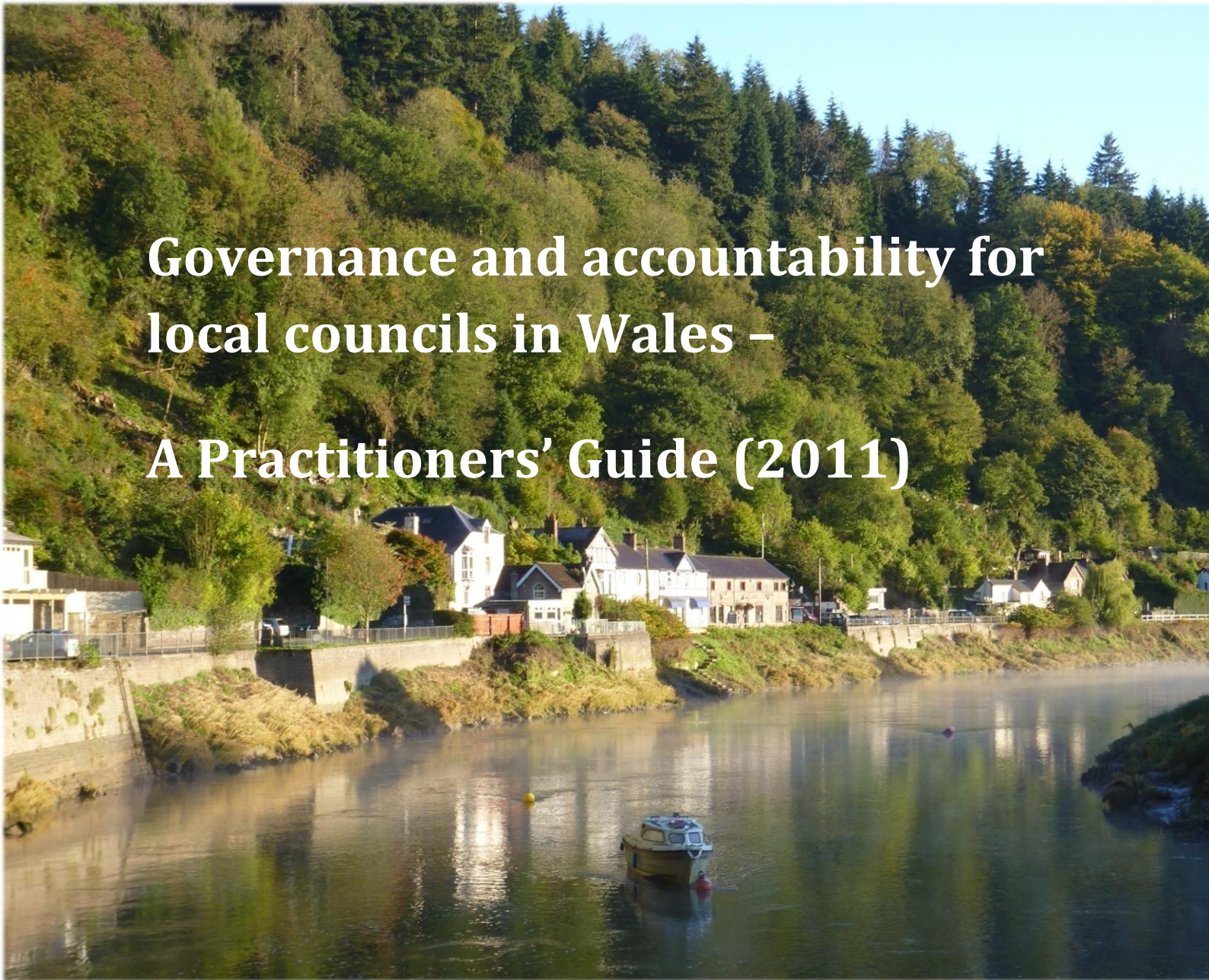


# Governance and accountability for local councils in Wales – A Practitioners' Guide (2011)



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## Part 1 - Overview

### Part 1: Contents

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### Chapter 1: Introduction to the Practitioners' Guide

*This chapter explains the purpose and content of the Practitioners' Guide*

#### Origins of the Practitioners' Guide

1. In 2008, One Voice Wales and the Society of Local Council Clerks (SLCC) published the first edition of the Practitioners' Guide written specifically for Welsh local councils. This guide reflected the legal and audit framework in place in Wales. This edition of the Guide replaces the 2008 edition and reflects the 2010 changes in the Accounts and Audit (Wales) Regulations. It also includes other recent developments in governance for local councils.
2. One Voice Wales and SLCC publish the Practitioners' Guide following consultation with the Local Councils Audit Liaison Group. In 2007, the Auditor General for Wales established the group with representatives from the local council sector. One of the Group's objectives is to help ensure that the guidance remains relevant to the needs of local councils in Wales. The current members of the Group are:

Simon Edge	Wales Audit Office (Chair)
Deryck Evans	Wales Audit Office (Secretary)
Lyn Cadwallader	One Voice Wales
Lyn Llewelyn	One Voice Wales
Jim Griffiths	SLCC
Ian Skinner	Welsh Assembly Government
Shyam Vining	Welsh Assembly Government
Kathy Ormond	Welsh Assembly Government
Emma Prince	BDO LLP
Stephen Christopher	Mazars LLP
Nick Jenkins	UHY Hacker Young
3. The guide has been developed with the assistance of Aimée Morgan, Eddie Blower and Ena Lloyd of the Wales Audit Offices. The publishers gratefully acknowledge their contributions and of those individuals who have contributed from time to time to the development of the guide.
4. The Practitioners' Guide in Wales draws on the proper practices set out in the Practitioners' Guide for local councils in England. The Joint Practitioners Advisory Group (JPAG) approves the Practitioners' Guide for England. Its members include representatives from small bodies in England that are required to prepare an annual return. Its primary purpose is to develop guidance for small bodies in England. We are grateful to JPAG for allowing this and for its continuing support.

#### The purpose and status of the Guide

5. The Practitioners' Guide aims to help practitioners to understand regulatory requirements faced by local councils in Wales. It provides a guide to the accountability and audit framework. It looks at how risk management, principles of good internal control and the roles of the internal and external auditors apply to local councils. The aim is to provide a source of information about accounting and audit matters as they affect local councils. The Guide is intended for clerks, members, other council officers,

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accountants, internal auditors and trainers. External auditors will also find it useful as a reference tool.

- This publication is a guide to the accounting practices local councils should follow and sets out the appropriate standard of financial reporting for all local councils in Wales. The Welsh Assembly Government (Assembly Government) guidance on the Accounts and Audit (Wales) Regulations 2005 identifies the Guide as proper practices for local councils' accounts.

### Format and content

- This Guide sets out in a practical way the current requirements of legislation. It describes the responsibilities of the various parties involved and points to where further information is available if needed. It also explains the procedures local councils need to follow to meet their responsibilities. The Guide includes practical examples where appropriate, to demonstrate the good practice currently being used in Wales.
- The Guide is divided into:

Part	Contents
Part 1: Overview	This part sets out the overall framework within which local councils in Wales operate.
Part 2: Governance for local councils	Part 2 looks at governance arrangements for local councils and considers how local councils can report on these arrangements.
Part 3: Accounting guidance for smaller councils	Part 3 focuses on accounting guidance for local councils with income and expenditure below £1 million each year. It highlights good practice that local councils can follow when accounting for the public money they hold.
Part 4: Accounting guidance for larger councils	Part 4 explains the additional accounting requirements for larger councils and gives an example statement of accounts.
Part 5: The external audit	Part 5 outlines the overall audit approach for local councils and sets out the key responsibilities for local councils.
Appendices	Additional information
Glossary	Provides definitions of terms used throughout the Guide.

- Each part of the Guide consists of a series of chapters which break down the guidance into a series of manageable pieces. Each chapter explains with examples, the relevant legal and other requirements. A directory at the end of the Guide explains the key words and phrases commonly used.

### Publishing the Guide

- One Voice Wales and the Society of Local Council Clerks jointly publish the Practitioners' Guide for Wales. It is available to download free of charge from [www.slcc.org.uk](http://www.slcc.org.uk) and

## Part 1 – Overview

[www.onevoicewales.org.uk](http://www.onevoicewales.org.uk). Alternatively, councils may purchase paper copies from both organisations for an appropriate charge.

11. We are committed towards making this guidance as useful, complete and ‘user friendly’ as possible, but there will always be scope to improve. It is our intention to issue updated versions of this guidance from time to time. We will keep it up to date by identifying and sharing good practice and responding to the needs of local councils. If you have comments or suggestions as to how to improve this guidance, please send these to ‘Practitioners’ Guide’ at either One Voice Wales, 24 College Street, Ammanford, Carmarthenshire, SA18 3AF or SLCC, 8, The Crescent, Taunton, Somerset TA1 4EA.

### **Additional information**

12. Local councils should use this Guide as a working tool. It is not a comprehensive guide to all aspects of local government law applicable to local councils. Nor can the guidance cover all queries about the application of the accountability and audit framework as this develops over time.
13. Arrangements are in place to provide technical support through the respective regional structures of One Voice Wales and the Society of Local Council Clerks (SLCC). Regular meetings of the Local Councils Audit Liaison Group (LCALG) also support these arrangements.
14. Appendix 1 identifies where users will find further relevant guidance.

## Chapter 2: Defining ‘Governance and Accountability’

*This chapter explains what ‘governance’ and ‘accountability’ mean for local councils.*

### Governance

[guhv-er-nuh-ns]

Noun 1794

How local councils ensure that they are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner.

### Accountability

[uh-koun-tuh-bil-i-tee]

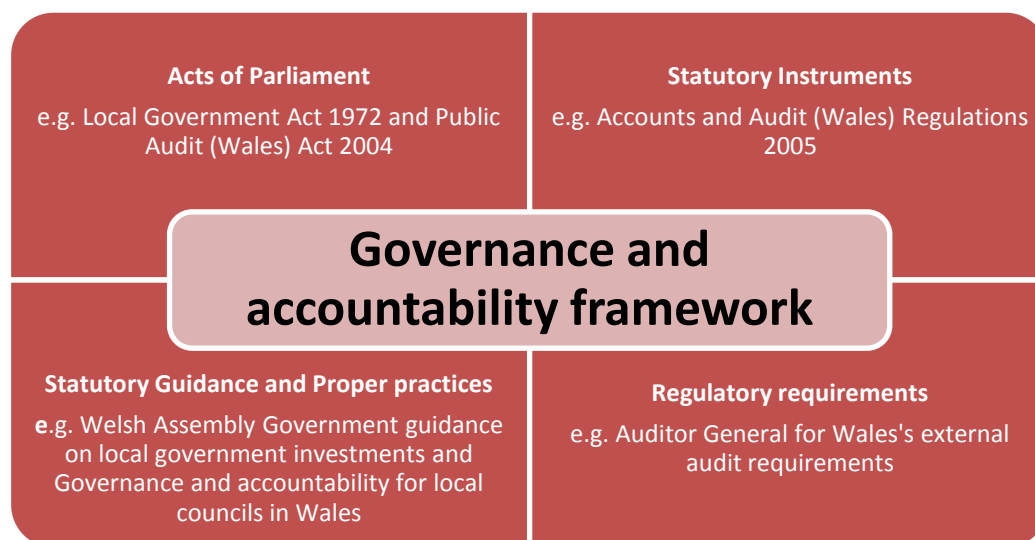
Noun 1794

Occurs when local councils that are entrusted with managing public funds to provide public services, explain to their communities how they have discharged that trust.

