess payments</b>	<b>£0</b>	<b>£700</b>	<b>£2,313</b>	<b>£3,191</b>	<b>£3,004</b>	<b>£1,000</b>	<b>£10,208</b>

Source: Audit Wales analysis

## Overtime payments

- 99 Through 2014-15, Mrs Morgan paid herself overtime on nine occasions. Individual payments totalled £251.68, £153.85 and £76.92. In 2015-16, Mrs Morgan paid herself overtime on seven occasions including payments of £461.94 in October 2014 and £300 in March 2015. In 2016-17, Mrs Morgan made three payments of £519.23, £259.63 and £725.00.
- 100 While it is reasonable for an overtime payment to be made in recompense for additional hours worked in excess of contracted hours, my examination of the Council minutes and such other records as were available during the audit, identified no consideration or authorisation by the Council for any overtime payments or of any additional work being undertaken by Mrs Morgan. Given the sums paid relative to Mrs Morgan's salary, I would have expected to see some reference to any additional work she was undertaking recorded in the Council's minutes.

## Bonus payments

- 101 In relation to bonus payments, the Council's minutes make no reference to any bonus payments to be made to Mrs Morgan. Mrs Morgan's contract of employment makes no provision for the payment of bonuses. Councillors were unaware of any bonus payments being made to Mrs Morgan.

## Back pay

- 102 In addition to the payments recorded as salary, each year, Mrs Morgan paid herself additional sums, recorded as back pay or payroll adjustments. It appears that these sums relate to the backdating of multiple salary increases.
- 103 My audit identified that Mrs Morgan increased her salary in a manner that was inconsistent with her contract of employment.

## Exhibit 11: backdated pay increases

In 2013-14 and 2014-15, Mrs Morgan increased her salary and backdated the increases by several months.

	Value of payment
Monthly salary July 2012 to March 2013	£458.33
Monthly salary payment April to August 2013	£525.00
Monthly salary payment September 2013 to January 2014	£575.00

	Value of payment
'Back pay' payment made 3 September 2012 <sup>15</sup>	£250.00
Monthly salary payment February to March 2014	£603.75
'Pay increase adjustment' payment made 11 February 2014 <sup>16</sup>	£28.75
Monthly salary April to June 2014	£603.75
'Pay increase amend' payment made 25 June 2014	£21.25
Monthly salary July 2014 to March 2015	£666.67

Source: Audit Wales analysis of bank statements

- 104 As noted above, from July 2012 until March 2013, Mrs Morgan paid herself a monthly salary of £458.33, in accordance with her employment contract.
- 105 Under her contract of employment, she was entitled to a 'periodic' salary review. From April 2013, Mrs Morgan paid herself a monthly salary of £525 suggesting that her salary had been increased in April 2014. However, from September 2013, she paid herself a monthly salary of £575 and backdated this to April 2013 with a £250 payment in September 2013. This increase meant that Mrs Morgan received a 25% increase in her monthly pay from April 2013 compared to her salary for March 2013.
- 106 Mrs Morgan made a further increase to her monthly salary in February 2014, increasing her monthly salary to £603.75 and backdated this to January 2014 with a payment of £28.75.
- 107 This means that Mrs Morgan increased her monthly salary three times during 2013-14.
- 108 The Council's minutes do not record any discussion of Mrs Morgan's salary or make any reference to any other payroll adjustments. Furthermore, members of the Council did not recognise that Mrs Morgan's salary was increased three times in one year with Council approval. However, members were unable to recall what salary was agreed each year.
- 109 In my opinion, Mrs Morgan was not entitled to receive:
- Increased salary payments from September 2013 and February 2014
  - Consequential payments of 'back pay' in September 2012 and February 2014
  - A 'pay increase amendment' in June 2014

<sup>15</sup> Five months additional pay of £50 for the period April to August 2013.

<sup>16</sup> One month increase for January 2014.

