

Inadequate Financial Management and Losses to the Public Purse – Llangynwyd Middle Community Council

Audit years: 2016-17 to 2017-18

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Acting under delegated arrangements and on behalf of the Auditor General for Wales, I have issued this report under section 22 of the Public Audit (Wales) Act 2004, to draw the public's attention to significant deficiencies in financial management and governance at Llangynwyd Middle Community Council during the period April 2013 to August 2017.

These failings directly contributed to a loss to the Council in excess of £39,000 due to illegitimate payments made by the Council's former clerk, Mrs Natalie Morgan, to her own bank accounts.

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

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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 Llangynwyd Middle 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 £39,712.
- 3 In making this decision, I have taken into account representations made by the Council that it has put in place arrangements to mitigate the risk of a similar situation occurring. However, 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 this Council, there are important lessons to be learnt not just by the Council, but by all community councils in Wales.
- 4 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.

Llangynwyd Middle Community Council

- 5 The Council serves the small community of Llangynwyd Middle in Bridgend County Borough. It spends around £60,000 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.
- 6 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.
- 7 Community councils, such as Llangynwyd Middle, 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.

- 8 From April 2013 until September 2017, the Council employed Mrs Natalie Morgan (Mrs Morgan) as its Clerk and RFO. Mrs Morgan was also the Clerk/RFO for Ynysawdre Community Council from July 2012 until September 2017. Since September 2017, the Council has employed two further individuals in the role of clerk. In order to ensure clarity, where appropriate I refer to the former clerk, Mrs Morgan, by name for the remainder of this report.
- 9 Notwithstanding the role of the Clerk, by law (the Accounts and Audit (Wales) Regulations 2014 (the 2014 Regulations)), the responsibility for the stewardship of Council funds, including ensuring that 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

- 10 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.
- 11 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.
- 12 In September 2017, members of the Council drew my attention to irregularities they had identified in the Council's bank statements and concerns over a cheque payment. 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.
- 13 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.
- 14 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, the former Clerk, Mr Berry, 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 not received a response to those questions. I have also provided

her with the opportunity to comment on this document. To date, I have not received a response from Mrs Morgan.

Key findings

- 15 On the basis of the work my team has undertaken, I am satisfied that there has been a significant loss to the public purse.
- 16 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
- 17 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.
- 18 I am unable to conclude why the records required for the audit are no longer available.
- 19 My provisional findings and views are that 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 Llangynwyd Middle Community Council. In particular, 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.
- 20 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.
- 21 **Exhibit 1** shows that as a direct consequence of this failure, the Council incurred a significant financial loss of £39,712. This loss is offset by unlawful transfers of money from Ynysawdre Community Council to Llangynwyd Middle Community Council.

Exhibit 1: loss incurred by Ynysawdre Community Council

Between April 2013 and September 2017, Llangynyd Middle Community Council incurred a loss of £39,712 offset by an unlawful transfer of funds from Ynysawdre Community Council of £6,000¹.

Excess payments made by Mrs Morgan	(£39,712)
Net transfer of funds from Ynysawdre Community Council	£6,000
<hr/>	
Net loss incurred by Llangynwyd Middle Community Council	(£33,712)

Source: Audit Wales analysis

- 22 I calculate that in the period July 2012 to September 2017, Mrs Morgan made non-contractual payments to herself totalling £39,712. In my opinion, Mrs Morgan had no legitimate entitlement to make and receive these payments.
- 23 In addition to non-contractual payments made to herself and/or her husband, Mrs Morgan also unlawfully transferred funds between Llangynwyd Middle Community Council and Ynysawdre Community Council. The effect of these unlawful transfers was a net transfer of £6,000 in favour of Llangynwyd Middle.
- 24 Further significant losses to the public purse were incurred at Ynysawdre Community Council.

Recommendations and next steps

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

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

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 a 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 all members receive training in order for them to adequately discharge their responsibilities particularly in regard to financial management and governance.
- R5 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.
- R6 The Council should consider whether it should seek recovery from Mrs Morgan, of the £39,712 that she was not entitled to receive.
- 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.

- 26 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
 - the introduction of a new system of internal control with greater scrutiny of the Council's finances
 - the appointment of an external company providing payroll services
 - the establishment of a Council office in the Maesteg Town Council offices allowing on-site secure storage of key documentation.
- 27 I will examine the effectiveness of the arrangements made by the Council during future audits.