15. Good governance, accountability and transparency are essential to local councils and are a cornerstone of the government’s approach to improving public services.
16. Public bodies’ members and officers are responsible for the conduct of public business and for spending public money. By law, they are accountable for ensuring they conduct public business in accordance with the law and proper standards. They must also ensure they safeguard, properly account for and use economically, efficiently and effectively, the council’s public money.
17. They are also responsible for putting in place proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal. They must also report on these arrangements in their published Annual Governance Statement.
18. As a safeguard, external auditors in the public sector give an independent opinion on public bodies’ accounting statements. They may also review, and report on aspects of public bodies’ arrangements:
  - to ensure the proper conduct of their financial affairs; and
  - to manage their performance and use of resources.

### What is the governance and accountability framework?

19. The key elements of the framework are shown below:





## Part 1 – Overview

20. In order to inform council taxpayers, this framework requires local councils to prepare a report on their activities for the year. The report must be externally audited and published.
21. The approach relies, to a large extent, on councils self-certifying that they maintain their internal arrangements at a level consistent with good practice. This requires the active participation of members in the process of providing assurance of the proper management, stewardship and governance of public assets.
22. In addition to approving the accounting statements, members must also provide a written annual governance statement. Councillors, working as a corporate body, will need to be able to provide this assurance to stakeholders with confidence. They must therefore have based their views on adequate information about the operation of internal controls, within their councils. Internal controls are the checks and balances that Council uses to make sure it properly uses and monitors its money and assets and properly records this use.
23. The framework is 'risk-based'. It must be proportionate to risk, to the amounts of public money involved and to stakeholders' need for assurance.
24. External audit plays an essential part in accounting for public money. It makes an important contribution to the stewardship of public resources and to the corporate governance of public services. It also supports local democracy by helping to ensure that members and officers are accountable to the communities they serve. It provides assurance that the public money they manage has been properly spent.
25. The need to make public the accounting statements and external audit reports encourages openness and transparency from local councils. Councils should consider also making available internal audit and other third party reports as part of this process.
26. Part 5 of the guide includes further detail on external audit arrangements.

### **Legislation governing councils' accounting statements and audit arrangements**

27. Two pieces of legislation set out how local councils should behave when accounting for the public funds they manage and local electors' rights in relation to those accounts. These are the Public Audit (Wales) Act 2004 (the Act) and the Accounts and Audit (Wales) Regulations (the Regulations) issued from time to time under the Act.
28. The requirement for local councils to prepare accounting statements annually and to subject them to external audit comes from the Act. Irrespective of size, each local council is required to prepare accounting statements annually and to have an audit. The Act describes the rights of taxpayers and other interested parties in relation to those accounts.
29. The Act also provides that the Welsh Assembly Government (the Assembly) may make regulations covering:
  - how accounts should be kept;
  - the form of accounting statements and how and when they must be approved and published;
  - where and for how long taxpayers can view the accounts and the details behind them; and
  - how taxpayers exercise their rights in relation to the accounts.
30. Appendix 2 includes a current (May 2010) copy of the Regulations as a reference tool for practitioners. Practitioners need to make sure that they always refer to the latest version of the Regulations.

## Part 1 – Overview

### The Auditor General for Wales and the external audit

31. The Auditor General for Wales (Auditor General) is responsible for appointing local government external auditors in Wales. The Auditor General also issues a Code of Audit Practice (the Code), which prescribes the way in which auditors are to carry out their functions. Appointed auditors may be members of the Auditor General's staff (the Wales Audit Office), or private firms of accountants providing audit services. From time to time, the Auditor General issues guidance to auditors.
32. The Auditor General has resolved that the audit approach should continue to recognise the differing circumstances of local councils of different sizes. The flowchart in Appendix 7 describes the audit process that applies to different categories of local councils.
33. This guidance focuses primarily on the needs of practitioners within local councils. However, the following paragraphs may be helpful as background to the development of the audit approach.
34. The Auditor General has statutory responsibility to regulate the audit of local government in Wales. The Auditor General's Code of Audit Practice (the Code) published in May 2010 sets the required standards for appointed auditors in Wales. The Code, when talking about how appointed auditors should discharge their statutory annual audit duties at local councils, states:

**32 There will be circumstances in which aspects of the Specific Code may be inappropriate to the audit of accounts of certain bodies, for example due to the relatively small amounts of public money controlled by the bodies in question. In carrying out the audit of such bodies, auditors should apply the Specific Code as far as in their judgement, and in accordance with any guidance issued by the Auditor General, it is appropriate. In carrying out the audit of bodies with either annual income or annual expenditure below a financial limit determined by the Auditor General from time to time, auditors should apply Schedule 1 of this Code if directed to do so by the Auditor General.**

35. Local councils meet their responsibilities by preparing and publishing, and providing the auditor with, the accounting statements prepared for the financial year. They also provide the auditor with sufficient evidence to show that the councils have maintained adequate systems of internal control and internal audit throughout the financial year.

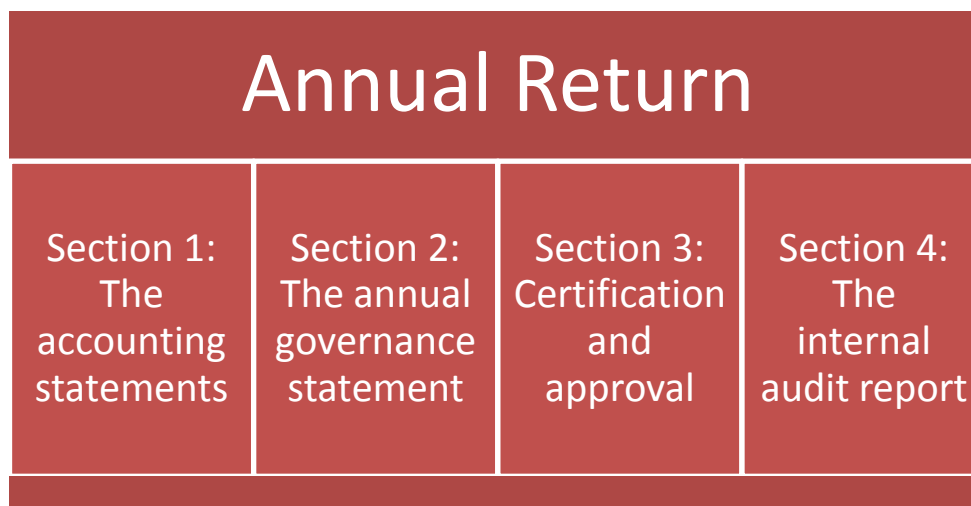
#### **Smaller local councils' annual return and the limited assurance audit**

36. The Regulations require local councils with annual income and expenditure less than £1 million per annum to prepare accounting statements in accordance with proper practices.
37. For those councils that prepare their accounting statements in the form of an annual return, the Auditor General's limited assurance audit arrangements apply.
38. To assist local councils, the Auditor General prepares an annual return for their use. The annual return and the limited assurance audit arrangements are intended to be:
  - easy to prepare and to understand;
  - subjected to an appropriate level of external audit without the need for lengthy preparation and inconvenience; and
  - cost efficient.
39. The annual return has several purposes:
  - to report the annual accounting statements as approved by the council;

## Part 1 – Overview

- to certify that the council has discharged its statutory duties in relation to its financial affairs;
- to record that the external auditor has fulfilled his/her statutory responsibility;
- to inform the local taxpayer and elector about what their council has been doing during the last financial year and how it did it; and
- to be a source of information for government and other stakeholders about the activity of local councils.

40. There are has four sections in the annual return. It is intended that these are read as a whole:



41. The annual return's design allows for public display of the first three of these sections. When the audit is finished, the three sections (1-3) can be opened up and easily displayed on most notice boards.
42. Parts 2 and 3 of this guidance consider the annual return in more detail, but practitioners should note the following general points about this approach:
- the external audit approach described above relies heavily on the co-operation of the council with the external auditor and on a significant amount of self-certification by the council;
  - the council's governance arrangements must be demonstrably sound and comply with proper practices as set out in part 2 of this Guide;
  - the annual return should be accurate and complete when presented to the external auditor; and
  - the annual return should be prepared in accordance with the proper practices set out in part 3 this guide.

### Chapter 3: The legal framework for local councils in Wales

*This chapter describes the nature of local councils and the legal framework within which they operate.*

#### What are local councils?

43. For the purposes of this guidance, the general term ‘local council’ refers to a number of bodies that have roles in the administration of community affairs. These include community councils and town councils. This guidance also applies to joint committees of local councils. The roles of these bodies are similar and serve similar local stakeholders. It is appropriate, therefore, that a common accounting, audit and public reporting framework applies to all of them.
44. Local councils are local government bodies, and can only do what they are empowered to do by law. Anything else, no matter how apparently justifiable or useful, will be beyond the powers of the council (‘ultra vires’).

#### Community councils

45. Community councils are the most common type of local council. Constituted by the Local Government Act 1972, they adopted the powers and duties previously administered by rural parishes and urban districts. Their powers and duties are set out in various pieces of legislation.
46. The purpose of local councils is to discuss community affairs and exercise the powers given to them. The council itself is made up of councillors who are either elected by local residents or selected to fill vacancies. Each council has a clerk who acts as the chief officer and, depending on its size, a number of additional staff may be employed.
47. For most local councils, the majority of income comes from an annual charge, known as the precept, on local electors. It is set each year by a local council as part of its annual budgeting process. The local unitary authority collects the appropriate council tax on the local council’s behalf. The level of precept depends on the nature and scope of the local council’s activities.
48. There are other potential resources available to local councils in addition to the precept. Many councils receive interest on bank balances and income from charges for the use of their facilities (through, for example, hall hire charges, burial fees, car parks etc) and in some cases, receipts from investments and grants.
49. Some very small local councils incur no financial transactions in a financial year, hold no balances and own no assets. A short form annual return caters for such cases. Local councils fulfilling this criterion should send to their appointed auditor on receipt of notification of audit, a signed short form ‘no transactions’ annual return supplied to them by the auditor for this purpose.

#### Town councils

50. In some areas, the community council is known as the town council. As they often cover a larger population than many rural communities, town councils tend to have larger precepts. They often provide a wider range of services than smaller community councils.

## Part 1 – Overview

### Joint committees

51. Section 12 of the Public Audit (Wales) Act 2004 states that ‘a joint committee of two or more (local) authorities’ is a local government body. Section 13 of the Act requires local government bodies in Wales to maintain accounts that are subject to annual audit. Such joint committees will have an external auditor appointed by the Auditor General. Although they are not independent legal entities, for the purposes of keeping accounts and submitting to audit, they are separately subject to the same rules and regulations as other local councils.
52. The management of joint committees is usually located with one of the participating councils. These are referred to as the ‘lead’ council. The lead council is responsible for meeting the accounting and reporting responsibilities of the joint committee although all participants should approve the arrangements.

