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SWYDDFA **ARCHWILIO** CYMRU

Plas Madoc Communities First

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**Report presented by the Auditor General to the National
Assembly on 17 March 2010**



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- 1 This report sets out the findings from an investigation by the Assembly Government's Internal Audit Services into allegations made against Plas Madoc Communities First (PMCF). In carrying out its investigation, the Internal Audit Service was supported throughout by an experienced financial auditor from the Wales Audit Office.
- 2 The detailed Internal Audit report is at **Appendix 1**. The matters raised in the Internal Audit report have been referred to the North Wales Police for consideration.

Plas Madoc Communities First is a company limited by guarantee and a registered charity

- 3 Communities First is the Assembly Government's flagship programme to tackle deprivation and improve the living conditions and prospects for people in the most disadvantaged communities across Wales. The programme was launched in 2001, since when the Assembly Government has spent over £220 million on the programme. There are some 180 designated Communities First areas throughout Wales.
- 4 Plas Madoc is a housing estate located seven miles south west of Wrexham that is home to approximately 1,800 people. The estate is served by PMCF, a company limited by guarantee and a registered charity. PMCF was created in 2003 and took over responsibility for delivering Communities First in Plas Madoc from a partnership that had been established and led by Wrexham County Borough Council.
- 5 The directors of PMCF are also charity trustees for the purposes of charity law and, under the company's Articles of Association, are known as 'Members of the Council of Management' of the company. Under the requirements of the Memorandum and Articles of Association, the Members of the Council of Management are elected to serve until required to retire by rotation every three years. The day-to-day responsibility for the management of PMCF rests with the Co-ordinator, with responsibility for financial control resting with the Finance and Monitoring Officer. PMCF employs 21 members of staff, but it also receives support from volunteers and from voluntary and not-for-profit organisations.
- 6 PMCF's principal source of income is from the Assembly Government via its Communities First programme. PMCF also receives grant funding from other sources, including The Big Lottery Fund, Waste Recycling Environmental Limited, the Arts Council of Wales, The Youth Charity, the Heritage Lottery Fund, Awards for All and Wrexham County Borough Council (in respect of the Little Sunflowers Playgroup and Nursery). Annual income for the Partnership is around £735,000, with grants from the Assembly Government, at over £500,000 per annum, representing the largest proportion.

A third party has raised concerns about the governance of PMCF

- 7 On 31 May 2009, an individual who had been engaged by PMCF to provide support to residents on the Plas Madoc estate wrote to the Auditor General expressing concerns about PMCF's management and her treatment as a contractor. The individual alleged that there was 'a clear manipulation and misrepresentation of funds within this [Assembly Government] funded project'. She and a colleague, who at the time was also a director and trustee of PMCF, explained that they had written to the Assembly Government Communities First Unit earlier in 2009 raising a range of concerns, and that the Unit had referred them back to PMCF to resolve the issues of concern. The Assembly Government told us that this was in accordance with their usual practice for the initial handling of such issues.
- 8 At around this time, the Wales Audit Office was concluding an examination of whether the Assembly Government was effectively managing the Communities First programme to deliver value for money, and published a report in July 2009.¹ The report did not focus on the Assembly Government's monitoring of the financial management and governance of individual Communities First partnerships, although it did set out some of the inherent risks to the effective financial management and governance of partnerships.
- 9 In August 2009, senior officials at the Assembly Government asked its Internal Audit Service to carry out a detailed investigation of PMCF. Given the nature and potential severity of the allegations made against PMCF, the (then) Auditor General decided that the Wales Audit Office should support the Internal Audit investigation.

The audit investigation found a fundamental lack of financial control and governance at PMCF

- 10 The audit was led by the Assembly Government's Internal Audit Services, with support from an experienced financial auditor from the Wales Audit Office. The Assembly Government's Communities First Unit, responsible for the overall administration of the programme, co-operated fully and welcomed the review as an impartial means of investigating the complaints received about the governance and operations of PMCF.
- 11 An interim audit took place in September 2009, with the findings presented to senior Assembly Government officials in November 2009. The interim report concluded that there had been significant and fundamental failures in the control and governance framework within PMCF and recommended that Assembly Government officials should take immediate remedial action to safeguard the assets within PMCF and improve the financial control framework.
- 12 The Assembly Government's Internal Audit Services, with continued specialist support from the Wales Audit Office, then carried out a fuller and more detailed review of the financial controls and associated governance processes in place within PMCF. The report of this review is at **Appendix 1**.
- 13 The Internal Audit report confirms the fundamental failings in the governance of PMCF identified by the interim audit. These failings permeated the whole of the operations of the Partnership and suggest that those charged with responsibility for governance had little regard to recognised standards in public life or the need to achieve value for money from public funds. The report concluded that a significant change of culture

¹ *Communities First*, a report presented by the Auditor General to the National Assembly on 9 July 2009

within the organisation is required, not least because many of the PMCF representatives interviewed during the audit continually referred to the 'culture of generosity' that has been created for staff and their associates. This generosity with public funds applied to PMCF trustees, employees and their families and friends.

The Assembly Government took swift action to address the governance weaknesses at PMCF as soon as the interim audit had been completed

- 14** As soon as the interim audit report became available in November 2009, Assembly Government officials met the Chair of the PMCF Board of Trustees to share the findings of the investigation. Subsequently, the PMCF Board decided that two members of staff (the Co-ordinator and the Finance and Monitoring Officer) should be suspended without prejudice, pending the outcome of subsequent investigations. The PMCF Board also took action, including the engagement of independent human resource consultants, to remedy some of the weaknesses identified in the interim report and also to safeguard PMCF's assets.
- 15** The Assembly Government also held urgent discussions with PMCF and other local agencies, including Wrexham County Borough Council, with the aim of safeguarding key services as far as possible under strengthened or changed management arrangements. Changes included the provision of funding in monthly instalments and the transfer of the operation of PMCF's payroll to the Association of Voluntary Organisations in Wrexham.

Failings at PMCF had not been addressed for a number of years

- 16** It is clear from the Internal Audit report that the underlying failings in financial management and governance at PMCF had existed to varying degrees for a number of years, and most likely ever since the Partnership was formed in 2003. Over a six-year period, the Assembly Government's monitoring arrangements failed to address serious shortcomings at PMCF. This raises the possibility that similar deficiencies may have occurred at other Communities First partnerships, and further Assembly Government Internal Audit work to address this risk is outlined in paragraph 36 of this report.
- 17** The remainder of this report is concerned with wider governance issues, including the effectiveness of monitoring arrangements established by the Assembly Government to safeguard public funds entrusted to Communities First partnerships. It also sets out the actions taken by Assembly Government officials to ensure that the failings at PMCF do not happen again.