Next steps

- 28 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.
- 29 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.
- 30 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.
- 31 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

- 32 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.
- 33 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 the legal requirements and proper practices.
- 34 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.
- 35 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

- 36 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.
- 37 The scope of my audit was curtailed by the significant gaps in the records available to me. Initial enquiries of the former Clerk, Mr Berry and councillors indicated that

Mrs Morgan had not returned council records. Mrs Morgan has however stated that she returned all council records to the Council.

- 38 As a consequence of the loss of the records I was unable to examine third party supporting documents to vouch the majority of transactions in order to verify the legitimacy of the payments made.
- 39 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.
- 40 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.
- 41 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.
- 42 My audit identified numerous irregularities and these are described in more detail below.

From April 2013 to August 2017 Mrs Morgan made payments to her personal bank accounts totalling £73,282

- 43 My audit identified £73,282 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 April 2013 to August 2017, Mrs Morgan transferred £73,282 from Llangynwyd Middle Community Council's bank account to her own bank accounts

	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Payments related to Mrs Morgan's salary & employment benefits ²	£8,856	£13,610	£11,306	£10,878	£8,735	£53,385
Payments recorded as related to HM Revenue and Customs ³	£0	£227	£2,399	£3,244	£3,217	£9,087
Other payments including those recorded as paid to third parties ⁴	£0	£2,029	£1,877	£4,627	£2,277	£10,810
Total	£8,856	£15,866	£15,582	£18,749	£14,229	£73,282

Source: Audit Wales analysis of Llangynwyd Middle Community Council bank accounts

- 44 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.

² 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.

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

⁴ 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 £73,282 Mrs Morgan paid into her bank account, she had no contractual entitlement to receive £39,712 and the audit trail she created disguised the true nature of many of the transactions

- 45 My audit has identified that Mrs Morgan made payments totalling £39,712 to her personal bank accounts that in my opinion, she was not contractually entitled to receive. These payments represent a significant proportion of the total payments Mrs Morgan made to her own bank accounts. Between 2014-15 and 2016-17, these payments accounted for between 18% and 25% of total Council expenditure each year.

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

From April 2013 to August 2017, Mrs Morgan made excess payments from Llangynwyd Middle Community Council's bank account to her own bank accounts totalling £39,712

Purported purpose	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Salary and benefits	£1,956	£6,365	£3,306	£3,078	£5,110	£19,815
HMRC	£0	£227	£2,399	£3,244	£3,217	£9,087
Other payments	£0	£2,029	£1,877	£4,627	£2,277	£10,810
	£1,956	£8,621	£7,582	£10,949	£10,604	£39,712

Source: Audit Wales analysis

- 46 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 37% of the payments she made related to salary and benefits.
- 47 I have significant concerns over the legitimacy of £9,087 that appears to be payments to HM Revenue and Customs and £10,810 that appears to be payments made to third parties and not Mrs Morgan.
- 48 The Appendix to this report provides a more detailed analysis of the illegitimate payments made by Mrs Morgan.

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

- 49 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.
- 50 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

- 51 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.'
- 52 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.'

- 53 However, Mrs Morgan's explanation does not stand up to scrutiny.
- 54 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).
- 55 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.
- 56 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.
- 57 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

- 58 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. The deposit account was opened in the name 'N Morgan Llan Council'.

- 59 Mrs Morgan has claimed that following the closure of the HSBC branch in Maesteg, the local branch for Llangynwyd Middle, the Council decided to open new accounts with NatWest. She stated to South Wales Police that the Council had approved the transfer of accounts.
- 60 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.
- 61 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.
- 62 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.
- 63 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 £39,712 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

- 64 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.
- 65 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

- 66 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.
- 67 **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>Separation of duties</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>

Key procedures	Audit finding and impact
<p>Access controls</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>
<p>Approval authority</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. This is supported by the November 2016 minutes recording that: 'It was requested that a full breakdown of expenditure spreadsheet be provided each month.' However, the Council appears not to have followed this up to ensure it received the information requested.</p>
<p>Internal audit</p>	<p>Although the Council believed it had an internal auditor, it never actually had any contact with the auditor. As noted in Appendix 1, it is my belief that Mrs Morgan did not engage an internal auditor but 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</p>

Key procedures	Audit finding and impact
	<p>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>
<p>Periodic reconciliations</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>Financial reporting and monitoring</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 informed the police that 'the finances were discussed maybe twice a year and she was never asked to account for anything.'</p> <p>Mrs Morgan appears to have presented some form of financial information to the Council on a regular basis. For example, January 2015 minutes record that 'the financial records were put before the Council.' The November 2016 minutes record that an 'exact breakdown of the accounts was provided along with a list of recent transactions.' The Council's minutes record that the Council approved the records. Unfortunately, no other records are available to establish what information was presented to the Council.</p>

Key procedures	Audit finding and impact
	<p>Councillors have made clear that Mrs Morgan only provided limited information to Council meetings. 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 of internal controls at the Council.