### Proper practices

53. The Regulations require local councils to follow proper practices. In April 2010, the Welsh Assembly Government published guidance on the amended Regulations. The guidance states that for local councils, proper practices in relation to both the accounts and internal control may be found in Governance and Accountability in Local Councils: A Practitioners’ Guide 2008 (Wales) and its successor publications. This 2011 edition of the Practitioners Guide replaces the 2008 Guide in Wales.  
The Assembly Government’s guidance is found at <http://wales.gov.uk/topics/localgovernment/finandfunding/publications/accandaudit/?lang=en>

### The council as trustee

54. Local councils in Wales have powers to be appointed as trustee of local, usually charitable trusts. They fulfil this role as either custodian or management trustee.
55. The Charity Commission regulates charitable trusts in Wales and sets out minimum accounting and audit requirements where the Trust Deed does not cover these. The Charity Commission also requires annual reporting by registered charities.
56. In cases where local councils are sole managing trustees i.e. hold legal title to and manage the property and/or investments of the trust, the accounts of the trust are a separate account of the local council. They are therefore subject to separate disclosure, as well as having to fulfil any reporting or audit requirement in charity law.
57. Larger local councils preparing accounts in accordance with Part 4 of this guide, meet this requirement through notes to their accounting statements. These notes are within the scope of the external audit For smaller local councils preparing an annual return, there are no provisions for notes and so the required disclosure is made in Section 1 of the annual return.
58. Section 1 of the annual return (the accounting statements) requires the following disclosure:  
‘The council acts as sole trustee for and is responsible for managing (a) trust fund(s)/assets (readers should note that the figures above do not include any trust transactions)’
59. If the council has disclosed that it is a sole managing trustee it must also complete the associated assertion in Section 2 of the annual return (the annual governance statement)

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‘Trust Funds– in our capacity as trustee we have: discharged our responsibility in relation to the accountability for the fund(s) including financial reporting and, if required, independent examination or audit.’

60. In this way, small local councils meet the disclosure requirements under the Act of ‘an account of the body’. Auditors can plan work around these disclosures if required.
61. Local councils should not include the charitable trust funds in the council’s accounting statements even if they have done so in the past.
62. Councils should ensure separate bank accounts operate for the charity. If however, the council uses its own bank account for the charity’s receipts and payments, these transactions must be included in the council’s accounting statements. This is because they are under the direct control of the council. However, it is strongly recommended that a separate bank account is established for the charity as soon as possible and that all transactions of the charity are made through the charity’s own bank account. The reserves of the council should not include those of the charity.
63. It is important that meetings of the council as charity trustee should take place separately from those of those of the local council and separate minutes should be kept. In order to avoid confusion, there should be separate notices and agendas for the local council meetings and the charitable trust meetings.
64. The clerk should guide the council regarding the capacity in which members are meeting, either as the council or as the trustees for a charity. The chair should also seek to make the current capacity clear to the meeting at the outset and throughout, particularly if meetings take place one after the other or where there is some confusion around the purpose of the meeting.
65. The council’s accounting records and annual return should not record the value of the charity’s property as council property. Where appropriate, the council’s asset register should record and identify those charity assets managed by the council as trustee.

### Chapter 4: Roles and responsibilities

*This chapter describes the roles and responsibilities of those involved in governance and accountability for local councils.*

#### Who is involved in local council governance and accountability?

66. There are five groups of people involved in the governance and accountability framework for local councils in Wales. These are:



#### Local councillors or members

67. Local councillors or members are elected every four years in local elections. The whole council retires at the same time. The council must elect a chair or town mayor annually from among its members. From time to time, vacancies occur which may be filled following a bye-election or by co-option or by appointment.
68. Community affairs are discussed at council meetings and councils must convene an annual meeting. In most communities, the council convenes further meetings through the year in addition its annual council meeting. In most communities they are held on a monthly basis. Local people may attend to observe the proceedings.
69. **All members have the same duties and responsibilities in relation to a local council's governance and accountability.** The council as a whole is responsible in law for ensuring that the council's financial management is adequate and effective. It must set in place a sound system of internal control to enable the effective exercise of the council's functions. This system must include arrangements for managing risk.
70. All local councils must conduct a review of the effectiveness of their system of internal control at least annually and report the outcome publicly. This annual governance review

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should include a review of internal audit. Chapter 8 provides guidance on how to carry out this review.

71. Section 2 of the annual return provides the means for local councils to report their annual governance statement. Larger councils preparing accounting statements in accordance with Part 4 of this guidance will need to prepare a separate governance statement. Guidance on the governance statement is included in Part 2 of this guidance.

### The local council clerk

72. Most local councils employ a clerk to oversee the administration of their affairs. The clerk's primary responsibility is to advise the council on whether its decisions are lawful and to recommend ways in which decisions can be implemented. The clerk and members must recognise that:
  - the council is responsible for all decisions;
  - the clerk takes instructions from the council as a body; and
  - the clerk is answerable to the council as a body and not to individual members – not even the chair.
73. The clerk's responsibilities will normally include:
  - administration of the council's paperwork;
  - ensuring that meeting papers and appropriate public notices are properly prepared;
  - implementation of council decisions
  - overseeing the implementation of projects;
  - supervising other staff (if any); and
  - maintaining property registers and other legal documents.
74. The council must be confident that the clerk is at all times independent, objective and professional.

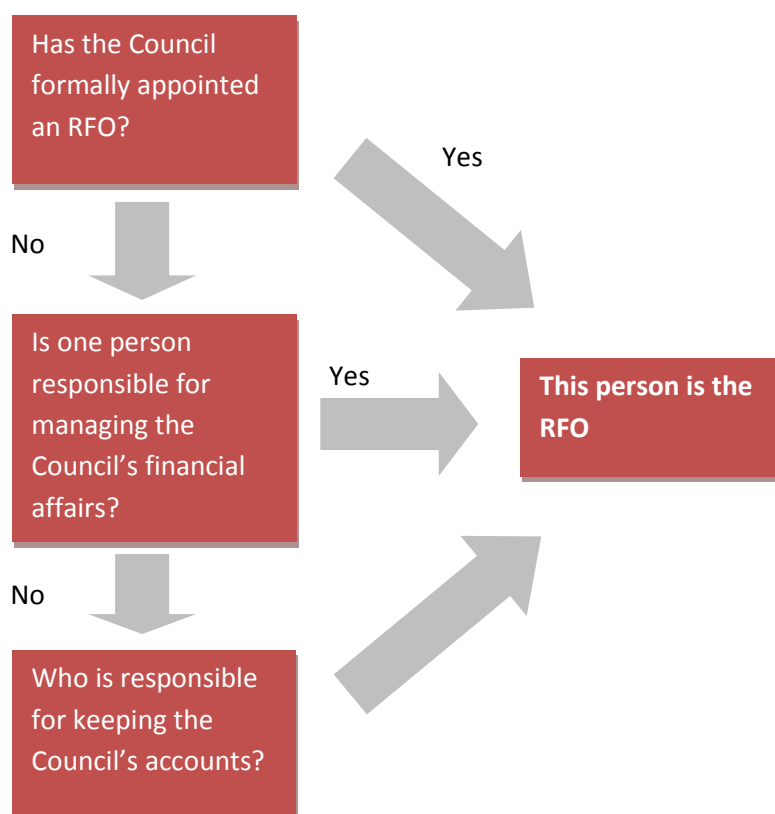
### The Responsible Financial Officer

75. Section 151 of the Local Government Act 1972 requires all councils to appoint an officer responsible for the financial administration of the council. This Responsible Financial Officer (RFO) will usually be the clerk to the council. However, this is not automatically the case.
76. The council must formally determine who is to be the RFO. There are particular risks that arise in the unusual circumstances where an elected member is appointed (unpaid) to this office. Decisions about appointing an RFO should always be the subject of a full risk assessment, evidenced by formal minute. The proper segregation of duties means that the Chairman of Council or a Finance Committee should not be appointed (even on a short-term basis) as Clerk and/or RFO.
77. Councils should also note that section 116 of the Local Government Act 1972 prohibits the appointment of members to any paid office (including that of RFO) until twelve months after they cease to be members.
78. Even where the Council does not formally appoint an RFO, an individual is deemed to be the RFO in the circumstances set out below.



## Part 1 – Overview

### Identifying the RFO



79. The appointment of an RFO does not mean that members then have no responsibility for the financial health of the council. Members continue to be accountable for ensuring that the council does not live beyond its means. The RFO however, designs and implements the accounting arrangements that will assure members that finances are being properly managed.
80. The following table summarises the duties of the RFO. It indicates the arrangements that might be put in place to ensure that these duties are met:

Statutory duty	Possible arrangements
The RFO determines, on behalf of the council, the accounting system and the form of their accounting statements and supporting accounting records	<ul style="list-style-type: none"> <li>the council should make it a formal duty of the RFO to keep accounting systems under continual review to ensure their adequacy for the council's purposes;</li> <li>the council must facilitate this duty by ensuring that the RFO is competent to meet their responsibilities (either by requiring certain qualifications on appointment or by training) and providing sufficient resources for the running of the systems;</li> <li>the accounting systems that are used will be particular to each individual council. The smallest may require nothing more than an account book and a file in which to store bills. Larger councils might need an integrated computer package, with facilities for payroll, debtors, creditors and VAT.</li> </ul>

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<p>The RFO ensures that the accounting systems are observed and that the accounts and supporting records of the body are maintained in accordance with proper practices and kept up to date</p>	<ul style="list-style-type: none"><li>• measures for ensuring accounting systems are observed include - making available a written record of procedures, training staff to operate the systems properly and regular audits to confirm effective operation;</li><li>• certain procedures are designed to confirm the accounting systems have been observed. The most notable is the preparation of the bank reconciliation (see below). Good practice would be to report to each council meeting that the latest bank reconciliation has been prepared successfully;</li><li>• the proper practices specified by the Regulations are represented by the contents of this guidance; and</li><li>• the requirement to be up-to-date means transactions should be entered in the records as soon as possible after they take place. Backlogs should not be allowed to develop, and, where other officers are responsible for spending money and collecting income, then procedures will need to be in place to inform the RFO of their dealings for entry in the accounts. Timeliness is made easier if the council has arrangements for the latest financial position to be reported at each council meeting</li></ul>
<p>The accounting records are sufficient to show the body's transactions and to enable the RFO to ensure that the statement of accounts complies with the Regulations</p>	<ul style="list-style-type: none"><li>• the RFO must ensure that the accounting systems are sufficiently detailed to record each individual transaction that is entered into. For instance, where the council charges for village hall bookings, the books should record each individual booking rather than a total for the value of all bookings made in any week.</li><li>• accounting records will be sufficient to ensure that the statement of accounts complies with the Accounts and Audit Regulations, if they allow the analysis of transactions in accordance with Section 1 of the Wales Audit Office annual return (see below).</li></ul>
<p>The accounting records in particular contain:</p> <ul style="list-style-type: none"><li>• Entries from day to day of all sums of money received and expended by the body and the matters to which the income and expenditure or receipts and payments account relate;</li><li>• A record of the assets and liabilities of the</li></ul>	<ul style="list-style-type: none"><li>• day to day records (Example 1)</li><li>• assets and liabilities register (Example 2)</li><li>• grants (Example 3)</li></ul> <p>Note – examples may be found at the end of Part 3.</p>

## Part 1 – Overview

<p>body;</p> <ul style="list-style-type: none"><li>• A record of income and expenditure of the body in relation to claims made by them for contribution, grant or subsidy from the government.</li></ul>	
<p>The accounting control systems include:</p> <ul style="list-style-type: none"><li>• Measures to ensure that the financial transactions of the body are recorded as soon as reasonably practicable and as accurately as reasonably possible,</li><li>• Measures to enable the prevention and detection of inaccuracies and fraud, and the ability to reconstitute any lost records</li><li>• Identification of the duties of officers dealing with financial transactions and divisions of responsibilities of those officers in relation to significant transactions</li><li>• Procedures to ensure that uncollectible amounts, including bad debts, are not written off except with the approval of the RFO</li></ul>	<ul style="list-style-type: none"><li>• document and adopt control systems to clarify everyone's duties and responsibilities and to encourage a culture that does not tolerate bending or breaking the rules;</li><li>• review systems at least annually or more frequently if required following any significant change of procedure or key personnel;</li><li>• add new systems if there is a business need to do so; and</li><li>• report annually to the council prior to their completion of the annual return</li></ul>

### The internal auditor

81. Internal audit reviews the council's internal controls and reports any weaknesses or errors to the council. The internal auditor will undertake a work programme based on a risk assessment i.e. an assessment of where things may go wrong. The council may itself suggest areas for the internal auditor to look at.
82. The extent of the work the internal auditor undertakes will depend on this risk assessment and the size and types of activities of the council.