## Other payments

- 110 On 18 December 2013, Mrs Morgan paid herself £153.85 recorded as 'Holiday Adj'. On 18 April 2015, Mrs Morgan paid herself a further £153.85, this time recording the payment as 'NKM Wages End Year Hol Allowance'.
- 111 These payments appear to be for leave not taken. However, the Council's records do not record the approval of any of the payments.
- 112 On 19 May 2014, Mrs Morgan paid herself £540 recorded as '2013 underpayment'. However, Mrs Morgan received her full salary for 2012-13 and 13 monthly salary payments during 2013-14 along with a salary increase in excess of 25%. There is no evidence to suggest that Mrs Morgan was underpaid during 2013.
- 113 The Council's minutes do not record any authorisation of these payments. Members have confirmed that they do not recognise any payments of overtime, bonuses, back pay or other payroll adjustments.

## In addition to excess salary payments, Mrs Morgan made payments of £4,714 for non-contractual allowances and benefits

- 114 My examination of the Council's bank statements identified that Mrs Morgan made monthly payments to herself of allowances for home working and for telephone and internet. **Exhibit 8** identifies that Mrs Morgan paid herself a total of £4,714 related to these allowances.

### Exhibit 12: payments made to Mrs Morgan's bank account

From April 2013 to August 2017, Mrs Morgan paid herself a total of £4,714 related to home office and telephone/internet allowances.

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Home office allowance	£0	£605	£815	£975	£585	£455	£3,435
Telephone and internet	£0	£32	£280	£534	£400	£33	£1,279
Total	£0	£637	£1,095	£1,509	£985	£488	£4,714

Source: Audit Wales analysis

- 115 Mrs Morgan's contract of employment makes no provision for the following items:
- Home office allowance
  - Telephone allowances
- 116 Home office allowances are generally paid where the Council's Clerk is required to work from home. The allowance is intended to cover the additional costs incurred by the Clerk in working from home. These allowances are taxable if paid above a

threshold set by HM Revenue and Customs (HMRC). Mrs Morgan acting as the Council's Responsible Financial Officer did not report these taxable payments to HMRC.

- 117 Following her appointment in July 2012, Mrs Morgan made no payments of these allowances until 9 January 2014. This is in line with her contract of employment. On 9 January 2014, Mrs Morgan made three separate transactions of £165 each for home office allowance followed by £16.36 for telephone and internet.
- 118 From February 2014 until June 2014, Mrs Morgan paid herself a monthly £55 home office allowance. From July 2014, she increased this to £65 per month. Payments related to Mrs Morgan's telephone and internet were made at irregular intervals and for irregular amounts.
- 119 My examination of the Council's minutes identified no approval of these payments to Mrs Morgan.
- 120 In the absence of any contractual entitlement or evidence of approval by the Council, in my view, Mrs Morgan paid herself £4,714 that she had no lawful entitlement to receive.

**Although the Council's bank statements record payments totalling £11,870 related to HM Revenue and Customs, these payments were in fact paid directly to Mrs Morgan's bank account**

- 121 The Council's bank statements indicate that payments totalling £11,870 were made in relation to HMRC.
- 122 The bank statements record these payments as having been made to Mrs Morgan eg Nat Lloyds Bank HMRC, or directly to HMRC itself eg HMRC PAYE XXNNNNNNX (NI number redacted).

### Exhibit 13: HMRC payments made to Mrs Morgan's bank account

From 2013 to September 2017, the Council's bank statements indicate payments totalling £11,870 were made to HMRC<sup>17</sup> but were in fact paid to Mrs Morgan's bank account.

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Payments recorded as payments to Natalie Morgan	£0	£0	£200	£0	£745	£1,777	£2,722
Payments recorded as payments to HMRC	£0	£0	£1,418	£1,725	£5,505	£500	£9,148
Total payments	£0	£0	£1,618	£1,725	£6,250	£2,277	£11,870

Source: Audit Wales analysis

### Mrs Morgan was aware of the need to calculate PAYE deductions and to make payments of these deductions to HMRC

- 123 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.
- 124 In April 2017, the Council engaged the services of Rowlands and White Accountants (now Orca Financial Management Limited) to calculate its payroll. Orca Financial Management Ltd has provided copies of payslips for the Council from April 2017 to August 2017. No payroll records are available prior to April 2017.
- 125 Based on the evidence I have seen in respect of payroll and PAYE at the Council, I have concluded that neither Mrs Morgan nor the Council kept proper payroll records prior to April 2017.
- 126 My audit work at Llangynwyd Middle Community Council identified that on 10 May 2013 and 28 October 2014, Mrs Morgan made payments to HMRC's Government banking account for £330.61 and £400.00 respectively. I have not been able to establish what these payments related to.