The Assembly Government should have monitored the financial management and governance of Communities First partnerships more effectively

18 Before 2007, monitoring of Communities First partnerships was based on quarterly reports linked to payments and six-monthly progress reports intended to provide a broader overview of progress. The six-monthly reports covered:

- a** the Community Vision;
- b** the Partnership;
- c** key achievements for the year;
- d** barriers to progress;
- e** support received; and
- f** programme bending (ensuring money and support from various public programmes and organisations are directed to Communities First areas).

19 The quarterly reports covered progress against targets, with direct reference to the breakdown of funding (such as the work of individual members of staff and the progress of specific projects). All payments to Communities First partnerships were made quarterly, subject to receipt of a satisfactory progress report.

20 In 2007, the monitoring arrangements were changed, and there are now two key elements:

- a** an Annual Monitoring Report submitted by each partnership by 1 May, which triggers an Annual Monitoring Visit from the Assembly Government's Regional Implementation Team; and
- b** quarterly monitoring in relation to the payment process.

21 In addition, where representations are made to the Assembly Government about financial and governance issues, these are referred to the relevant Communities First regional implementation team. The Assembly Government told us that this had happened a number of times and that the issues were normally resolved locally.

22 As a registered charity with annual income exceeding £500,000, PMCF is required to have an annual external audit of its accounts. PMCF engaged a local firm of accountants and auditors to perform this function. The external auditors, at the request of PMCF's Finance Officer, also maintained the Partnership's fixed asset register. We understand that the external auditor identified certain internal control weaknesses in PMCF's financial management and reported these concerns in their Annual Audit Letter addressed to the company. It has not been a requirement for Communities First partnerships to forward external audit reports or letters to the Assembly Government, although this possibility is now being considered as part of the Assembly Government's wider Communities First Governance Review.

- 23** The external auditor's formal relationship is with PMCF's Board of Trustees (who are designated as 'those charged with governance'), but in practice the auditor's actual relationship has only been with PMCF's Finance Officer. However, the Finance Officer did not relay the auditors' reports to the trustees and the auditors did not make further endeavours to report their findings directly to those charged with governance. For their part, the trustees failed to obtain an appropriate level of financial reporting from their Finance Officer or any assurances directly from their external auditor.
- 24** The Assembly Government relies heavily upon the grant certification work of reporting accountants (these are usually the external auditors), through their testing of a sample of transactions, to confirm that expenditure has been incurred on items eligible for Communities First funding. In some cases, a large proportion of grant funding is for the salaries of employees. Some private sector reporting accountants (as in the case of PMCF) have therefore opted to restrict their grant certification testing to cover salaries and little else. As a result, the Assembly Government was not made aware through the grant certification process of any serious concerns relating to failings in financial management and control at PMCF, because of the focus on salary costs as part of the assurance process.
- 25** It is evident that the Assembly Government's routine monitoring arrangements for Communities First partnerships were not effective in identifying the financial management and governance failings at PMCF. Also, the external audit and grant certification arrangements in respect of PMCF were insufficiently robust, both in terms of remit and reporting requirements, to provide an appropriate level of assurance to the Assembly Government that public funds were

being properly applied and value for money obtained. The Assembly Government's report on the wider governance of Communities First partnerships includes a recommendation that 'the Audit Certification Instructions should be strengthened to ensure that expenditure in addition to salary costs should be covered where possible by audit testing to ensure that only costs eligible are incurred'. However, there is considerable scope to improve external audit and grant certification assurances in other areas, for example in areas such as the composition and independence of the Board, ethical standards and proper procurement policies and procedures.

The Assembly Government should have responded more effectively to concerns about PMCF brought to its attention by third parties

- 26** PMCF was established as an independent organisation in 2003, and in 2006 the Partnership ended its reliance on the governance processes previously provided by Wrexham County Borough Council. Since 2006, with Grant Recipient Body status, PMCF has been funded directly by the Assembly Government.
- 27** Many of the weaknesses identified within the Assembly Government's Internal Audit report at **Appendix 1** had previously been revealed by Wrexham County Borough Council's own internal auditors during a visit to PMCF in April 2003, when the Council was the Grant Recipient Body and therefore responsible for exercising oversight of the Partnership. However, most of the failings raised in a report dated May 2003 were attributed by the Wrexham County Borough Council internal auditors to an administrator who had already left the Partnership, and to a Treasurer who had resigned during the course of the audit. The Wrexham County Borough Council Internal Audit report concluded that

'a back-to-basics approach was required now that a Co-ordinator and new Administrator had been appointed, to ensure that records are properly completed, payments are appropriate and properly authorised and equipment is identified and effectively recorded in a suitable inventory'.

- 28 PMCF provided a response to the 2003 Internal Audit report, which endeavoured to satisfy the Council's internal auditors that appropriate remedial action had been taken. Both the internal audit report and the PMCF response were forwarded to the Assembly Government's Community First Unit. The Assembly Government has no evidence of any subsequent follow-up work being undertaken by the Council's internal auditors.
- 29 Although there was some correspondence from the new Co-ordinator and Company Secretary clarifying some issues in respect of governance arrangements, no action was taken by the Assembly Government's Communities First Unit in respect of the concerns raised in the Council's Internal Audit report. The Assembly Government told us that during 2004 significant organisational and personnel changes were taking place within the Communities First team responsible for overseeing the programme in North Wales. In January 2005, Wrexham County Borough Council (which was still then the Grant Recipient Body) wrote again to the Assembly Government's Community First Unit, expressing a range of concerns about financial arrangements, recruitment procedures, the Board structure, community accountability, governance and insurance issues. A further Council Internal Audit review was mooted, but did not take place.
- 30 The Assembly Government told us that in 2006 there were extensive discussions between its Communities First Unit and

Wrexham County Borough Council representatives, regarding the establishment of PMCF as a Grant Recipient Body in its own right with effect from 1 April 2006. In February 2006, the Assembly Government had requested a range of information from PMCF, prior to the transfer of Grant Recipient Body responsibility to the company. However, it is unclear from Assembly Government records how much information PMCF actually provided and also the extent to which it was scrutinised by Assembly Government officials.