## Part 1 – Overview

83. The council itself appoints the internal auditor. Internal audit may be provided by an employee of the council or by someone outside the council.
84. Chapter 8 provides further guidance on internal audit.

### **The external auditor**

85. The Auditor General appoints external auditors for all local government bodies in Wales.
86. The primary responsibility of the external auditor is to provide an opinion on the annual statement of accounts prepared by the council.
87. Internal audit reports to the council and its work is to a certain extent capable of constraint and direction by the council. The external auditor reports to the council but seeks direction from guidance issued by the Auditor General, and from the legislation under which they are appointed and work.
88. Practitioners may refer to a helpful booklet produced by the Auditor General entitled ‘Statement of the responsibilities of the auditors appointed by the Auditor General for Wales and of the bodies that they audit (2010).’ It clarifies where the different responsibilities of the local council and its auditor begin and end. This statement may be found at:  
[http://www.wao.gov.uk/assets/englishdocuments/statement\\_of\\_responsibilities\\_of\\_auditors\\_eng.pdf](http://www.wao.gov.uk/assets/englishdocuments/statement_of_responsibilities_of_auditors_eng.pdf) or  
[http://www.wao.gov.uk/assets/welshdocuments/statement\\_of\\_responsibilities\\_of\\_auditors\\_cym.pdf](http://www.wao.gov.uk/assets/welshdocuments/statement_of_responsibilities_of_auditors_cym.pdf)

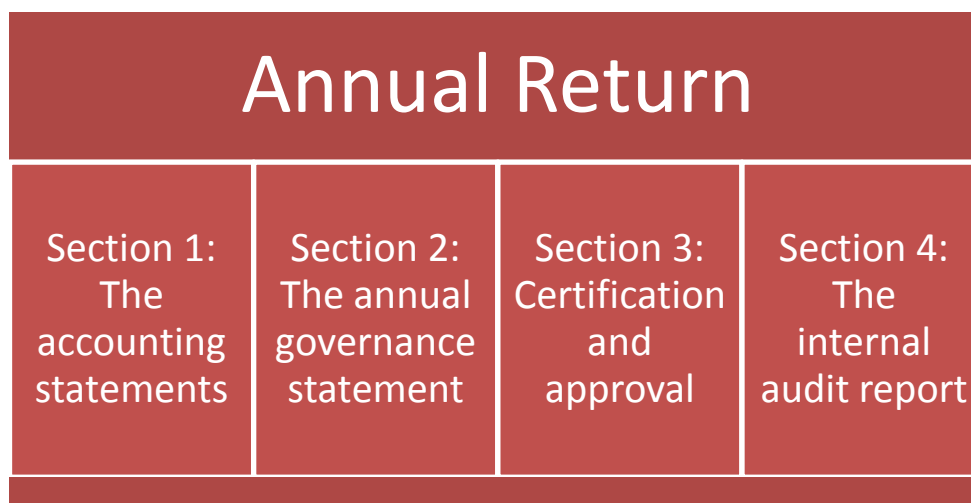
### Chapter 5: The Annual Return

*This chapter explains the purpose and contents of the Annual Return. It is relevant for councils with income and expenditure below £1 million.*

#### What is the Annual return?

89. Two pieces of legislation set out how local councils should behave when accounting for the public funds they manage and what local taxpayers' rights in relation to those accounts. These are the Public Audit (Wales) Act 2004 (the Act) and the Accounts and Audit (Wales) Regulations (the Regulations) issued from time to time under the Act.
90. The requirement for local councils to prepare accounts annually and to subject them to external audit comes from the Act. Each local council is required irrespective of size, to prepare accounts annually and to have an audit. The Act describes the rights of taxpayers and other interested parties in relation to those accounts.
91. The Act also gives the Welsh Assembly Government (the Assembly) power to make regulations covering how accounts should be kept, the form of accounts and how and when they must be approved and published. Regulation 8 of the Accounts and Audit (Wales) Regulations states that local councils must prepare a statement of accounts (accounting statements) each year. For councils with income and expenditure below £1 million, the regulations allow this statement of accounts to be in the form of an annual return required by proper practices.
92. Each year, the Auditor General prepares an annual return for councils to use when submitting their accounting statements for audit. This Guide sets out how councils should complete the Auditor General's annual return. Councils should therefore use the Auditor General's annual return for their accounting statements. The annual return balances the need for transparency and openness with the need to minimise the burden of public reporting. It meets public sector reporting standards whilst still informing taxpayers and other key stakeholders about the work and finances of their local council in an understandable way.
93. The purposes of the annual return are to:
  - report the annual accounting statements of the council;
  - certify that the council has discharged its statutory duties in relation to its financial affairs;
  - record that the external auditor has fulfilled his/her statutory responsibility; and
  - be a source of information for government and other stakeholders about the activities of local councils.

The annual return is in four linked sections and it is intended that these are read as a whole:



### Section 1 – the accounting statements

94. Section 1 of the annual return standardises the presentation of accounting statements by local councils into a simple, easy to read format. For the benefit of both the compiler and the reader, each of the fourteen line items carries a note of explanation of the intended source of the information. It also includes an explanation of how the figure is calculated.
95. All sections of the annual return should be completed, including writing 'nil' or '0' in any section that does not apply. Leaving blank spaces leads to questions by readers who may not be sure if the compiler intended a nil balance or whether an omission or error has occurred. For auditors, there should not be any such uncertainty. Any omissions will lead to additional correspondence with the council. This may in turn lead to the auditor charging additional fees.
96. All figures in the annual return should agree with the primary financial records of the council. The RFO must be able to show how the figures in the annual return reconcile to those in the cashbook and other primary records of accounts. Members should expect to see this reconciliation when they approve the accounts in the annual return.
97. Part 3 of this Guide contains detailed accounting guidance to help support completion of the annual return.

### Section 2 – The Annual Governance Statement

98. Members and officers responsible for the conduct of public business and for spending public money are accountable for ensuring they comply with the law and proper standards. They must also ensure that they:
  - safeguard and properly account for this money; and
  - use this money economically, efficiently and effectively.
99. To achieve this, members and officers must put in place proper arrangements for the governance of the council's affairs and the stewardship of the council's resources.
100. Councils demonstrate that the arrangements are in place through the assertions made in the annual governance statement. The annual governance statement together with the statement of accounts must be approved by the council. The minutes should record the approval of both the statement of accounts and the annual governance statement.
101. Part 2 of this Guide provides detailed guidance on governance in local councils and explains what the annual governance statement requires.

## Part 1 – Overview

### Section 3 – Certification and approval

102. The Regulations require the RFO to certify the accounting statements properly present (receipts and payments accounts) or presents fairly (income and expenditure accounts), the council's financial position at the end of the year.
103. When it approves the accounting statements, the council itself also gives a public assurance that it prepared and approved the accounts in accordance with relevant legal requirements and proper practices. Because they have a legal responsibility to approve the accounts, members have a duty to make themselves familiar with the requirements of the Regulations.
104. The signature of the person presiding at the committee or meeting at which the approval is given, completes the legal process.
105. Chapters 24 and 25 provides more detail on the approval process for the accounts. In practical terms, the RFO must certify accounts by 30 June (30 September for 2010/11). The council must approve and publish audited accounts by 30 September (31 December for 2010/11). However, the longer the period between the year-end and the accounts approval and publication date, the less useful the accounts are to the reader. The statutory approval date is the latest date by which this can be given. However, it is good practice to complete the accounts and have them approved by the council and published as close to the financial year-end as possible.
106. Section 3 also contains the external auditor's certificate and opinion.

### Section 4 – the Internal Audit report

107. Regulation 6 of the Regulations requires all councils to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control. The internal audit function must follow proper internal audit practices.
108. The duties of internal audit relate to reporting to the council on the adequacy of systems of control. Section 4 of the annual return contains an internal audit annual report. However, the guidance given within the annual return is necessarily brief.
109. Further guidance on proper internal audit practices for local councils is included in Chapter 8.

## Part 2 – Governance for local councils

### Part 2: Governance for local councils – Contents

Chapter		Page
6. The Annual Governance Statement	Chapter 6 explains the purpose and content of the annual governance statement.	25
7. Internal controls or checks and balances	This chapter provides detailed guidance on internal checks and balances or internal controls that support the council's governance arrangements.	29
8. Internal audit	This chapter provides detailed guidance on internal audit arrangements and shows how these support the council's governance arrangements.	35
9. Risk assessment	Chapter 9 provides additional guidance for local councils to develop their risk management arrangements.	41
10. Managing investments	Chapter 10 provides guidance for local councils managing investments.	47
11. Making payments	Chapter 11 sets out proper practices for local councils to follow when making arrangements for making payments	49



### Chapter 6: The Annual Governance Statement

*This chapter describes the purpose of the Annual Governance Statement and explains what each of the assertions made in the governance statement means.*

#### What is the Annual Governance Statement?

110. The Annual Governance Statement is an assessment by the council that it:
- conducted its business in accordance with the law and proper standards;
  - safeguarded and properly accounted for public money; and
  - used its resources economically, efficiently and effectively.
111. As part of the Annual Governance Statement, the council will consider a number of areas and make a series of assertions or representations about how it has conducted its affairs during the year. These areas cover:
- Preparing the statement of accounts;
  - Maintaining adequate internal controls;
  - Compliance with the law and codes of practice;
  - Providing for electors' rights;
  - Managing risk;
  - Internal audit;
  - Responding to audit reports;
  - Litigation, liabilities and commitments; and
  - Trust funds.
112. The following sections explain these assertions in more detail. For each statement we provide a brief explanation along with information on where you can find further guidance.

#### What does the Annual Governance Statement say?

*1. We have approved the Statement of Accounts that has been prepared in accordance with the requirements of the Accounts and Audit (Wales) Regulations and proper practices.*

113. This first statement refers to the published accounts of the local council.
114. By approving the accounts and the Annual Governance Statement, the council asserts that it has prepared those accounts in the way prescribed by the law and in accordance with proper practices. Parts 3 and 4 of this guide explain in more detail the legal requirements for the accounts.
115. Before making this assertion, the council should ensure it reviews the accounting statements and consider if they are:
- complete and in accordance with the supporting records;
  - prepared on the correct basis and in accordance with this guide; and
  - supported by sufficient evidence and explanation needed by the council.