<sup>17</sup> The bank statements record payments to Mrs Morgan eg NKMorgan HMRC and directly to HMRC eg HMRC PAYE XXNNNNNNX (NI number redacted)

127 However, while my audit identified no further payments made by Mrs Morgan to HMRC by either Ynysawdre or Llangynwyd Middle while she was Clerk/RFO, the fact that she made these payments demonstrates that she was aware of the need to deduct income tax and employee national insurance contributions from her salary, calculate employer national insurance contributions and pay these items to HMRC.

**From April 2014 to August 2017, Mrs Morgan initiated payments totalling £11,870 adding descriptions to the transactions that give the impression the payments were made to HMRC**

128 My audit identified that no payments had been made directly to HMRC between January 2015 and August 2017.

129 Notwithstanding that no payments were actually made to HMRC, the Council's bank statements record a total of 19 payments during this period that appear to be to HMRC based on the descriptions entered by Mrs Morgan.

130 Examples of the descriptions recorded in the bank statements include:

- Tax Office Ynysawdre CC
- Tax Office 615T14B
- Natalie Morgan Tax Office
- HMRC Invoice
- HMRC Fine
- HMRC Fees
- HMRC [National insurance number redacted]
- Nat Lloyds Bank HMRC

131 **Exhibit 13** identifies the total payments each year that appear to have been made to Mrs Morgan and those that appear to have been made directly to HMRC. I established that all of these payments were in fact made to accounts held by Mrs Morgan and her husband.

132 Mrs Morgan stated to the police that 'she was paying the Council's HMRC bill'. However, the transfers Mrs Morgan made to her own bank account that appear to be related to HMRC are significantly more than the amounts that should have been paid to HMRC.

133 From April 2017, the Council appointed Rowlands and White Accountants (now Orca Financial Management Ltd) to calculate PAYE deductions for Mrs Morgan. Orca Financial Management have provided me with copies of the PAYE calculations they made and confirmed that these were provided to Mrs Morgan.

134 Based on the information provided by Orca Financial Management, the total sum payable to HMRC from April 2017 to August 2017 was £1,164 compared to £2,277 recorded as paid to HMRC but actually paid to Mrs Morgan.

- 135 Extrapolating the PAYE due for April to August 2017 for a full financial year indicates that the Council's full year equivalent PAYE deductions should total approximately £2,793. This compares to payments in 2016-17 of £6,250 that were in fact paid into her personal bank accounts ostensibly related to HMRC and PAYE. I do not consider it to be credible that Mrs Morgan paid these sums into her own account in order to pay the Council's liabilities for PAYE.
- 136 In my opinion, Mrs Morgan had no contractual entitlement to receive these payments. The descriptions added to the transactions by Mrs Morgan, give a false account of the nature of the transactions. Furthermore, the Council has confirmed with HMRC, that HMRC did not receive any payments in respect of the Council.

**My audit identified a further £28,979 of irregular payments made directly to Mrs Morgan's bank account including payments recorded as paid to the Council's internal auditor and various external suppliers of goods and services**

- 137 In addition to the irregular transactions reported above, my audit identified a series of other transactions that I consider to be irregular. **Exhibit 10** summarises these payments examined during my audit. This is not an exhaustive list of payments made to Mrs Morgan's bank account:

**Exhibit 14: Irregular payments made to Mrs Morgan's bank account**

In addition to those payments reported above, from April 2013 to September 2017, Mrs Morgan made irregular payments totalling £28,979 to her personal bank account.