- 31 The concerns raised by the third party in 2009 related in part to an employment dispute with PMCF. Concerns had also been raised by one of the Partnership's trustees and also by the Association of Voluntary Organisations in Wrexham. These related to wider governance issues within PMCF, including allegations about the conduct of the Co-ordinator and other senior managers.
- 32 It is understandable that officials within the Assembly Government's Communities First Unit should not wish to become involved with an employment dispute within the Partnership, and it is clear that their actions were in line with what was widely-established practice across the Communities First programme. It is also apparent that the Head of the Communities First Unit had impressed upon the Chairman of PMCF the importance to the Partnership of being able to resolve locally challenges of this nature. Assembly Government officials told us that the complainants did not initially follow the advice that they provided on how best to progress their concerns about the conduct and governance of the Partnership, and that this delayed further consideration by the Assembly Government of their concerns. In the absence of a published complaints policy, there is a risk that concerns of this nature are not resolved satisfactorily.

33 The third party approached the Auditor General with concerns not only about the Partnership, but also about wider governance of the Communities First programme, including that exercised by the Assembly Government. A key aspect of any system of governance and accountability is the existence of arrangements whereby complaints and allegations (including from staff) are investigated in line with a published complaints procedure including, if necessary, recourse to an independent third party. Such arrangements had not been effectively established by the Assembly Government's Communities First Unit.

The Assembly Government is taking steps to minimise the risk of the serious problems at PMCF being repeated and remaining undetected at other Communities First partnerships

34 In response to the interim Internal Audit report, the Director of the Social Justice and Local Government Department formally commissioned a wider Governance Review of the Communities First programme. The review was undertaken by officials within the Local Government Finance Division and was overseen by a Review Group that has met three times, most recently in February 2010. Also, in response to the final Internal Audit report, the Assembly Government's Director-General for Public Services and Local Government Delivery wrote to his counterparts across all Assembly Government departments, highlighting the key issues raised in the report and requesting an urgent review of any implications for the appropriate directorates.

35 The report of the Governance Review was submitted to directors within the Assembly Government's Department for Public Services and Local Government in January 2010. The report includes 22 recommendations to strengthen the overall governance framework of the Communities First programme, and is accompanied by the results of a mapping exercise which summarises the funding routes and management arrangements currently in place for the Communities First programme.

36 In response to the Governance Review, the Communities First Unit has prepared a management response and action plan. The plan sets out actions to be delivered as part of the planned second phase of the Governance Review later this year. These will include detailed Assembly Government investigations of other 'high-risk' Communities First partnerships, following the completion of Internal Audit's work in Plas Madoc.

37 The guidance published by the Assembly Government in 2007 will also be updated in response to the Governance Review. The early stages of this work by the Communities First Policy Team, is focusing on the most critical elements of the guidance, particularly those relating to finance and governance.

38 The Assembly Government told us that it intends to benchmark the standards required of stakeholders in the Communities First programme against the 'Seven Principles of Public Life' set out in the 1995 report of the Committee on Standards in Public Life (the 'Nolan principles'). The practical implications of this will be considered further, for example in respect to the revision of the programme guidance and a review of roles within the Communities First Unit. An important element will be further training for Communities First partnerships and staff on governance issues

and on the Nolan principles in particular. This has already begun, via the Communities First Training Service provided by the Wales Council for Voluntary Action.

39 In addition to the Assembly Government's planned investigations into high-risk partnerships, a rolling programme of due diligence checks will be instituted across the programme. Such checks are already carried out for organisations applying to become Grant Recipient Bodies for Communities First, but these will be supplemented by retrospective checks for existing Grant Recipient Bodies. In the first instance, a governance questionnaire has been sent to all Grant Recipient Bodies for completion in respect of every Communities First partnership. These are due for return to the Communities First Unit by 17 March 2010.

40 Hitherto there has been significant reliance placed by Assembly Government officials on the results of grant certification testing by independent reporting accountants, which must be carried out annually in respect of each Communities First partnership, with certificates submitted to the Assembly Government alongside annual claims for project funding. The majority of grants are certified by the Wales Audit Office, whilst the remainder (including PMCF) are certified by private sector firms of accountants. All grants testing is performed in accordance with Certification Instructions, which are issued by the Wales Audit Office to their auditors and separately by the Assembly Government to the private sector firms. The content of these instructions has been reviewed in draft jointly each year by the Wales Audit Office and Assembly Government officials, with the instructions for the private sector firms being based closely on those agreed with the Wales

Audit Office. In light of the PMCF experience, the Assembly Government's Grant Certification Instructions will now be further reviewed, with increased stress placed on the importance of reporting accountant reviews of non-staff costs and management systems.

41 The Assembly Government also intends to review the roles of Communities First Unit staff in relation to the promotion of good governance, with reference to the Nolan principles. It also anticipates that the overall structure of the Unit will need to be revised to take account of any implications arising from the review, with consideration needing to be given to a clearer separation between the officials with responsibility for day-to-day programme management and monitoring and those with responsibility for ensuring that consistent standards of accountability are being maintained. The Assembly Government will also consider the need for additional training.

Appendix 1 – Assembly Government Internal Audit Services report: investigation into allegations made against Plas Madoc Communities First



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

Background

1. In November 2009 the Welsh Assembly Government's Internal Auditors (IAS) and the Auditor General for Wales issued a joint interim report on the investigation into allegations made against Plas Madoc Communities First (PMCF). The claims made were wide-ranging and in some cases specific in terms of detail. They related to governance, financial management and value for money with an underlying concern that PMCF was being run in a manner in which some Board Members and senior staff were benefitting directly from the way in which public monies were being applied.

Interim Report

2. The interim report concluded that there were significant and fundamental failures in the control and governance framework within PMCF and recommended that Assembly Government officials should take immediate remedial action to safeguard the assets within PMCF and improve the financial control framework. Following the issue of the interim report to the Director General for Public Services and Local Government Delivery, Welsh Assembly Government, officials met with the Chair of the Board to share the findings of the investigation. Subsequently the PMCF Board of Trustees decided that due to the nature of the findings, two members of staff (the Coordinator and Finance/Monitoring Officer) should be suspended without prejudice, with immediate effect pending the outcome of all appropriate subsequent investigations. Furthermore, we are aware that PMCF officials also took action to remedy some of the weaknesses identified in the interim report (for example several mobile phones were "blocked" as a result of the findings in the interim report).
3. In response to the interim report, the Welsh Assembly Government took immediate action to safeguard the funding provided to PMCF by moving to a monthly grant payment profile instead of the usual quarterly payments, and by ensuring that the payroll provision was no longer delivered by PMCF; instead, the Association for Voluntary Action in Wrexham (AVOW) took responsibility for this process and IAS has provided advice to PMCF staff on some aspects of the control framework. We are also aware that more recently PMCF have engaged Human Resource (HR) specialists to provide advice and support in respect of some specific HR matters.