- 68 I am informed that the Council had a Finance Committee whose role was to scrutinise the Council's finances. However, there are no minutes available of any meetings of such a committee. Therefore, I am unable to determine how the committee scrutinised the work of the Clerk.
- 69 The Council appears to have relied on its Clerk to properly carry out her responsibilities without any form of meaningful supervision. It's 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

70 My audit has identified that Mrs Morgan made payments totalling £39,712 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 3**, from April 2013 to August 2017, Mrs Morgan made excess payments from Llangynwyd Middle Community Council's bank account to her own bank accounts totalling £39,712

Purported purpose	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Salary and benefits ⁵	£1,956	£6,365	£3,306	£3,078	£5,110	£19,815
HMRC ⁶	£0	£227	£2,399	£3,244	£3,217	£9,087
Other payments ⁷	£0	£2,029	£1,877	£4,627	£2,277	£10,810
	£1,956	£8,621	£7,582	£10,949	£10,604	£39,712

Source: Audit Wales analysis

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

⁵ Further analysis is provided in **Exhibit 8**

⁶ Further analysis is provided in **Exhibit 13**

⁷ Further analysis is provided in **Exhibit 14**

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 £19,814 that she was not entitled to receive under her contract of employment dated 9 December 2013

Exhibit 8: excess salary and other payments

Mrs Morgan paid herself a total of £19,815 of excess salary, other payroll adjustments and non-contractual allowances during her time as Clerk

	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Salary ⁸	£632	£3,170	£908	£283	£3,915	£8,908
Payroll adjustments ⁹	£577	£2,099	£1,377	£1,848	£1,000	£6,901
Non-contractual allowances ¹⁰	£747	£1,096	£1,021	£947	£195	£4,006
Total	£1,956	£6,365	£3,306	£3,078	£5,110	£19,815

Source: Audit Wales analysis

Although she told South Wales Police that she had no contract of employment, on 9 December 2013 Mrs Morgan signed a contract of employment setting out the terms and conditions of her employment by the Council

- 72 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.
- 73 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.

⁸ Further detail is provided in **Exhibit 9**

⁹ Further analysis is provided in **Exhibit 10**

¹⁰ Further analysis is provided in **Exhibit 12**

- 74 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.
- 75 However, this assertion does not stand up to scrutiny and is not supported by the evidence I identified during the audit.
- 76 During the course of my audit, I was provided with a copy of a contract of employment signed by the former Clerk/RFO, Mrs Morgan on 9 December 2013. The contract identifies that Mrs Morgan was employed from 1 April 2013.
- 77 Mrs Morgan's employment from 1 April is supported by a salary payment made to her in April 2013.
- 78 The Council minutes for its meeting held on 9 December 2013 record the following:
'132.14 Employment Contract
The Clerk advised previously provided all Councillors with a proposed employment contract. All were in agreement with this contract and it was duly signed.'
- 79 The Council's minutes were approved as a true record of the meeting at its next meeting held in January 2014. The minutes were prepared by the former Clerk/RFO, Mrs Morgan.
- 80 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.
- 81 I am satisfied that the contract provided to me is Mrs Morgan's original contract of employment, that it sets out in full, the terms and conditions of employment agreed by the Council and Mrs Morgan was only entitled to receive payments that are specifically set out in the contract.

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

- 82 Clause 6 of Mrs Morgan's contract of employment makes the following provisions in relation to remuneration:
- Mrs Morgan was appointed to a single salary point although the contract specifies neither a specific salary point on a salary scale or the amount of salary agreed.
 - the council would review Mrs Morgan's salary before the start of each financial year.
 - salary is to be paid monthly on 28th of each month.
- 83 Clause 6 also provided that any travel, mileage and subsistence expenses incurred by Mrs Morgan and approved by the Council would be paid at the agreed HMRC rates laid down at the time. Clause 9 sets out that Mrs Morgan's working hours were to be 15 hours per week.