## Part 2 – Governance for local councils

*2. We have maintained an adequate system of internal control, including measures designed to prevent and detect fraud and corruption, and reviewed its effectiveness.*

116. This second statement refers to the council's responsibility to ensure that it manages its affairs in accordance with proper standards of financial conduct. A sound system of internal control is essential to achieve this. The system of internal control comprises the financial checks and balances the council has in place to protect its money and other resources. These controls help to prevent and detect fraud and corruption.
117. In order to make this statement, the council must review the effectiveness of its system of internal control and test the following arrangements at least once a year:
- the overall control environment, including internal audit
  - budgetary control and monitoring arrangements; and
  - the documentation and application of control procedures.
118. In order to make this statement, the council must review and test these arrangements at least once a year to make sure that they are working in an adequate and effective way. Such a review is a legal requirement of the Regulations.
119. Chapter 7 contains a more detailed discussion on internal controls. The Wales Audit Office's Good Practice Exchange (<http://www.wao.gov.uk/2594.asp>) also includes additional guidance on financial checks and balances.

*3. We have taken all reasonable steps to assure ourselves that there are no matters of actual or potential non-compliance with laws, regulations and codes of practice that could have a significant financial effect on the ability of the council to conduct its business or on its finances.*

120. This third statement deals with the council's responsibility to act within the law. Local councils are statutory bodies. As such, they only have power to act where allowed by the law. By making this statement, the council confirms that it has only done things where it has the legal power to do so and that it has complied with any relevant codes of practice.
121. In order to make this statement, the council needs to make arrangements for monitoring the legal basis under which it acts.

*4. We have provided proper opportunity for the exercise of electors' rights in accordance with the requirements of the Accounts and Audit (Wales) Regulations.*

122. The Public Audit (Wales) Act gives members of the public certain rights related to the accounts and the audit. Members of the public may inspect the accounts and the related records or contact the external auditor. The Regulations require the accounts and supporting records to be available for inspection for 20 working days prior to a date

## Part 2 – Governance for local councils

specified by the appointed auditor. Electors may also question the auditor about the accounts or make objections to items in the accounts.

123. It is important that the council allow members of the public to exercise these rights under the Act. This fourth statement, confirms that the council has during the year allowed all persons who may be interested the opportunity to exercise their rights under the Act.
124. Before making this statement, the council should ensure that it has advertised the audit properly. It should also ensure there were adequate arrangements in place for the inspection of the accounts. Further information on electors' rights under the Act and Regulations is set out in chapter 23.

*5. We have carried out an assessment of the risks facing the council and taken appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required.*

125. This statement deals with the council's responsibility to identify, evaluate and manage operational and financial risks.
126. The council should ensure that a full review of risks is undertaken at least annually. This review should be formally reported to the council. Further guidance on risk management is included in chapter 9.

*6. We have maintained an adequate and effective system of internal audit of the council's accounting records and control systems throughout the year and have received a report from the internal auditor.*

127. Regulation 6 of the Accounts and Audit (Wales) Regulations 2005 (as amended) requires all local councils to "maintain an adequate and effective system of internal audit..."
128. Internal audit is an ongoing function rather than one that is only completed at the year-end. To complete this statement, councils will need to review the internal audit report and consider if the scope and extent of audit provides the assurance they need.
129. Further guidance on internal audit is included in chapter 8.

*7. We have taken appropriate action on all matters raised in previous reports from internal and external audit.*

130. As part of the normal reporting process, both internal and external auditors report their key findings to the council. They may also recommend improvements to internal systems. To ensure that internal controls and governance arrangements are effective, the council should take the actions agreed in response to auditors' reports on a timely basis.
131. A review of the actions taken in response to auditors reports will allow the council to make this statement.

## Part 2 – Governance for local councils

*8. We have considered whether any litigation, liabilities or commitments, events or transactions, occurring either during or after the year-end, have a financial impact on the council and, where appropriate, have included them on the Statement of Accounts.*

132. The eighth statement covers the local council's responsibility to conduct its financial affairs properly and to put in place proper arrangements to protect its financial standing
133. This statement provides assurance that the council has considered and disclosed in the annual return all matters relevant to its business. This includes any relevant events that have taken place in the period between the end of the financial year and the date of the annual return, which could have an impact on its ability to continue its work.

*9. Trust funds – in our capacity as trustee we have discharged our responsibility in relation to the accountability for the fund(s) including financial reporting and, if required, independent examination or audit.*

134. Councils that act as sole managing trustee of trust funds or assets and have already answered "Yes" to the note in section 1 use this statement. This statement confirms that the sole managing trustee has:
- complied with Charities Acts;
  - arranged for an audit or independent examination of the trust's accounts (if required); and
  - completed all appropriate returns to the Charity Commission.

In order to provide this assurance, the council will need to check that the trust fund's accounts have been subject to an independent examination or audit and that the relevant charity Commission returns have been submitted.

### Chapter 7: Internal controls or checks and balances

*This chapter describes the nature of internal controls and sets out how local councils operate controls.*

#### What are internal controls?

135. Internal controls are essential checks and procedures that help council members:
- meet their responsibilities to safeguard the council's assets;
  - administer the council's finances and assets in a way that identifies and manages risk; and
  - ensure the quality of financial reporting by keeping proper accounting records and preparing timely and relevant financial information.
136. These checks and balances will include procedures to receive money, make payments, record financial transactions and by its internal audit, to check that this is being done.
137. Internal controls reduce but do not remove completely, the risk of losses through:
- theft and fraud;
  - poor decision-making;
  - human error;
  - breaches of controls and unforeseeable events.
- Although the risks are not completely removed, internal controls should also help members to detect problems sooner and take any necessary action.
138. The type of financial checks and balances the council puts in place will depend on the size of the council and the range of services the council provides. Larger councils providing a wider range of services will need a wider range of checks and balances than smaller councils. However, every council must have some basic checks and balances.
139. Generally, controls are of two types:
- Preventative Controls: that are designed to discourage errors or irregularities from occurring (i.e., processing vouchers only after signatures have been obtained from appropriate personnel), and
  - Detective Controls: these find errors or irregularities after they have occurred (i.e. reviewing bank statements for items not in the cashbook).

#### Who is responsible for internal controls?

140. Regulation 4 states that the council is responsible for putting in place and ensuring that there is a sound system of internal control. This system must facilitate the effective exercise of the council's functions, include arrangements to manage risk and secure adequate and effective financial management.
141. The tone at the top created by members will embed a culture of proper control in the council as a whole. Members should therefore lead by example in adhering to the established internal controls and good practice.
142. Regulation 5(1) states that the RFO must determine on behalf of the council and after consideration of proper practices, its accounting control systems. The Regulation notes that the RFO shall also ensure that the accounting control systems are observed.

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143. Regulation 5(4) specifies that the accounting control system shall include:

- a) measures to ensure that the financial transactions of the body are recorded as soon as reasonably practicable and as accurately as reasonably possible, measures to enable the prevention and detection of inaccuracies and fraud, and the ability to reconstitute any lost record
- b) identification of the duties of officers dealing with financial transactions and division of responsibilities of those officers in relation to significant transactions
- c) procedures to ensure that uncollectable amounts, including bad debts, are not written off except with the approval of the responsible financial officer, or such member of that person's staff as is nominated for this purpose, and that the approval is shown in the accounting records; and
- d) measures to ensure that risk is appropriately managed

144. Therefore, there is a joint responsibility between the members and the RFO to ensure an adequate system of internal control exists.

### What is the review of the system of internal control?

145. Regulation 4 also requires the council to review at least once a year, the effectiveness of the system of internal control and to prepare a statement on internal control.
146. The Welsh Assembly Government, in its guidance on the Regulations, considers that the annual governance statement included in the Auditor General's annual return serves the purpose of the annual statement of internal control.
147. Further guidance on completing the annual governance statement is included in Chapter 6.
148. In order to review the system of internal control, the council must first understand the nature of the control system and its various components. These will include:
- high level controls providing an overall framework; and
  - specific controls related to activities and transactions.
149. The annual review should include an assessment of whether the controls:
- operated during the year;
  - are relevant and appropriate for the council, and
  - are not too onerous or disproportionate.

### High level internal controls

150. The following high level controls should be in place at all councils:

Control area	
Segregation of duties	A key feature of an effective control framework is to ensure that where possible, no single individual has sole responsibility for any transaction from authorisation to completion and

## Part 2 – Governance for local councils

	<p>review.</p> <p>For smaller councils there may be particular resource constraints that make proper segregation of duties difficult to achieve. However, members can take action to compensate for these difficulties. For example, members reviewing reports of transactions independently of the RFO.</p>
Budgetary control	<p>One of the most important financial monitoring activities is budgetary control. This is monitoring the council's performance against its budget. The council should have procedures for regular budget reporting in place.</p> <p>More detail on budgets is set out in chapter 13.</p>
Internal audit	<p>The role of internal audit is to look at the effectiveness of the council's financial controls. The members should consider reports prepared by the internal auditor that identify weaknesses in internal control.</p> <p>More detail on internal audit is included in chapter 8.</p>
Payments	<p>The use of cheque payments is diminishing with the use of electronic payment. It is essential that the council has robust controls in place over payments made.</p> <p>More detail on controls over payments is included in chapter 11.</p>

### Internal controls over activities and transactions

151. The following table contains advice covering internal controls over a range of financial activities. When using this guidance, councils and RFOs should focus on the sections that are relevant to their particular council. For example, if the council does not use electronic banking the section will not be relevant. The lists are not exhaustive but should assist councils to develop their own internal control system.

Control area	Control objective	Example controls
Income received	The controls in place should provide assurance that the income received is secure, accurately recorded and banked as quickly as possible.	<p>All cash and cheques received should be recorded and banked as soon as possible. The following controls should be in place:</p> <ul style="list-style-type: none"> <li>• Where possible, at least two people are involved in handling and recording monies received;</li> <li>• Cash collected is banked as soon as possible without deduction of expenses;</li> <li>• Records are kept of each source of funds or fundraising event in enough detail to identify gross receipts or takings and costs incurred;</li> <li>• Pre-numbered, carbon copy receipts are issued for all payments received.</li> </ul>
Trading	Trading includes all goods	Controls will depend on the type of

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income and fees	and services provided for a fee. Controls should ensure that all income due to the council is received and recorded.	activity carried out by the council. Controls should generally include: <ul style="list-style-type: none"> <li>• Establishing a pricing policy for goods and services supplied including regular review of price structures;</li> <li>• Invoicing procedures for all goods and services provided;</li> <li>• Review of outstanding debts and collection procedures;</li> <li>• Procedures to reconcile goods and services provided to amounts invoiced and cash received to outstanding balances.</li> </ul>
Income records	Internal controls should ensure the council accurately maintains accounting records of income.	Certain basic controls performed regularly may serve as an early warning of anything going wrong. Regular checks should be made to ensure that: <ul style="list-style-type: none"> <li>• Records of cash and cheques received agree with bank paying in slips;</li> <li>• Paying in slips agree with bank statements both in terms of amount banked and date of credit; and</li> <li>• Transfers or other direct payments into the bank are verified against supporting paperwork.</li> </ul> These checks should be made by someone other than the person concerned with the original recording of the transactions.
Authorisation of expenditure	Expenditure controls ensure that only necessary and authorised purchases are made. Controls also ensure that the council makes payments only for goods and services actually received and at agreed prices.	Controls over purchases may include: <ul style="list-style-type: none"> <li>• Establishing authority levels for placing orders and approving payments which are clear and documented; and</li> <li>• Ensuring invoices received are checked against orders to confirm prices and the receipt of the goods or services ordered.</li> </ul>
Wages and salaries	The purpose of payroll controls is to make sure that the council pays the correct amounts to genuine employees and HMRC.	The payment of wages and salaries is often a major item of a council's expenditure and therefore adequate control over these payments is essential. In addition to paying employees, the controls should ensure that the council is not exposed to additional liabilities from breaches of statutory regulations e.g. by