4. Following the issue of the interim report, it was also agreed that the Welsh Assembly Government's Internal Audit Services, with continuing support from an experienced financial auditor from the Wales Audit Office, would conduct a full and detailed review of the financial controls and associated governance processes in place within PMCF. This report outlines the findings of the review.
5. It should be noted that the findings contained within this report supersede all findings from the interim report.

Approach

6. At the initial stage of the investigation, PMCF's financial records dating from April 2006 to September 2009 were examined. Following an extensive review of the records, interviews were held with current PMCF staff and Board Members to seek explanations for our initial findings.
7. The two officers suspended without prejudice were also interviewed and the findings put to them to enable them to explain and clarify the issues which had been identified. These interviews have been formally documented and agreed with the two interviewees.
8. It should be noted that in order to gain an understanding of the overall framework of financial control operating within PMCF, our review was not restricted to Communities First funding.
9. During the course of our work we have regularly updated North Wales Police with our findings and now that our fieldwork has concluded we have referred this matter to the Police for the consideration of possible criminal activity. As PMCF is a registered charity we have also been liaising with the Charity Commission over this matter and will continue to do so as the findings in the report are taken forward.
10. The detailed section of the report includes matters relating to child support payments and taxation issues. These matters have been brought to the attention of the relevant agencies and we are currently liaising with the Child Support Agency and HM Revenue and Customs (HMRC) over these issues.
11. We would like to record our thanks for the help and cooperation provided by all staff and Board Members within PMCF during the course of our investigation, particularly the Chair of the Board, the Acting Coordinator and Company Secretary.

Overall Conclusion

12. In summary, our audit work has shown that there has been a fundamental lack of control and governance within Plas Madoc Communities First (PMCF). The Board within PMCF has not been providing the necessary strategic direction and leadership for the organisation and they have failed to undertake an appropriate scrutiny of the work of its paid officials. Managers and Board Members do not understand their stewardship responsibilities and our findings have shown that there appears to have been little regard for the Standards of Public Life or achieving Value for Money with public funds. A significant change of culture within the organisation is required, particularly as it was concerning to note that the people interviewed during the course of our review continually commented on the "Culture of Generosity" that has been created for staff within PMCF. This generosity within PMCF has, in our view, been at the detriment of those individuals in the local community who were meant to benefit from the public funds allocated to the Communities First programme.

13. Our review has shown that the Board has not effectively discharged its duties. As Trustees of PMCF the Board has, and must accept, ultimate responsibility for directing the affairs of the organisation, and ensuring that it is solvent, well-run, and meeting the needs for which it was set up. However we found that the Board within PMCF has not provided sufficient leadership, direction or challenge, particularly in respect of financial matters. They did not receive basic financial information about the affairs of the partnership and there was a lack of financial expertise or skills amongst Board Members combined with little appreciation of good governance. This undoubtedly contributed to the failing control framework.
14. The Coordinator played a minimal role in the management of the financial processes within PMCF and relied almost exclusively on the Finance Officer advising her if “something went wrong”. In her view she was good at preparing bid submissions and securing funding and so long as the funding was not exceeded she was content that the finances were being effectively managed. Placing reliance on reactive rather than preventative controls does not represent good governance and exposes the organisation to fundamental and significant risks. Furthermore, the Coordinator is, in the opinion of those interviewed, a strong character who, due to the ineffectiveness of the Board, has not been effectively managed. Many of the detailed findings show that the Coordinator acted with complete autonomy from the Board which had little or no awareness of the actions that she was taking, particularly in respect of the expenditure incurred by PMCF.
15. Similarly, the Finance Officer had almost complete autonomy for finance processes including the payroll process, although he stated during the investigation that his role had no stewardship responsibilities. (However, it should be noted that a review of his job description showed that there are stewardship roles and responsibilities contained within it.) Furthermore, there was a complete absence of segregation of duties in respect of the key financial systems such as the payment process or payroll, with the Finance Officer having sole responsibility for these processes.
16. The issue with payroll has now been addressed with payroll provision being taken on by AVOW. In addition, the Finance Officer has not attended Board meetings for some considerable time despite repeated requests and invites by the Board. It was also of concern to note that Board Members and the Coordinator appeared unsighted on the contents of the annual Management Letters, produced by PMCF-appointed auditors. The Finance Officer claimed that he had shared the contents with the Treasurer; however this was disputed by several Board Members, including the Treasurer himself. Our findings show that no remedial action has ever been taken to address weaknesses identified in the Management Letters.
17. It was also of concern to discover during the audit process that many of the weaknesses identified through our work had previously been identified by Wrexham County Borough Council’s (CBC) Internal Auditors during a visit in April 2003, when Wrexham CBC were the Grant Recipient Body (GRB). Plas Madoc provided a response to the internal audit report, however it is unclear if any follow up action was ever taken. The internal audit report and associated response were forwarded to the Welsh Assembly Government’s Community First Unit. However, it is uncertain if the contents of the report were ever considered when PMCF was awarded Grant Recipient Body status by the Welsh Assembly Government in 2006.
18. Whilst there are considerable weaknesses in the control framework it should also be recognised that PMCF has achieved some success in delivering its Communities First objectives and the community is benefiting from the programme and projects being delivered by PMCF. It should also be noted that

since the suspension of two key members of staff, staff within PMCF have strived to ensure the continued delivery of the programmes and projects and have begun to remedy some of the control weaknesses identified in our interim report.

19. With the exception of the governance failings at Board, Co-ordinator and Finance levels, it is our opinion that PMCF has shown that at an operational level it can deliver its objectives and could continue to do so if supported by a more effective Board and robust financial control framework.
20. Our detailed findings are contained within Annex A the report.