From 2013 to 2017, Mrs Morgan overpaid herself a salary totalling £8,908

- 84 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 53 months, she paid herself 63 months salary.
- 85 **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 £8,908

	2013-14	2014-15	2015-16	2016-17	2017-18
Salary paid in year	£7,532	£10,415	£8,908	£8,083	£7,540
Number of salary payments made	13	13	13	11 ¹¹	9
Months employed by Council	12	12	12	12	5
Salary paid in April each year	£575.00 ¹²	£603.75	£666.67	£650.00 ¹³	£725.00 ¹⁴
Salary increase	n/a	5%	10%	n/a	9%
Estimated salary due for the year ¹⁵	£6,900	£7,245	£8,000	£7,800	£3,625
Excess payment	£632	£3,170	£908	£283	£3,915

Source: Audit Wales analysis

¹¹ Mrs Morgan paid her February and March 2017 salary in April 2017.

¹² As this was Mrs Morgan's first salary payment I have assumed that this represents the salary agreed with the Council.

¹³ Mrs Morgan paid herself £750 in April 2016 but from May 2016 to December 2016 paid herself £650 monthly. In January 2017, Mrs Morgan paid herself £725.

¹⁴ £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.

¹⁵ 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.

- 86 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.
- 87 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.
- 88 Mrs Morgan stated to the Police that 'if there are any discrepancies then these are not intentional and were accidental'. I do not consider Mrs Morgan's explanation to be credible and it does not stand up to scrutiny:
- Mrs Morgan paid her March 2014 salary on 18 March 2014. She then made further salary payments for April 2014 on 1 April and 28 April 2014. Her salary for May 2014 was paid on 24 May 2014.
 - her salary for August 2014 was paid on 13 August and 23 August 2014
 - her salary for January 2015 was paid on both 13 January and 23 January 2015
 - Mrs Morgan's salary for March 2015 was paid on 23 March and again on 25 March 2015
 - her salary for January 2017 was paid twice on 27 January 2017
 - on 3 April 2017, Mrs Morgan paid her February, March and April 2017 salary. She had received no salary payments in February or March 2017. On 30 April 2017, she paid herself her April salary for the second time.
 - her salary for May 2017 was paid on 30 April and again on 18 May 2017.
 - Mrs Morgan paid her July 2017 salary on both 4 July and 28 July 2017.
- 89 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 £6,901

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 £6,901

	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Overtime	£0	£1,190	£308	£48	£0.00	£1,546
Bonus payments	£250	£500	£750	£800	£1,000	£3,300
Backpay	£115	£64	£0.00	£0	£0.00	£179
Other payroll adjustments	£212	£345	£319	£1,000	£0.00	£1,876
Total excess payments	£577	£2,099	£1,377	£1,848	£1,000	£6,901

Source: Audit Wales analysis

Overtime payments

- 90 Mrs Morgan's contract of employment makes no provisions for the payment of overtime.
- 91 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.
- 92 Mrs Morgan informed the police that she did not receive any overtime payments.

Bonus payments

- 93 Mrs Morgan's contract of employment makes no provision for the payment of bonuses.
- 94 Mrs Morgan informed the police that she received annual bonuses that were agreed during a 'finance meeting.' Mrs Morgan stated that she received one bonus payment each year and 'maybe twice on one occasion.'
- 95 Although the Council's minutes record the award of a bonus to the Council's park warden, no reference is made to any bonus payments to be made to Mrs Morgan.
- 96 My audit also identified that Mrs Morgan paid herself bonus payments more frequently than those paid to the park warden. Mrs Morgan received two bonus

payments in 2014-15, three in 2015-16, three in 2016-17 and two in just five months in 2017-18.

Back pay

- 97 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 salary increases and payments of holiday.
- 98 Mrs Morgan's contract provides for one annual review of salary. Clause 6 of Mrs Morgan's contract of employment states:
- '6. You have been appointed to a single salary point and the Council will review your salary annually before the beginning of the new financial year. The Salary is on the anniversary of your appointment.
- 6.1 Your salary will be paid by standing order at monthly intervals to reach your bank or Building Society on the 28th of the month.
- 6.2 Your salary will be reviewed annually at the beginning of the Financial Year.'
- 99 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

	2013-14	2014-15
First payment of higher salary	February 2014	July 2014
Backdated adjustment to	October 2013	April 2014

Source: Audit Wales analysis of bank statements

- 100 As noted above, from April 2013 until January 2014, Mrs Morgan paid herself a monthly salary of £575. Under her contract of employment, she was entitled to a salary review commencing April 2014. However, in February and March 2014, she paid herself an increased salary of £603.75.
- 101 On 11 February 2014, she paid herself £28.75, recorded as 'Wage increase adj' on the bank statement, £28.75 being the difference between £603.75 and £575.00. On 22 February 2014, Mrs Morgan paid herself a further £86.25 (3 x £28.75) recorded as 'ADJ Oct – Dec'.