Description from bank statement	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Internal audit	£0	£0	£550	£600	£295	£354	£1,799
Third party invoices	£0	£97	£2,695	£1,480	£2,501	£183	£6,956
Laptop purchase	£0	£0	£0	£1,803	£1,119	£0	£2,746
Bridgend County Borough Council	£0	£0	£0	£3,177	£1,739	£0	£4,915

Description from bank statement	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Solicitor fees	£0	£0	£0	£1,349	£1,694	£0	£3,078
Other	£0	£0	£590	£1,349	£379	£6,991	£6,991
Total payments	£0	£97	£3,835	£9,792	£7,727	£7,528	£28,802

Source: Audit Wales analysis

**Although the Council appears to have engaged the services of an internal auditor from 2014 to 2017 at a total cost of £1,799, these payments were made directly to Mrs Morgan’s personal bank account**

- 138 Regulation 7 of the Accounts and Audit (Wales) Regulations 2014 requires that the Council must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control.
- 139 Following Mrs Morgan’s appointment as Clerk, each year from 2013-14 to 2015-16, the Council received a report appearing to be from an internal auditor named Sarah Lewis. The report is contained in the Council’s annual return and the annual return bears a signature purporting to be that of a Sarah Lewis. Councillors never met a Sarah Lewis.
- 140 My audit identified the following payments related to the internal audit function:

**Exhibit 15: payments recorded as related to internal audit**

The Council’s bank statements record payments related to internal audit totalling £1,792 between May 2013 and August 2017.

Date	Details recorded on bank statement	Value
3 January 2015	Audit	£275
2 February 2015	Audit Fee	£275
14 May 2015	Audit Reimbursement	£275
2 October 2015	Audit	£325
3 May 2016	Audit Ynysawdre	£295
18 April 2017	Internal auditor	£354
Total		£1,799

Source: Audit Wales analysis

- 141 My audit established that the payments recorded in **Exhibit 15** were in fact, all paid into Mrs Morgan's personal bank account.
- 142 Llangynwyd Middle Community Council's purported internal auditor for this period was also Sarah Lewis. In late 2017 and early 2018, Llangynwyd Middle Community Council attempted to locate the internal auditor but were unable to do so.
- 143 I do not consider it credible that Mrs Morgan engaged a Sarah Lewis to provide the Council with an internal audit function. It is my belief that Mrs Morgan completed the internal audit reports herself.

**The Council's bank statements record £6,956 payments apparently for third party supplies of goods and services but which were made to Mrs Morgan's personal bank account**

- 144 Between April 2013 and August 2017, Mrs Morgan transferred to her personal bank accounts a total of £6,956 that appears to relate to payments to third party suppliers. These payments include:
- Cleaning Services Community Garden £2,570
  - Payments to named individuals/companies £2,953
  - Payments to 'Handyman' £900
  - Other payments £933
- 145 These payments appear to be for third party suppliers of goods or services to the Council. Given the sums involved and that payment was made by bank transfer, in my opinion there is no legitimate reason for the payments not to have been made directly to the suppliers.

**Mrs Morgan claimed for reimbursement of three laptop purchases within a ten-month period between August 2015 and June 2016 representing an excess claim of £2,746**

- 146 On 15 July 2012, Mrs Morgan paid £455.59 to her bank account recording this as 'Laptop purchase'.
- 147 Subsequent to this acquisition of a laptop, Mrs Morgan made further payments to her personal accounts for the following sums:

## Exhibit 16: payments related to laptops, software and office equipment

Payments related to laptops, software and office equipment.

Date	Details recorded on bank statement	Value
9 July 2015	NKM Software	£229.00
27 September 2015	NKM Office Equipment	£725.00
14 November 2015	NKM Admin	£548.59
14 November 2015	NKM Admin	£548.59 <sup>18</sup>
3 February 2016	NKM Software	£299.97
9 May 2016	NKM Maplin	£99.99
16 May 2016	NKM Equipment	£409.98
29 May 2016	NKM Office	£409.98
28 June 2016	NKM Office Printer	£199.48
Total		£3,470.58

Source: Audit Wales analysis

- 148 In addition to these amounts claimed from Ynysawdre Community Council, Mrs Morgan claimed reimbursements of £548.59 from Llangynwyd Middle Community Council on 24 November 2015. Mrs Morgan also claimed £409.98 from Llangynwyd Middle Community Council for reimbursement of the cost of a laptop on 8 June 2016.
- 149 In my opinion, there is no reasonable justification for the purchase of up to five laptops within a short period of 10 months from September 2015 to June 2016. Therefore, assuming that Mrs Morgan did in fact purchase a laptop in September 2015, I consider it highly improbable that Mrs Morgan purchased a new laptop twice in November 2015 and twice in June 2016.
- 150 In my opinion, given the duplication of Mrs Morgan's claims against both Ynysawdre Community Council and against Llangynwyd Middle Community Council, in my opinion it is highly improbable that Mrs Morgan actually incurred the expenditure, as reported above, that she reclaimed from the Council.