Future Considerations

21. We are aware that there are several options available in respect of the future of PMCF. Whilst it is not within the scope of this review to determine what happens to PMCF funding from the Assembly Government, we are of the opinion that PMCF should not retain its GRB status and continue to receive Communities First Funding unless:
 - A new Board is appointed. Whilst it may be impracticable to dissolve the entire Board, it is vital that new members are appointed who are equipped with appropriate financial skills and expertise;
 - A more robust financial control framework is implemented within PMCF. This should include:
 - o The effective segregation of duties between those staff involved in financial processes.
 - o More effective financial reporting to the Board including remuneration issues.
 - o Greater transparency of financial decision making.
 - o More effective financial management, particularly in respect of petty cash.
 - The new Board will need to ensure that they undertake regular training to keep up to date with governance issues and subjects relevant to PMCF's work;
 - The new Board will need to ensure that the operations of PMCF are conducted with due regard to the Seven Principles of Public Life set out in the Nolan Report (1995)
 - o Public Service;
 - o Leadership;
 - o Selflessness;
 - o Integrity;
 - o Objectivity;
 - o Honesty;
 - o Accountability and Stewardship.

ANNEX A

DETAILED FINDINGS

Payments to Family Members

22. Our investigation revealed a number of payments to non-PMCF staff members. We sought clarification of who these people are and many are related to the Coordinator. We are aware that several of the Coordinator's family members receive payments from PMCF for services provided, with one being directly employed. The details of these costs are:
- Brother 1 received a mobile phone from PMCF, incurring costs of £1,460, the details of which are outlined below in para. 28. We found no evidence that he provides any services to PMCF or any reason why he should be in possession of this phone and be able to incur charges which are then paid by the partnership.
 - Brother 2 receives payments from PMCF to maintain the PMCF caravan sited in Rhyl. The details of the caravan are outlined in para 56. Furthermore, this individual has a PMCF mobile phone (para 28). We are aware that Brother 2 has undertaken some work for PMCF, primarily through his involvement with the Plas Madoc's Got Talent event for which he received a payment of £2,000 in 2008 (jointly with his partner as outlined below). We are not aware of any other services he has provided to PMCF, although we do know that he travelled to the Gambia as part of PMCF's Gunjur project. Discussions with staff within PMCF have shown it is unclear what Brother 2's role was in respect of the Gunjur Project. The Coordinator stated that Brother 2 had fully repaid the cost of the trip to PMCF, although our testing and discussions with the Finance Manager showed no evidence of this.
 - Brother 3 provides Brazilian Ju Jitsu training. Since March 2006 he has received £40,615 for the delivery of this training. The invoices submitted for Ju Jitsu training also contain an element for petrol/wear and tear of his vehicle, however our findings showed that he is also claiming fuel through PMCF's account with a local fuel supplier (Para 38).
 - Brother 2's partner is an actress and has been delivering drama classes within PMCF since December 2006. During this period she has received £22,000 for the delivery of the classes. She has also been paid for her appearance at Plas Madoc's Got Talent (£499.00 in 2007 and £2,000 in 2008, although the 2008 payment was for her and Brother 2's appearance). Brother 2's partner has also been claiming fuel both through the Arval fuel card and the local fuel supplier account as outlined in para 35. We also noted that during the same period that she was receiving payment for delivery of the drama classes, another organisation was also providing drama lessons within PMCF. This was explained by the Coordinator as one of the classes having a greater focus on certain aspects of drama.
 - The Coordinator's Husband has also received a payment of £319.00 for comparing and singing at two PMCF events. This is despite the Coordinator claiming both at interview and to the Board that her Husband received no payment for his services. It was suggested that the payment reflected the availability of the husband's broadcasting equipment during the events. The Coordinator's Husband also had a PMCF mobile phone (para 28).

23. We sought explanations for the appointment of the Coordinator's family members and were informed by the Coordinator that Brother 3 was the best possible supplier of Brazilian Ju Jitsu as he was European Champion and no one else in the area would be able to supply these services. This sport, in the view of the Coordinator, is more concerned with self control which was of benefit to the attendees from the local community. Similarly by using Brother 2's partner, a well known actress to deliver drama classes it encouraged and inspired more young people to participate.
24. Whilst we accept that these individuals have delivered services to PMCF, we consider that the payments made have been excessive. Also during the course of our review it became apparent that the Board were not initially aware of the use of the Coordinator's family members and they certainly did not approve such appointments. Instead, Board Members became aware at a later stage of the relationship between the individuals and the Coordinator. More significantly, the Board was completely unsighted on the level of payments being made to the Coordinator's family members.
25. Both of the Finance Officer's daughters are employed by PMCF, enjoying considerable benefits in kind such as driving lessons and the use of mobile phones (including call charges) as detailed in para 30.
26. We are also aware that:
- Brother 3's partner works within PMCF.
 - The Chair's son has worked for and received payment from PMCF.
 - The Coordinator's Personal Assistant and Company Secretary's father is a Board Member.
 - A Board Member's wife is employed as a Play/Early Years Participation Officer by the partnership. The same Board Member is also employed by PMCF.
 - The Caretaker is married to a trainer who provided large numbers of courses to the partnership.
27. Whilst it is accepted that in small communities, friends and relatives are often employed by the same organisation, it is of vital importance that there is transparency and openness when such appointments are made. In the case of PMCF it is evident that the use of family members by the Coordinator has not been fully disclosed to the Board and in particular the level of payments and benefits which have been received by the individuals concerned.

Mobile Phones

28. Our review of invoices showed that a significant amount of expenditure has been incurred on mobile phone bills by PMCF. Further testing of this area revealed that there was evidence of mobile phones being allocated to non-PMCF staff. The following costs had been incurred by the Coordinator's family members:
- Husband - £800 (Feb 2008 – Sept 2009).
 - Brother 1 - £1,460 (April 2007 – Sept 2009) - Av £50 pm.
 - Brother 2 - £530. (Dec 2008 – Sept 2009).