- 102 Mrs Morgan paid herself £603.25 in April¹⁶, May and June 2014. From July 2014, she paid herself a monthly salary of £666.67. On 25 June 2014, she paid herself £63.75 recorded as 'Pay rise Apr – Jun'.
- 103 Mrs Morgan effectively awarded herself a significant salary increase within six months of taking up employment and a second pay rise just two months after the first.
- 104 The Council's minutes do not record any discussion of Mrs Morgan's salary or make any reference to any other payroll adjustments. Although councillors have confirmed that Mrs Morgan's pay was reviewed annually, they also stated that the pay awards were effective only from April in each financial year and were not backdated. Members were unable to recall what salary was agreed each year.
- 105 In my opinion, Mrs Morgan was not entitled to receive:
- backdated pay for the period for the period October 2013 to January 2014
 - an increased salary payment in February and March 2014
 - an increased salary paid from July 2014 and backdated to April 2014

Other payments

- 106 On 17 June 2014, Mrs Morgan paid herself £345 recorded as 2013 missed payment. However, Mrs Morgan received her full salary for 2013.
- 107 In April 2015, Mrs Morgan made two payments totalling £319.32 described as 'End 2015/2015' and 'End yr hol accrue'. These payments appear to be for leave not taken but were not approved by the Council.
- 108 On 14 February 2017, Mrs Morgan transferred £1,000 to her personal bank account. The Council's bank statement simply records this as 2016/2017. There is no record of this payment in the Council's minutes.
- 109 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 £4,006 for non-contractual allowances and benefits

- 110 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 12** identifies that Mrs Morgan paid herself a total of £4,006 related to these allowances.

¹⁶ Mrs Morgan paid herself £603.75 on 1 April, 28 April, 24 May & 24 June 2014.

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

From April 2013 to August 2017, Mrs Morgan paid herself a total of £4,006 related to home office and telephone/internet allowances

	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Home office allowance	£715	£815	£780	£650	£195	£3,155
Telephone & internet	£32	£281	£241	£297	£0	£851
Total	£747	£1,096	£1,021	£947	£195	£4,006

Source: Audit Wales analysis

- 111 Mrs Morgan commenced making these payments for a home office allowance and telephone and internet costs in May 2013, shortly after she was appointed. It is reasonable to expect that if these payments were approved by the Council, then they would have been included in the contract of employment signed by Mrs Morgan in December 2013. However, Mrs Morgan's contract of employment makes no provision for these payments.
- 112 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. I note that, notwithstanding that she had no legitimate entitlement to these allowances, Mrs Morgan, acting as the Council's finance officer, failed to ensure that these benefits were subject to tax.
- 113 In the absence of any contractual entitlement or evidence of approval by the Council, in my view, Mrs Morgan paid herself £4,006 that she had no lawful entitlement to receive.

Although the Council's bank statements record payments totalling £8,394 related to HM Revenue and Customs, these payments were in fact paid directly to Mrs Morgan's bank account

- 114 The Council bank statements indicate that payments totalling £8,394 were made in relation to HM Revenue and Customs.
- 115 The bank statements record these payments as having been made to Mrs Morgan, eg NKMorgan HMRC, or directly to HM RC 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 £8,394 were made to HMRC¹⁷ but were in fact paid to Mrs Morgan's bank account.

	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Payments recorded as payments to Natalie Morgan	£0	£0	£359	£1,915	£2,750	£5,024
Payments recorded as payments to HMRC	£0	£227	£2,040	£1,329	£467	£4,063
Total payments	£0	£227	£2,399	£3,244	£3,217	£9,087

Source: Audit Wales analysis

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

- 116 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.
- 117 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 both of the Council's employees from April 2017 to August 2017. No payroll records are available prior to April 2017.
- 118 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.
- 119 The Council's bank statements record payments that appear to be made to HMRC.
- 120 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.