<sup>18</sup> This is a second payment of £548.59 made on 14 November.

## **Mrs Morgan described £4,915 of payments made into her personal bank account as payments to Bridgend County Borough Council**

151 Beginning in June 2015, Mrs Morgan made a series of transactions transferring money to her personal accounts but recording a description that indicated that payments were made to Bridgend County Borough Council (BCBC).

### **Exhibit 17: payments recorded as being made to Bridgend County Borough Council**

Mrs Morgan transferred £4,915 to her personal bank accounts but recorded these payments as payments related to Bridgend County Borough Council.

Date	Details recorded on bank statement	Value
9 June 2015	BCBC 69725	£509.63
25 June 2015	BCBC Inv Tarmac	£834.01
2 July 2015	BCBC	£125.00
16 August 2015	BCBC R o W	£250.00
21 August 2015	BCBC 957821	£600.00
4 September 2015	BCBC R o W	£450.00
12 December 2015	BCBC 957974	£124.26
2 February 2016	BCBC	£283.74
3 May 2016	BCBC	£246.84
22 July 2016	BCBC	£500.00
21 August 2016	BCBC	£500.00
15 September 2016	BCBC	£492.00
Total		£4,915.48

Source: Audit Wales analysis

152 I have confirmed with Bridgend County Borough Council that no payments were received in respect of the Council at these times.

153 Each of these payments was made to Mrs Morgan's personal bank accounts. I have been unable to establish any legitimate reason for these payments to have been made. Therefore, I conclude that these payments to Mrs Morgan were not lawful payments.

## **The Council's bank statements record £3,078 payments made to Mrs Morgan's bank account as payments of solicitors' fees**

- 154 From August 2015 until January 2017, Mrs Morgan received payments she described as solicitors' fees.
- 155 My examination of the Council's minutes makes no reference to Council approval for Mrs Morgan to reclaim the costs of personal solicitors' fees from the Council.
- 156 In the absence of such approval by the Council, in my opinion, Mrs Morgan had no legitimate reason to make these payments to herself.

## **Mrs Morgan made payments totalling £9,309 that lack sufficient evidence to demonstrate she was entitled to receive the payments**

- 157 When making bank transfer payments, Mrs Morgan usually recorded some details to indicate an apparent purpose for the payment. However, Mrs Morgan made a series of payments totalling £7,656 for which she recorded no details of the purpose of the payment. These payments included:
- |                  |        |
|------------------|--------|
| • 2 May 2015     | £495   |
| • 12 July 2017   | £1,500 |
| • 17 July 2017   | £695   |
| • 24 July 2017   | £1,000 |
| • 8 August 2017  | £600   |
| • 16 August 2017 | £2,429 |
- 158 On 26 May 2015, Mrs Morgan transferred to her personal accounts £350 described as 'Donation'. On 11 January 2015, Mrs Morgan paid herself £150 describing this payment as 'Cman Allow Don'. No other information is available to indicate the intended recipients of these monies and why the recipient was not paid directly.
- 159 On 22 June 2016, Mrs Morgan claimed £18.95 reimbursement of postage costs. However, she also claimed £18.95 reimbursement of postage from Llangynwyd Middle Community Council on 28 June 2016. I consider it highly probable that Mrs Morgan made a duplicate claim for postage and was not entitled to reimbursement.
- 160 Other payments made include transactions described as:
- Admin
  - LSCC Fees
  - Allotment
- 161 In my opinion, it is highly improbable that Mrs Morgan had a legitimate entitlement to make these payments to her personal accounts.



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We welcome correspondence and telephone calls in Welsh and English.  
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