29. This was queried with the Coordinator who admitted that she had given the phones to her family members as handsets had been offered “free” by the phone companies. We indicated that whilst the handset was free there was a cost incurred with line rental/calls. The Coordinator stated that PMCF was given bundles of free minutes and with one exception she had not been made aware that any other cost has been incurred. She did admit that on one occasion the Finance Officer had raised the issue of Brother 2’s phone costs and she had asked that this phone be blocked. Our testing showed that this phone had not been blocked. When discussing phone costs with the Finance Officer he stated that he was aware that mobile phones had been allocated to the Coordinator’s family but as she was his line manager he didn’t feel able to query it. He also stated that she had never requested, nor had he provided, any information on phone costs. The Board Members were unaware that non-PMCF staff had mobile phones.
30. Further testing of mobile phones held by PMCF staff demonstrated that considerable costs had been incurred as outlined below:
- Staff member 1 – £3,611 (April 2008 – Oct 2009) - £116 pm.
 - Staff member 2 - £3,202 (April 2008 – Oct 2009).
 - Coordinator - £2,631 (April 2008 – Oct 2009) - £80pm.
 - Finance Officer – £524 (Annual cost).

It should be noted that all mobile phones costs incurred within PMCF were reviewed and the ones outlined above are the only ones considered excessive.

Staff member 1 and 2 are the Finance Officer’s daughters, who are both employed by PMCF.

31. The level of mobile phone bills was discussed with the Finance Officer. He stated that he was aware that the costs were high but considered it to be a “perk of the job”. Similarly it was queried why individuals who were office based, required a mobile phone. Again it was stated that this was a “perk”. The Coordinator appeared unsighted on the high level of mobile phone costs and said that in the past she had blocked phones when charges appeared high and could not be explained by individuals. The Coordinator does not receive any information on the level of costs incurred by PMCF on mobile phones. Similarly the Board were unsighted on the level of mobile phone charges.

Fuel/Petrol/Diesel

32. PMCF has three different methods for incurring expenditure on fuel (e.g. petrol and diesel).
- Staff can reclaim any amounts spent through Plas Madoc’s travel and subsistence systems;
 - There are fuel “credit cards” used (Arval), which can be handed over at any garage to pay for fuel; and
 - There is an account set up with a local fuel supplier.
33. Our testing showed that staff used all three methods to obtain fuel; however there are no formal procedures in place to outline how these systems should operate.

34. Furthermore, our findings showed that there is no reconciliation to ensure that staff reclaiming money through the T&S system are not also claiming through the local fuel supplier or using a fuel credit card. We undertook testing in this area and found no evidence of staff “double claiming,” but it should be noted that due to the lack of controls over the three mechanisms for claiming fuel we cannot provide assurance that double claiming has not occurred.
35. Our testing showed that since April 2008 £6,102.14 has been incurred on Arval cards. The vast amount of expenditure (£4,129.52) has been incurred by the Arval card held by the Coordinator. Further review showed that the majority of the expenditure was incurred in the Manchester/Bolton area by a vehicle owned by the Coordinator’s Brother 2’s partner. The Coordinator explained that she had given her brother 2’s partner the card, to obtain fuel as she was delivering drama classes to PMCF. This was despite our findings showing that an element of fuel had been included on the invoices for drama lessons.
36. The Finance Officer also had a fuel card which had incurred costs of £1,300. This was put to the Finance Officer who claimed that this was a “perk of the job.”
37. Our findings also showed that two PMCF company vehicles have also used a card for legitimate business purposes.
38. It was very difficult to audit the invoices received from the local fuel supplier as the invoices includes a statement showing a list of signatures of people who have signed for fuel which is difficult to decipher. Since April 2006 £25,198 has been spent at the local fuel supplier and we were able to determine that considerable amounts were being purchased by the Coordinator’s family. These included
 - Brother 3 - £1,633.98. This individual also claimed fuel costs through his invoices to PMCF.
 - Husband - £1,365.19. All sorts of vehicles but mostly PMCF vehicles.
 - Brother 2 and/or partner = £513.
39. Upon querying this with the Coordinator she stated that Brother 3 claimed fuel as he travelled in excess of the amounts contained on his invoices. (The same explanation was offered for Brother 2 and partner).
40. We also queried with the Coordinator why the invoices were paid when they contained “blanks” where people had taken fuel but had not signed for it. She said that she didn’t have sight of any of the payments made for fuel and was not sure why this would have occurred. The Finance Officer offered no explanation for this and the Board were unsighted on fuel costs.
41. During our site visit we were also informed by the Finance Manager that staff use the fuel card or the account with the local fuel supplier to obtain fuel for personal use. We were told that everyone does this and it is considered a “perk” of the job. The Coordinator disputes that this takes place and assured us that staff are aware that they should not obtain fuel for personal use. As there is no process or evidence of management review to confirm that the fuel costs incurred are only for official business we can gain no assurance over this area.

Payroll

42. Prior to the transfer of the payroll function to AVOW, PMCF operated both a weekly and monthly payroll for staff. Those on the weekly payroll submitted timesheets which were then processed by the Finance Officer and those on the monthly payroll were paid a standard monthly sum.
43. Our findings showed that there was a complete absence of segregation of duties with regard to the operation of the payroll with the Finance Officer having sole responsibility for administering and managing the payroll.
44. Of more significant concern was our testing of the weekly payroll system which showed that the Finance Officer paid staff even though the majority of timesheets were not authorised. Furthermore, he processed and paid his own daughter's timesheets. We also obtained evidence that he created timesheets on behalf of his daughter or paid her without any timesheet. At interview he confirmed that this had happened and stated the reason he paid other staff who had submitted unauthorised timesheets was that people relied on the money and there was only a short window of opportunity for processing the timesheets.
45. The Finance Officer by authorising his own daughter's timesheets, has exposed himself to criticism particularly as we are aware that he has created timesheets on behalf of his daughter before processing and paying her wages. This represents a fundamental failure in the existence of segregation of duties and exposes the organisation to significant criticism of nepotism and preferential treatment.
46. We also found there was no clear and transparent audit trail demonstrating the hourly rates which were applicable to staff. A review of timesheets and the corresponding payroll showed that various rates were applied to various members of staff. Whilst we accept that staff are paid different rates for different posts and at different times of the day, we consider that there should be far greater transparency in the rates which are used.
47. We were informed that they use JNC pay scales for weekly and monthly paid staff although PMCF pays above the average for the sector, as this encourages commitment and retention of staff.
48. We also found evidence of one member of staff being paid twice by submitting two timesheets which indicated that she had been undertaking two jobs at the same time. This had not been detected by any management checks.
49. It was also of concern to note that volunteers are paid an hourly rate. Our understanding is that volunteers should only be paid sums to cover their expenses rather than a waged amount.
50. Our findings showed that the Chair of the Board's Son has worked intermittently for PMCF. It was a concern to note that he appeared to buy a laptop and software, for which he was then reimbursed through payroll. He left PMCF shortly afterwards and we could find no evidence that the laptop was returned.