¹⁷ The bank statements record payments to Mrs Morgan, eg NKMorgan HMRC and directly to HMRC, eg HMRC PAYE XXNNNNNNX (NI number redacted).

121 My audit identified no further payments made by Mrs Morgan to HMRC while she was Clerk/RFO. The fact that she made these payments does however demonstrate that she was aware of the need to deduct income tax and employee national insurance contributions from salary payments, calculate employer national insurance contributions and pay these items to HMRC.

From November 2014 to August 2017, Mrs Morgan initiated payments totalling £8,394 adding descriptions to the transactions that give the impression the payments were made to HMRC.

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

123 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.

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

- Tax Office 615Y14
- Natalie Morgan Tax Office
- HMRC [National insurance number redacted]
- HMRC PAYE [National insurance number redacted]
- Natalie Morgan PAYE
- HMRC PAYE/Pension

125 **Exhibit 9** 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.

126 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.

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

128 Based on the information provided by Orca Financial Management, the total sum payable to HMRC from April 2017 to August 2017 was £271.55 compared to £3,217 recorded as paid to HMRC but actually paid to Mrs Morgan.

129 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 £650. This compares to in excess of £2,000 recorded by Mrs

Morgan as payments to HMRC in both 2015-16 and 2016-17 that were in fact paid into her personal bank accounts.

- 130 In my opinion, Mrs Morgan had no contractual entitlement to receive these payments. The descriptions added to the transaction 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 £10,810 of irregular payments made directly to Mrs Morgan's bank account including payments recorded as paid to the Council's internal auditor and the Council's Park Warden

- 131 In addition to the irregular transactions reported above, my audit identified a series of other transactions that I consider to be irregular. **Exhibit 14** 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, the Mrs Morgan made irregular payments totalling £10,810 to her personal bank.

Description from bank statement	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Internal audit	£0	£239	£550	£295	£708	£1,792
Third party invoices	£0	£550	£0	£420	£0	£970
Park warden	£0	£1,240	£250	£0	£0	£1,490
Laptop purchase	£0	£0	£549	£410	£0	£959
BCBC	£0	£0	£0	£2,937	£0	£2,937
Fees	£0	£0	£100	£546	£0	£646
Other	£0	£0	£428	£19	£1,569	£2,016
Total payments	£0	£2,029	£1,877	£4,627	£2,277	£10,810

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 £1,792, these payments were made directly to Mrs Morgan’s personal bank account

- 132 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.
- 133 The bank statements record a £275 fee paid on 15 April 2013 to Ridgeway Associates for internal audit services. Ridgeway Associates were previously engaged as internal auditor by Mrs Morgan’s predecessor.
- 134 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.
- 135 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
24 April 2014	Auditor travel 30 ¹⁸	£13.50
4 February 2015	Natalie Morgan Audit	£225.00
11 May 2015	Lewis Accountancy LMCC Audit	£275.00
17 December 2015	Lewis Accountancy LMCC Audit	£275.00
3 May 2016	Audit Audit Llan MCC	£295.00
11 April 2017	Internal auditor	£354.00
18 April 2017	Internal auditor	£354.00
Total		£1,791.50

Source: Audit Wales analysis

- 136 My audit established that the payments recorded in Exhibit 11 were in fact, all paid into Mrs Morgan’s personal bank account.

¹⁸ No fee was paid for an internal audit between May 2013 and February 2015 and therefore I consider it improbable that Mrs Morgan incurred any travel costs related to the audit in April 2014.

- 137 In late 2017 and early 2018, the Council attempted to locate the internal auditor but were unable to do so.
- 138 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 £970 payments apparently for third party supplies of goods and services but which were made to Mrs Morgan's personal bank account

- 139 In 2014-15 and 2015-16, Mrs Morgan transferred the following sums to her personal bank account:
- 29 July 2014. £400 described as Natalie Morgan Birds of Prey Show.
 - 31 July 2014. £150 described as P Jenkins Invoice.
 - 11 June 2016. £420 described as 'website'.
- 140 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.

The Council's bank statements record a total of £1,490 as being paid to the Council's park warden but which were in fact paid into Mrs Morgan's bank account

- 141 In addition to Clerk/RFO, the Council employs a Park Warden. My audit identified that Mrs Morgan made seven payments with a total value of £1,490.34 that appear to have been made to the Park Warden between September 2014 and May 2015. These payments are described on the bank statements as bonuses and overtime.
- 142 Notwithstanding that the bank statements record the payee as the Park Warden, I established that these were in fact made directly to Mrs Morgan's bank account.
- 143 Given that arrangements were already in place for the payment of the Park Warden's salary, there is no legitimate reason for Mrs Morgan to make payments to her own account for payroll related transactions for the Park Warden. During my audit, I found no evidence to suggest that the Council was aware of or approved these payments.