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		<p>failing to correctly deduct tax and national insurance.</p> <p>Internal controls should be established to should ensure that:</p> <ul style="list-style-type: none"> <li>• PAYE records are maintained for all employees;</li> <li>• Statutory deductions are paid to HMRC and pension contributions paid to pension providers promptly;</li> <li>• Deadlines for year end returns to HMRC are met e.g. P35, P11D and P60;</li> <li>• Minimum wage legislation is adhered to;</li> <li>• Only authorised or required deductions are made from pay;</li> <li>• All employees have a proper contract of employment and individuals are not incorrectly classified as self employed;</li> <li>• Personnel records are checked against pay records periodically to prevent payments to former employees;</li> <li>• Changes to pay, hours, overtime or non-standard hours are authorised promptly; and</li> <li>• No individual has the authority to set his or her own pay.</li> </ul>
Assets	Internal controls should be in place to safeguard the assets and investments held by the council from loss or damage and to ensure their proper use within the community.	<p>Internal controls may include:</p> <ul style="list-style-type: none"> <li>• Maintaining an asset register (see chapter 17 for further detail);</li> <li>• Regular inspection of fixed assets to ensure they exist, remain in good repair and are being used appropriately;</li> <li>• Appropriate authorisation for the disposal or scrapping of fixed assets; and</li> <li>• Maintaining secure boundaries of any land and buildings held by the council and holding all title deeds securely.</li> </ul>
Investments	Internal controls should ensure that the councils investments are safeguarded	<p>Controls should include:</p> <ul style="list-style-type: none"> <li>• Setting an investment policy (see chapter 10 for more detail on managing investments);</li> <li>• Maintaining records of all investments held; and</li> </ul>

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		<ul style="list-style-type: none"> <li>Accounting controls to ensure that all dividends, rent or interest payments due are received.</li> </ul>
Bank accounts	<p>Controls over bank accounts ensure that the amount of money held at any given point in time can be identified and that this money is secure</p>	<p>Controls should include:</p> <ul style="list-style-type: none"> <li>Monthly preparation of bank reconciliations for all accounts. A second person should review the reconciliations and resolve any discrepancies. For more detail, see chapter 16; and</li> <li>Keeping a list of all bank accounts and reviewing it for dormant accounts, which should be closed.</li> </ul> <p>To maintain the security of bank accounts, the following controls should be in place:</p> <ul style="list-style-type: none"> <li>Segregation of duties to prevent any single person being able to control the council's resources;</li> <li>Proper approval for movements between and payments from bank accounts. For more detail, see chapter 11;</li> <li>After each electronic banking transaction, a print out should be taken showing transaction details and stored as part of the accounting record;</li> <li>Keeping all PCs with access to online banking facilities secure;</li> <li>Ensuring all PCs are up to date with anti virus, spy ware and firewall software;</li> <li>Adequate training for those using the electronic banking facility; and</li> <li>Changing access passwords periodically and following changes in authorised employees and members.</li> </ul>

### Chapter 8: Internal audit

*This chapter explains why local councils need internal audit and describes good practice for the internal audit arrangements. It is relevant to all local councils.*

#### Why does the council need an internal audit?

152. Regulation 6 requires local councils to ‘maintain an adequate and effective system of internal audit.’ Internal audit must look at the accounting records and the system of internal control. It must also comply with proper internal audit practices. This guidance provides non-statutory proper practices in relation to local councils.

#### What is the purpose of internal audit?

153. The purpose of internal audit is to review whether the systems of financial and other control are effective. It is essential that the internal audit function is sufficiently independent of the financial controls and procedures of the council that are the subject of review. The person or persons carrying out the internal audit must also be competent to carry out the role in a way that will meet the business needs of each local council.
154. Internal audit is an ongoing function but must report at least annually. There is no requirement to only carry out an internal audit once each financial year. Nor does the audit have to be carried out only at the completion of each financial year-end. It is undertaken as appropriate during the financial year to test the existence and adequacy of internal controls.
155. Internal audit does not involve the detailed inspection of all records and transactions of the council in order to detect error or fraud. It is the periodic independent review of the council’s internal controls. The internal audit report should help to improve the council’s operating procedures. Managing the council’s internal controls should be a day-to-day function of the staff and management.
156. It is important for councils to consider whether the internal audit is proportionate to the needs, the size and the circumstances of the council.
157. Each council sets out its control objectives usually in the form of standing orders and/or financial regulations. The smaller the council, the less onerous these need to be. Similarly, the scope of internal audit at smaller councils will be correspondingly less than at larger ones. The more complex the council is or becomes in terms of its organisation and range of services, number of employees etc. the wider ranging the scope of internal audit should be.
158. The council must determine the necessary scope and extent of its internal audit. It must also make sure that it is fit for the purpose for which it is required at that particular council. The following section set out how local councils secure internal audit. One Voice Wales and SLCC officers may also have up to date information about locally available sources of internal audit.

#### Who can be appointed as an internal auditor?

159. Local councils secure internal audit in various ways. The following table sets out a range of options. As stated above, it is for each local council to determine how best to meet the legal requirement for an internal audit having regard to its business needs and circumstances.

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### Local councils secure an internal audit in various ways including:

- appointing a local individual or a member of a panel of individuals. An individual will need to demonstrate adequate independence and competence to meet the needs of the local council;
- employing a competent internal auditor with sufficient organisational independence and status to undertake the role;
- purchasing an internal audit service from the principal authority where it is usual for a small team of employees to be established as internal audit;
- purchasing an internal audit service from a local firm or specialist internal audit practice. The firm needs to have an understanding of the local government framework and a number of professional firms offer a service to public bodies, authorities and commercial companies. For the largest of local councils a specialist contractor appointment may be appropriate;
- For practical examples of how local councils have secured internal audit see paragraph 166 below.

160. There are two key principles which all local councils must ensure are met by their internal audit function, regardless of how procured. These principles are independence and competence.
161. Independence means that the internal auditor must not be involved in the council's management or administrative roles. Members would find it difficult to demonstrate that they are sufficiently independent of the financial decision-making and procedures of the council. In order to maintain their independence such a member would need to exclude themselves from the council's key financial decisions.
162. In the same way, it would be inappropriate for someone engaged by the council to assist with bookkeeping or preparing the statement of accounts to be the internal auditor.
163. Councils should be aware of possible conflicts of interest when appointing an internal auditor. For example, providers of accounts software may offer internal audit services through an associate company, firm or individual.
164. Councils should not ask those charged with carrying out internal audit to offer consultancy or advice on the council's financial controls and procedures. For them to do so would prejudice their ability to give an objective and independent view on whether these meet the needs of the council.
165. There is no requirement for a person providing the internal audit role to be professionally qualified. However, the essential competencies needed for any internal audit service are an:
- understanding of basic accounting processes;
  - understanding of the role of internal audit in reviewing systems rather than undertaking detailed checks that are more appropriately the responsibility of management;
  - awareness of risk management issues; and
  - understanding of accounting requirements of the legal framework and powers of local councils.
166. There are a number of practical examples of how local councils have sourced their internal audit service which are shown in the exhibit below:

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A number of innovative and creative solutions have been developed by SLCC branches and local councils themselves for sourcing internal auditors at reasonable cost:

- local panels of members who are no longer able to carry out the internal audit function at their individual councils;
- local panels of officers (usually clerks) providing internal audit services to each other and sometimes wider afield;
- local residents who are retired accountants;
- local residents who are former members or clerks of the local council;
- local bank managers (some high street banks have community development policies which encourage their officers to take part in community activities – they are not allowed to charge);
- local business owners and managers – a number of larger corporations have policies similar to the banks with regard to community action;
- independent examiners for local charities;
- specialist internal audit service providers operating on a fixed fee or on an hourly rate;
- consortia organised by the local SLCC branch (or sometimes in partnership) providing affordable internal audit services;
- individuals identified by SLCC acting under their quality controls to provide internal audit services to local councils.

1 Subject to the guidance that one to one reciprocal arrangements between councils are unlikely to be seen as being sufficiently independent to satisfy this requirement

### What does the internal audit involve?

167. The duties of internal audit relate to reporting to the council on the adequacy of systems of control. Section 4 of the annual return includes an internal audit annual report. The guidance given within the annual return is necessarily brief.
168. The work of internal audit should be subject to an engagement letter on first appointment by the Council. This letter sets out the terms of the appointment. Terms may include:
  - roles and responsibilities;
  - audit planning
  - reporting requirements;
  - assurances around independence and competence;
  - access to information, members and officers;
  - period of engagement;
  - remuneration; and
  - any other matters required for the management of the engagement by the council.
169. Appendix 3 sets out detailed guidance on internal audit. Councils and internal auditors may find this helpful.
170. It is not possible to draw up a standard internal audit programme for local councils. This is because the audit programme must address the particular needs of each council. Councils must also recognise that internal audit's function is to test and report to them on whether the council's system of internal control is adequate and working satisfactorily. It is not for internal audit, nor the external auditor, actively to seek evidence of fraud,

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corruption, error or mistakes. Internal audit's role is to assist the council to fulfil its responsibility to have and maintain proper arrangements for the prevention and detection of fraud, error or mistakes.

171. It is proper for internal audit to carry out other tests on the systems of the council. The external auditor or the council's own risk management process may suggest such tests. The council should receive reports on all such work. Any internal audit report addressed to the council, may suggest actions required by the council. The council should treat these documents as documents open to view by local taxpayers.
172. A possible approach to testing by internal auditors is contained in Appendix 4 to this guidance. This is not a checklist requiring completion, but a suggested method of approach.

### Annual review of internal audit

173. Regulation 4 requires councils to carry out an annual review of the effectiveness of their system of internal control. This review is a vital part of improving governance and accountability. Internal audit is an integral part of the system of internal control.
174. As best practice and as part of the review of internal control, local councils should at least once a year, carry out a review of internal audit. The results should be included in the annual governance statement.
175. The review must reflect the council's internal audit needs and usage. It should provide sufficient assurance for the council that internal audit's work meets required standards and is effective. Councils must judge the extent and scope of the review by reference to their own individual circumstances.

### What should the review cover?

176. The starting point for the review should be an assessment against the internal audit standards set out below. This will include as a minimum making an assessment of each of the following:

Standard	Considers
Scope of internal audit	The terms of reference and the extent of the work undertaken by internal audit
Independence	The extent to which the internal auditor is able to carry out the audit without undue influence or conflict of interest
Competence	The ability and experience of the internal auditor to undertake the work
Relationships	The clarity of relationships between the council, the clerk and the internal auditor
Audit planning and reporting	The effectiveness of the audit plan and reporting procedures

177. The review should focus on the internal audit standards identified above. These will include principally a consideration of the extent to which internal audit adds value and how well it is helping the delivery of the council's objectives.