Child Support Agency Issues

51. During our visit we ascertained that the Finance Officer's salary is paid part through the payroll and then he invoices PMCF for the balancing amount via his own Company. When querying the reasoning behind this, we were informed by the Finance Officer that he had done this to artificially deflate his salary figures for Child Support Agency (CSA) assessment purposes. Furthermore, our testing showed that since April 2008 £3046.41 worth of payments had been made directly to the CSA from PMCF. We were informed by the Finance Officer that they related to his own CSA liability and he was intending to repay the amounts back to PMCF in the future. He stated that some repayment had already occurred. Our testing showed that £1,989.20 had been recovered from the Finance Officer's salary, leaving a shortfall £1,057.21. The Finance Officer stated that he was aware of the shortfall and the CSA were re-assessing his payment levels and he was confident that this would resolve the issue.
52. The Coordinator stated that she was aware of the new payment/payroll arrangements for the Finance Officer's salary however she was not aware of the issues regarding the CSA payments. IAS are progressing this matter with the CSA, particularly in view of the apparent measures taken to artificially deflate the salary figures.

Loans to staff

53. Our audit testing showed that staff within PMCF had been provided with interest-free loans from PMCF, which were approved by the Coordinator. Whilst a schedule was maintained outlining who owed loans and the repayments that had been made, there was no formal policy or agreement as to how the lending of money to staff should be managed and administered. We saw evidence of loans being repaid through the payroll although it was evident that some members of staff had not repaid the amount owed and had left PMCF. The Finance Officer admitted that there were outstanding debts which were unlikely to ever be recovered. We are unable to quantify the full amount of debt outstanding due to the nominal amounts of money which are sometimes loaned to staff through petty cash; however we believe the overall sum to be less than £2,000.
54. We asked the Coordinator what the purpose of these loans was and she said that loans were given, with her agreement, to staff who were in need of them for various reasons. For example the Coordinator had taken one of her loans from PMCF to pay for a holiday. The Coordinator stated that she was unaware that some individuals had not repaid loans, as she undertook no review of the loans process.
55. The provision of loans to staff, particularly when there is no formal policy, does not represent good financial practice and moreover exposes PMCF to considerable criticism if the "loan scheme" is not made available to all employees.

Caravan

56. PMCF has use of a caravan sited at Rhyl, which is rented out to residents of Plas Madoc to provide an opportunity to the less fortunate members of the community to have a holiday. Our findings showed that there is some uncertainty over who owns the caravan; although we found evidence that a site fee and hire fee are paid annually by PMCF for the apparent rent of an eight berth caravan. The Coordinator claims that the caravan is owned by PMCF, whilst the Finance Officer originally asserted that the caravan was rented from the Coordinator's brother. However, during the latter stages of our investigation he stated that it appeared that PMCF owned the caravan and the payments made to the Coordinator's brother were to maintain the caravan.
57. Our findings showed that a £6,000 fee was paid to the Coordinator's brother on an annual basis for the caravan's maintenance, although we found further evidence that repairs and the maintenance costs were funded via petty cash, so we are unsure what the £6,000 payment was for. The payment was made part cash and part cheque. It was observed that the site fees to the caravan park (of around £2,800) were paid some two months in advance of the payment being made for the hire of the caravan itself.
58. Whilst there is no direct risk to PMCF of paying cash to a supplier, this does not represent good practice as cash payment may be requested by suppliers in order to avoid income tax liabilities and/or VAT.
59. Of more significant concern were our findings relating to the banking of the income generated by the caravan. Our testing showed that only £60 had ever been banked, although an analysis of the caravan booking records showed that the following amounts had been receipted through letting the caravan:
 - 2007 - £1735
 - 2008 - £1980
 - 2009 - £1415
60. This issue was discussed with the PMCF Coordinator who informed us that the member of staff who had been responsible for receipting the caravan takings during 2009 had been found to be stealing the money. The member of staff involved was a resident who had been offered support by PMCF through the opportunity of employment in order to provide her with a more stable lifestyle. The individual had also received a loan from PMCF of £660; we believe this was to settle rent arrears and the PMCF loan remains outstanding. The individual concerned had been dismissed the week prior to our site visit; however the Coordinator stated that the Police had not been contacted as it was considered to be detrimental to the continued rehabilitation of the individual concerned.
61. We asked both the Coordinator and the Finance Manager for an explanation of what had happened to the caravan letting monies in previous years and were informed by the Coordinator that the caravan money was used as an extension of the petty cash when it was needed. For example, nominal amounts of money (£10-15) were given to residents if they were in financial difficulties and were awaiting benefits.

62. We also asked the Finance Officer what his role was in the operation of the caravan lettings and he was adamant that he had no involvement in any aspect of the caravan hire, lettings or banking of monies.
63. It should also be noted that during our visit we reviewed the caravan income cash box, which was held in the PMCF safe and found it to be empty.
64. We have significant concerns over the entire operation of the caravan scheme and would recommend that with immediate effect there are robust processes put in place to manage the caravan-letting process. In particular, all income generated by the caravan should be promptly banked and accounted for in PMCF's finance system. PMCF are currently in the process of establishing who has ownership of the caravan.

Petty Cash

65. We have fundamental concerns over the petty cash system in operation within PMCF. Large items of expenditure are purchased through petty cash including a car that had been purchased for £2,500. The car had been bought from a relative of the Finance Officer.
66. Furthermore, we found boxes of receipts which had been processed through petty cash but had not been accounted for, and contained no explanation of why the expenditure had been incurred. We are aware that the Treasurer had raised concerns over the level of petty cash used by PMCF with the Coordinator but no action was ever taken.
67. We also found evidence of receipts attached to petty cash vouchers being less than the amount provided through petty cash. We were unable to obtain any explanation for this from the Finance Officer.
68. Our findings also showed that petty cash payments were made to the Coordinator to reimburse her for items she claimed to have bought even though no receipts were provided.
69. Good practice suggests that petty cash should only be used for items of minor business expenditure and normally organisations set a financial limit on the value of items paid for through the petty cash system (often around £50). It was evident from our limited testing that a significant amount of transactions were processed through petty cash. This represents a significant risk for the following reasons:
 - normal payment authorisation procedures may be bypassed;
 - duplicate payments may be made;
 - petty cash could be used for the cashing of personal cheques; and
 - petty cash may be stolen.