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 £1,048

- 144 Mrs Morgan claimed for the cost of a laptop on three occasions in 2015-16 and 2016-17. On 6 August 2015, Mrs Morgan claimed £499 from the Council for the purchase of a laptop. On 24 November 2015, she claimed a further £548.59, again

for the purchase of a laptop. A third claim for £409.98 for a laptop was made on 8 June 2016.

- 145 In addition to these amounts claimed from Llangynwyd Middle Community Council, Mrs Morgan claimed two reimbursements of £548.59 from Ynysawdre Community Council on 14 November 2015. Mrs Morgan also claimed £409.98 from Ynysawdre Community Council for reimbursement of the cost of a laptop on 16 May 2016 and again on 25 May 2016.
- 146 The Council's minutes of its 11 January 2016 meeting record:
'The clerk advised a new laptop was needed shortly and it was agreed that the same should be purchased.'
- 147 The minutes of the Council's 8 February 2016 meeting record:
'The clerk also advised she was in desperate need of a laptop. The previous PC was kept by the former clerk and the current clerk has, for the past three years used her own personal laptop however this is in need of upgrading. This to be looked at in April.'
- 148 In my opinion, there is no reasonable justification for the purchase of three laptops within a short period of 10 months from August 2015 to June 2016. Therefore, assuming that Mrs Morgan did in fact purchase a laptop in August 2015, I consider it highly improbable that Mrs Morgan purchased a new laptop in November 2015 and again in June 2016.
- 149 It is also clear to me that at the January and February 2016 meetings, Mrs Morgan did in fact mislead the Council as to the need for her to purchase a new laptop.
- 150 In my opinion, Mrs Morgan's claim for reimbursement of £549 in November 2015 was not a legitimate claim.
- 151 It is also clear to me that Mrs Morgan made duplicated claims for reimbursement to Ynysawdre Community Council. It therefore seems likely to me that the reimbursement claimed in June 2016 was also unlawful.

Mrs Morgan described £2,937 of payments made into her personal bank account as payments to Bridgend County Borough Council

- 152 On 18 April 2016, Mrs Morgan made a payment of £1,000 recorded on the bank statement as BCBC Llan.
- 153 Mrs Morgan also initiated three transactions in January 2017, recording each transaction as NKMorgan BCBC:
- 16 January 2017 - £1,346.85
 - 27 January 2017 - £295.00
 - 27 January 2017 - £295.00
- 154 I have confirmed with Bridgend County Borough Council that no payments were received in respect of the Council at this time.

155 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 £646 payments made to Mrs Morgan's bank account as payments of fees

156 On 18 November 2015, Mrs Morgan made a payment of £100 to her own account described as 'Fees' on the Council's bank statement. I have not been able to establish what fees were payable by the Council.

157 In February 2017, Mrs Morgan transferred £546 to her bank account, describing the transaction as Natalie Morgan One Voice Wales. One Voice Wales is the national representative body for community councils in Wales. The majority of community councils are members and pay membership fees. However, I have confirmed with One Voice Wales that the Council was not in membership at this time and One Voice Wales did not receive £546 from either the Council or Mrs Morgan.

158 In my opinion, Mrs Morgan had no lawful reason to make these payments to herself.

Mrs Morgan made four payments totalling £2,016 that lack sufficient evidence to demonstrate she was entitled to receive the payments

159 On 19 November 2015, Mrs Morgan made a transfer to her personal bank account of £427.92. This transaction is simply described as 'Chq' on the Council's bank statement.

160 On 19 July 2017 Mrs Morgan transferred £1,000 from the Council to her personal bank account. On 25 July 2017, she transferred a further £569.19. The Council's bank statements do not record any detail related to these transactions. In interview, council members stated they did not recognise these payments.

161 On 28 June 2016, Mrs Morgan claimed £18.95 reimbursement of postage costs. However, she also claimed £18.95 reimbursement of postage from Ynysawdre Community Council on 22 June 2016. I consider it highly probable that Mrs Morgan made a duplicate claim for postage and was not entitled to reimbursement.



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