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178. Councils should not judge internal audit's effectiveness solely by the extent of compliance with expected standards. The review is mainly about how effective internal audit is, not the process it followed. In essence, the review should focus on the quality of delivery of the internal audit service i.e. reliable assurance about the council's internal controls and its management of risk.
179. Appendix 5 provides a checklist to assist councils in carrying out the review. It covers the two principal aspects of the review i.e. compliance with standards and overall effectiveness.

### Who should carry out the review?

180. A key point to note is that it is the council's responsibility to carry out the annual review. This is not a review that the external auditor can carry out as part of the annual audit. Nor can it be delegated to the clerk/RFO or to internal audit.
181. Although the internal audit provider must not influence the direction or extent of the review, it is good practice to seek their input into the process.
182. There are no hard and fast rules as to who actually performs the review or how it is carried out. Councils may wish to set up a small working party for this purpose or ask an appropriate committee. However the council completes the review, because of the link to the council's Annual Governance Statement, a full meeting of the council should receive and consider the results.
183. No single approach will suit all local councils. Much will depend upon the size of the council and arrangements in place to conduct the wider review of the system of internal control and risk management.

### What evidence supports the review?

184. Wherever possible, reviewers should gather evidence to support the review throughout the year. There are many possible sources of evidence and some examples are set out below:
  - Previous year's review and action plan;
  - Annual report by internal audit;
  - Periodic reports from internal audit, if any, which could include one or more of the following:
    - an internal audit plan;
    - cyclical internal audit monitoring reports;
    - the results of any investigations; and
    - review of performance indicators, if used;
  - Any reports by the external auditor covering internal audit work or on key financial systems; and
  - Results of any other external reviews of internal controls or aspects of them.

### What is the outcome of the review?

185. The review of the effectiveness of internal audit cannot be considered in isolation as it feeds into the council's review of the wider system of internal control. The report on the review must include an opinion as to whether or not the internal audit system is effective.

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186. Aside from the need to report publicly the outcome of the review, if there are any areas identified for development or change in internal audit, an action plan should be produced so that the council can manage the remedial process. The action plan should set out the areas of improvement required, any proposed remedial actions, the people responsible for delivering improvement, and the deadlines for completion of the actions. The council should regularly monitor progress in implementing any recommendations identified.

### **What is the timescale?**

187. Just as the Annual Governance Statement needs to be considered throughout the year, the review of internal audit should not be left until the year-end. The review feeds into the Annual Governance Statement and so it needs to be completed first. Therefore, councils must allow time for the review in drawing up their timetable for the completion of the annual return.
188. The council should monitor the action plan from the previous year's review throughout the year, linked to the way that it monitors the Annual Governance Statement action plan.

### **Is training available?**

189. Those carrying out the review of internal audit will need to understand the purpose of the review, what it includes and how to carry it out. Training on this may be delivered by One Voice Wales and SLCC or from the local unitary authority.

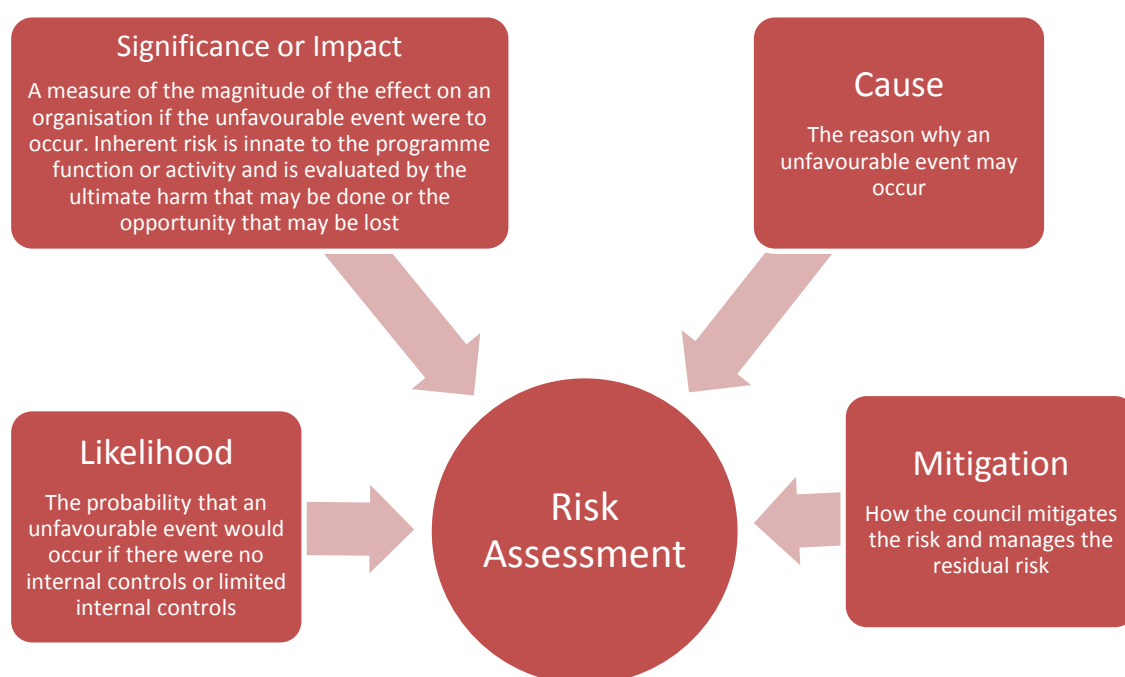


### Chapter 9: Risk assessment

*This chapter explains how local councils can identify and address the risks they face in delivering public services.*

#### What are risks and risk assessment?

190. In all types of public body, there is the potential for events and consequences that may either be opportunities for benefit or threats to success. Local councils are no different. Risk management is recognised as being central to their strategic management.
191. Risks are events that threaten the achievement of objectives. There are both internal and external risks. Examples of risks include human error, fraud, system breakdowns and natural disasters. The risk assessment process involves identifying each risk in terms of:



#### What is risk management?

192. Risk management is the process where local councils methodically address the risks associated with what they do and the services that they provide. The focus of good risk management is to identify what can go wrong and take steps to avoid this or successfully manage the consequences.
193. Risk management is not only financial management. It is about meeting the objectives to deliver high quality public services. Failure to manage risks effectively can be expensive in terms of litigation and reputation, the ability to achieve desired targets. In the long term, these affect the local community's council tax bills.
194. The Auditor General's audit approach encourages local councils to deal with these issues. It emphasises the need to keep under review and strengthen councils' governance

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arrangements. This improves councils' stewardship of public funds and provides positive and continuing assurance to taxpayers.

195. The importance of looking afresh at risk comes in the wake of a more demanding society, bold initiatives and more challenge when things go wrong. Local councils currently face pressures that may lead to a range of new and complex risks. Therefore, effective risk management is more important now than at any other time.
196. Because of the impact on policy objectives, members are responsible for risk management. As a minimum, members should, at least once each year:
  - take steps to identify and update key risks facing the council;
  - evaluate the potential consequences to the council if an event identified as a risk takes place;
  - decide upon appropriate measures to avoid, reduce or control the risk or its consequences, and
  - record any conclusions or decisions reached.
197. The council should receive a formal report on the risk assessment review. The council's minutes should record that the council conducted the review.
198. It is not possible to present a full list of the risks faced by local councils. The nature, complexity and scale of the business of councils vary as do their priorities and service delivery objectives. This is why each council must identify for itself the key risks to successful achievement of its priorities and service objectives. Identifying risks can be a daunting task and so local councils may find it helpful to use as a starting point the examples of risk set out in the three tables at the end of this chapter.
199. Both One Voice Wales and SLCC offer support for councils wishing to improve their risk management arrangements. Further guidance may also be available from the council's insurance provider and by reference to various elements of the National Training Strategy.
200. One reason why risk identification can be daunting is that, without doing anything else, it could lead to a long list of potential threats with no sense of their relative importance. For this reason the council should also evaluate the potential consequences of a risk occurring and consider how likely this is.
201. For example, a single large capital project will present a number of individual risks. Each of these will require evidenced assessment and response to make the project manageable. The risk assessment in such a case may well lead to the reasonable conclusion that the biggest risk is that the council does not possess the skills internally to successfully deliver the project and that outside assistance is required.
202. The consequences of an identified risk may include financial loss. However, even if the immediate impact is not financial e.g. an adverse impact on the council's reputation, this can have financial consequences in the longer term. For example, if this impedes the council's ability to bid for funds in future.
203. The assessment of potential impact need not be any more complex than classifying each impact as high, medium or low. At the same time, it is a good idea to assess how likely a risk is to occur. Councils can also do this using high, medium and low likelihood categories. These value and probability assessments enable the council to decide which risks it should pay most attention to when considering what measures to take to manage the risks.
204. After identifying and evaluating risks, councils need to decide upon appropriate measures to take to avoid, reduce or control the risks or their consequences. The tables at the end

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of this chapter give examples of control measures relevant to some of the risk areas that councils can face.

205. The council's internal auditor will have a role in reviewing the effectiveness of control measures that the council decides to put in place. Examples of internal audit tests are set out in the three tables at the end of this section.

### How can risk be managed?

206. The tables are, for ease of reference, grouped into the three main types of decision that councils take in relation to managing risk, having considered the controls which they need to have in place. These are:
- take out insurance [table 1];
  - work with a third party to manage the risk [table 2]; or
  - self-manage the risk [table 3].
207. The tables are not intended to be exhaustive and they cover topics that may not be relevant to all councils. They are intended to create a starting point for the development of a system of risk management for each local council.

### Risk management

**Table 1: Areas where there may be scope to use insurance to help manage risk**

**Risk identification** Insurance cover for risk is the most common approach to certain types of inherent risks:

- The protection of physical assets owned by the council – buildings, furniture, equipment, etc (loss or damage)
- The risk of damage to third party property or individuals as a consequence of the council providing services or amenities to the public (public liability)
- The risk of consequential loss of income or the need to provide essential services following critical damage, loss or non-performance by a third party (consequential loss)
- Loss of cash through theft or dishonesty (fidelity guarantee)
- Legal liability as a consequence of asset ownership (public liability)

#### **Internal controls**

A council's internal controls may include:

- An up to date register of assets and investments
- Regular maintenance arrangements for physical assets
- Annual review of risk and the adequacy of cover
- Ensuring the robustness of insurance providers

#### **Internal audit assurance**

Internal audit testing may include:

- Review of internal controls in place and their documentation
- Review of management arrangements regarding insurance cover
- Testing of specific internal controls and reporting findings to management

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**Table 2: Areas where there may be scope to work with a third party to help manage risk**

### **Risk identification**

The limited nature of internal resources in most local councils means that councils wishing to provide services often buy them in from specialist external bodies, e.g.