Other financial concerns

70. Our testing showed that invoices do not demonstrate that goods/services have been receipted (or by whom). The Finance Officer stated that budget holders had responsibility for ordering what ever they wanted as long as the budget exists. Similarly the Coordinator stated that as long as there was a budget which was not exceeded, she didn't undertake any review to ascertain what the funds had been spent on or if value for money had been achieved.
71. We found evidence of several payments being made to the same supplier on the same day. Upon querying this we were told that payments are split to fall under the bank mandate requirements so that the Treasurer's signature is not required. (Any cheque payment above £500 requires Board approval).
72. During our review of cheque book stubs we also found blank cheque book stubs not completed. We were unable to establish why this had occurred. The Finance Officer stated that the Treasurer had been asked to sign blank cheque so that PMCF would be able to pay large sums in the event he was away and not able to act as a counter signatory. However, the Treasurer asserted that he would never sign any cheque without a corresponding invoice and he had certainly not been asked to sign blank cheques prior to receipt of an invoice. It should also be noted that we found no evidence of any of these cheques being presented at the bank.
73. The actions in paras 71 and 72 are concerning, particularly as the Treasurer visits PMCF almost every day so therefore is regularly available to sign any cheques (or other documentation).
74. We also found poor accounting procedures in respect of income-generating activities. PMCF hold events which generate income; however, the income is never quantified, accounted for and often is not banked. Instead we were informed that this income is used to supplement petty cash and is used for expenditure on other items within PMCF. We are therefore unable to determine how much income is generated from these activities or more importantly what happen to the receipted monies.
75. We have already outlined our concerns over the lack of financial information received by PMCF's Board and in particular the lack of awareness Board Members had in respect of the annual Management Letters produced by PMCF's appointed auditors. We are aware that the Board have requested more "user friendly" financial information from the Finance Officer, although this has not been forthcoming. It appears that the relationship with the PMCF auditors was managed by the Finance Officer and the Chair informed us at our end of audit fieldwork meeting, that he had been contacted by the partner responsible for the PMCF audit who had informed him, that on an annual basis the auditors offered to attend the AGM to present the accounts and audit report, as is normal practice. The Finance Officer had apparently declined the offer on several occasions stating that he was able to present the information to the Board himself. Subsequently the Finance Officer was unavailable to attend the Board meeting; this happened on several occasions.

Construction Work

76. Some of the original allegations claimed that construction works undertaken on the Coordinator's house were paid for by PMCF. Prior to our initial site visit we received specific evidence in respect of this matter. However, we have not been able to corroborate any of these claims primarily because PMCF's Peris Road premises was being re-developed at the same time as the construction works on the Coordinator's own property, so we have no way of knowing whether the invoices paid through PMCF's finance system were for valid Peris Road works or for materials which were subsequently used elsewhere. Furthermore, the invoices and delivery notes show no evidence of where the good and services were to be delivered. The Coordinator states that these allegations are without foundation. We are unable to substantiate any of the claims in this area.

Payments to Board Members

77. We saw evidence of a payment of £10,000 in respect of play area project management fees for one Board Member who is also a Plasterer by trade. (His wife also works for PMCF as the PMCF Play/Early Years Participation Officer). We saw no evidence that these services were procured through open competition or the exact specification/purpose of these services. The Coordinator stated that they had used this individual as he was a local man who had previously done work. However, it appears that there was never any disclosure to the Board that work had been awarded to a Board Member.
78. This Board Member also received payment for the "Get out and Play Scheme" and submitted weekly timesheets to claim payment.

Driving Lessons

79. We found evidence that since March 2008 £3,080 has been spent on driving lessons for staff and not for the community. The Finance Officer stated that this was a perk although he did indicate that he believed this was eligible Communities First expenditure. We later established that this is not eligible Communities First expenditure.

Mediafields

80. Our findings showed that there is a significant amount of expenditure made to a company called Mediafields for IT hardware, software and support services. In addition there is also significant other IT expenditure made through outlets such as Staples and through petty cash. We were informed that when PMCF were initially set up Mediafields were recommended by AVOW as they offered an excellent service and good value for money. Considering the level of payments to Mediafields, we would suggest that PMCF need to test the market and obtain quotes to ensure that Mediafields continues to offer the best value for money.

Asset Register

81. Our testing showed that the asset register is not complete or up to date. It is very difficult to ascertain how many assets are within PMCF or their location. For example, we have been unable to determine exactly how many laptops are currently in operation within PMCF. This was queried with the Finance Officer who admitted that a number of laptops had gone missing and the asset register was not up to date. Furthermore, he stated he leaves the asset register until the year end for the Auditors to do as “he had been lazy”.

Other unusual items

Parking Fines

82. Our testing showed that parking fines incurred by PMCF staff had been paid for by PMCF. We queried this practice with the Coordinator who could offer no explanation, even though her own fines had been paid for by PMCF. The Finance Officer stated that he paid the fines as he was told to do so by the Coordinator.

Accommodation Costs

83. We also identified that PMCF staff often attend courses and conferences. Our testing showed that expensive hotel rooms are often booked, particularly in the case of the Coordinator. In one case the Finance Officer had attended a digital photography course which was held over a weekend in London; his partner also stayed at the hotel which was paid for by PMCF at a cost of £330. During a period of bad weather, a local hotel was booked for the Coordinator to enable her to easily access her place of work. The cost of this was £713.70. The Coordinator claims that the Board approved this expenditure. Upon discussion of this issue with the Chair, he stated that whilst he had been aware that the Coordinator had chosen to stay locally during a spell of bad weather, he certainly was not aware that PMCF had paid for the accommodation.

Gifts to staff

84. We also found evidence that gifts are bought for staff for various occasions (birthdays, wedding etc) through petty cash. On most occasions the petty cash is refunded through staff contributions but we are unsure why PMCF monies are used for this purpose. We could obtain no explanation for this.

Christmas Party

85. Evidence was found of an invoice for the 2008 Christmas party totalling £2667.30. This party was for staff within PMCF and there was evidence that many of the staff attending the event had contributed to the cost via salary deductions, but not all staff made a contribution.
86. Furthermore, no contributions had been obtained from staff for Christmas parties held in previous years, which were held in Manchester and therefore also incurred an overnight stay.