- Security for vulnerable buildings, amenities or equipment
- Maintenance for vulnerable buildings, amenities or equipment
- The provision of services being carried out under agency/partnership agreements with principal authorities
- Banking arrangements, including borrowing or lending
- Ad hoc provision of amenities/ facilities for events to local community groups
- Markets management
- Vehicle or equipment lease or hire
- Trading units (leisure centres, playing fields, burial grounds, etc)
- Professional services (planning, architects, accountancy, design, etc)

### **Internal controls**

A council's internal controls may include:

- Standing orders and financial regulations dealing with the award of contracts for services or the purchase of capital equipment
- Regular reporting on performance by suppliers/providers/contractors
- Annual review of contracts
- Clear statements of management responsibility for each service
- Regular scrutiny of performance against targets
- Adoption of and adherence to codes of practice for procurement and investment
- Arrangements to detect and deter fraud and/or corruption
- Regular bank reconciliation, independently reviewed

### **Internal audit assurance**

Internal audit testing may include:

- Review of internal controls in place and their documentation
- Review of minutes to ensure legal powers are available, and the basis of the powers recorded and correctly applied
- Review and testing of arrangements to prevent and detect fraud and corruption
- Review of adequacy of insurance cover provided by suppliers
- Testing of specific internal controls and reporting findings to management

**Table 3: Areas where it may be better to self manage the risk**

### **Risk identification**

There are a number of activities that create business risks but are better self-managed because either they are difficult to quantify, it would not be efficient to use external support or they are just uninsurable:

- Keeping proper financial records in accordance with statutory requirements
- Ensuring all business activities are within legal powers applicable to local councils
- Complying with restrictions on borrowing
- Ensuring that all requirements are met under employment law and regulations
- Ensuring all requirements are met under HM Revenue and Customs Notices and regulations (Income Tax, National Insurance and VAT)
- Ensuring the adequacy of the annual precept within sound budgeting arrangements
- Monitoring of performance against agreed standards under partnership agreements
- Ensuring the proper use of funds granted to local community bodies under specific powers or under section 137
- Proper, timely and accurate reporting of council business in the minutes
- Responding to electors wishing to exercise their rights of inspection
- Meeting the laid down timetables when responding to consultation invitation
- Proper document control
- Register of Members' interests, gifts and hospitality complete, accurate and up to date

### **Internal controls**

A council's internal controls may include:

- Regular scrutiny of financial records and proper arrangements for the approval of expenditure
- Recording in the minutes the precise powers under which expenditure is being approved
- Regular returns to HM Revenue & Customs; contracts of employment for all staff, annually reviewed by the Council, systems of updating records for any changes in relevant legislation
- Regular returns of VAT; training the RFO in matters of VAT and other taxation issues
- Regular budget monitoring statements
- Developing systems of performance measurement
- Procedures for dealing with and monitoring grants or loans made or received
- Minutes properly numbered and paginated with a master copy kept in safekeeping
- Documented procedures to deal with enquiries from the public
- Documented procedures to deal with responses to consultation requests
- Documented procedures for document receipt, circulation, response, handling and filing
- Procedures in place for recording and monitoring Members' interests and Gifts and Hospitality received
- Adoption of codes of conduct for members and employees.

### **Internal audit assurance**

Internal audit testing may include:

- Review of internal controls in place and their documentation
- Review of minutes to ensure legal powers in place, recorded and correctly applied;
- Testing of income and expenditure from minutes to cashbook, from bank statements to cashbook, from minutes to statements etc. including petty cash transactions
- Review and testing of arrangements to prevent and detect fraud and corruption
- Testing of disclosures
- Testing of specific internal controls and reporting findings to management

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### Insurance

208. All local council employers must take out employers' liability insurance. They should also obtain fidelity guarantee insurance to cover losses from employees. The council should keep under review, all cover to make sure it adequately reflects changes in needs.
209. Adequate insurance against third party risks is vital especially if a local council owns property such as bus shelters, swimming pools and playground equipment.
210. The council should review the range and value of insurance cover each year. At the expiry of each policy, consideration should be given to inviting competitive quotations for the new policy.

### Chapter 10: Managing investments

*This chapter provides guidance on managing long term investments.*

#### What is a long term investment?

211. It is rare for a local council to hold investments other than deposit or other short-term savings accounts. Councils use these short-term investments to maximise income from cash balances during the financial year. They should all be included in the bank reconciliation and line 9 of the accounting statements.
212. From time to time circumstances may require councils to make decisions to hold long-term investments e.g. while deciding how to apply the proceeds of a donation or a capital receipt arising from an asset sale.
213. A long-term investment is any investment other than one that:
  - is contractually committed to be paid within 12 months; or
  - where the body making the investment may require it to be repaid or redeemed within 12 months of the date on which the investment was made.

For ease of reference, councils may assume that bank deposits and accounts are classed as short-term investments and are included in line 9 of the accounting statements. Other investments e.g. shares, war bonds and other tradable items whose capital value can change over time are classed as long term investments and are excluded from line 9.

#### Managing long-term investments

214. These investments must be managed within the asset register and in accordance with the Welsh Assembly Government's statutory guidance on investments. The statutory guidance sets out its application to community councils. It requires that all community councils must follow the key criteria of liquidity and security and councils will need to produce an Annual Investment Strategy once a year. This is a specific requirement for councils with long-term investments exceeding £500,000. The guidance is reproduced in Appendix 6.
215. Long-term investments in assets whose capital values may vary over time carry increased risks and require active management. Because investment management is a specialist area, prudent councils will always seek independent professional assistance when developing their investment strategy and before making decisions.
216. The annual investment strategy will consider whether it is appropriate to retain long-term investments. The strategy will also:
  - set out management arrangements for the investments held;
  - procedures for determining the maximum periods for which funds may prudently be committed; and
  - ensure that the council has properly assessed the risk of committing funds to longer-term investments.
217. Councils should note that it should treat the acquisition of a long-term asset as capital expenditure. Therefore, a council must identify as a long-term asset, all long-term investments, other than in interest bearing accounts. The council treats the initial expenditure as capital expenditure and records the outlay as a payment or expenditure in the year of acquisition.
218. When forward planning, councils should have regard to the fact that the acquisition of long-term assets is always capital expenditure that reduces available balances and

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reserves. A council may also on occasion decide to support its work by making a loan to a local body. This type of investment creates a long-term asset.

219. When a council receives shares following a de-mutualisation of a Building Society or similar institution this also creates a long-term asset.
220. Chapter 18 provides guidance on how councils account for and report short-term and long-term investments in the annual return.



### Chapter 11: Making payments

*This chapter describes the general duty of local councils to make payments in accordance with proper practices. It also sets out the proper practices that local councils should follow.*

#### Proper payments practices – the general duty

221. Local councils must have in place safe and efficient arrangements for managing money to the highest standard of honesty and integrity. These arrangements must include arrangements for handling receipts and payments and for the storage and movement of funds.
222. While protecting assets and the public purse, arrangements should allow local councils to:
- safely upgrade the quality of their funds movements; and
  - take advantage of efficiencies from modern banking methods.

#### Overview of the guidance

223. The guidance in this section defines proper practices for managing money. It supports local councils in safeguarding the risks to the funds they steward and the services they represent. It:
- defines ‘must’, ‘should’ and ‘may’;
  - defines ‘money’;
  - describes changes to the statutory environment;
  - sets out the legal framework;
  - identifies roles and responsibilities for members;
  - describes corporate arrangements for monitoring and scrutiny; and
  - describes corporate arrangements for managing risk, error and fraud.

#### Definitions

224. In this section:
- **‘Must’ identifies those requirements that failure to meet represents non-compliance with this proper practice. They are shown in bold type;**
  - ‘Should’ identifies the minimum level of acceptable proper practice. A council applying discretion based on risk assessment can replace ‘should’ requirements with ones that are more demanding; and
  - ‘May’ identifies practices for the council to consider and apply by exercising its discretion.

#### What is ‘money’?

225. ‘Money’ includes cash and all other forms of negotiable instrument and stores of value that can easily be converted into cash. For example, a non-exhaustive list of money includes:
- physical cash and notes, petty cash and unclaimed receipts, imprest accounts, cash in transit;

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- unpaid income held by debtors;
  - signed and unsigned cheques, drafts and other orders for payment;
  - current, deposit and investment accounts at banks and financial institutions and access to undrawn borrowing facilities;
  - credit cards (where held – see below), debit cards, store cards, fuel cards;
  - access to balances by telephone or electronic transfer; and
  - the ability to buy goods or services on credit.
226. Where any doubt exists over what constitutes money, councils should presume that it is within the scope of the definition. The definition covers all accounts held with financial institutions and controls over access whether physical or electronic.

### Changes to the statutory environment

227. Councils have to respond to two key changes in the statutory environment for payments by local councils.
228. Firstly, the Payments Council set out a strategic vision for UK payments in 2008. The plan accepts the long-term decline in the use of cheques and sets 2018 as a target closure date for cheque clearing. After this date, banks will no longer issue or clear cheques. Local councils therefore need to identify safe and efficient alternative methods of payment for goods and services.
229. Secondly, the government has indicated that it will repeal Section 150(5) of the Local Government Act 1972. This legislation governs the stewardship of money by local councils. It requires that ‘every cheque or other order for the payment of money shall be signed by two members of the council’.
230. While supporting progress, central government expressed concern that ‘the removal of S 150(5) should not leave the public funds controlled by parish councils at any greater risk of loss through misconduct or poor control.’ It required that ‘safeguards be put in place (so) that all the payments made by parish councils are legitimate and that there is no misuse of the system.’ This requirement equally applies to community councils in Wales.

### The roles and responsibilities of the Responsible Financial Officer

231. The law requires every local authority to arrange for the proper administration of its financial affairs and that one of its officers has responsibility for those affairs. This officer is the Responsible Financial Officer (RFO).
232. Even where a local council has not made a formal appointment, there is always a council RFO in all circumstances. By default, the RFO is the person responsible for keeping the accounts. The council should appoint a temporary RFO if the appointed RFO is unavailable through absence or illness.
233. The RFO should be familiar with statutory duties for the financial administration and stewardship of the local council which arise from:
- Sections 114 and 151 of the Local Government Act 1972;
  - The Local Government and Housing Act 1989; and
  - The Accounts and Audit (Wales) Regulations 2005 (as amended) (‘the Regulations’).
234. The responsibilities of the RFO for managing money are to advise the council on:
- the corporate financial position;
  - the key financial controls necessary to secure sound financial management; and

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- its treasury (that is cash and investments) management.

### The roles and responsibilities of members

235. **Good practice must underpin proper arrangements to protect public money. Councils must review their effectiveness regularly to identify and protect against possible risks.**
236. A local council's members are jointly and individually responsible for putting proper governance arrangements in place to safeguard public funds. Councils may delegate the role of protecting its money to individuals, for example to the Clerk or the RFO. However, the legal responsibility always remains with the council and its members.
237. Arrangements should demonstrate how the council intends to meet its responsibilities within the legal framework. They should be current and include the specific duties and responsibilities of named individuals for securely managing money and arranging its security, as well as for identifying internal controls and supervision measures.
238. The council may seek external advice and guidance if it does not have sufficient or appropriate internal expertise or knowledge. Reviews of arrangements may be carried out by members or by Internal Audit.

### Corporate arrangements for monitoring and scrutiny

239. **Councils must identify and protect all sources and forms of income and expenditure and the money represented by each. They must ensure that controls over money are embedded in Standing Orders and Financial Regulations.**
240. **Councils must not relinquish the 'two member signatures' control over cheques and other orders for payment until section 150 (5) has been repealed and they have put in place safe and efficient arrangements in accordance with this guidance.** The 'two member signatures' control is just one of many possible controls but by itself it is unlikely to meet the requirements of the general duty of care.
241. **The council must approve the setting up of and any changes to all accounts with banks or other financial institutions.**
242. **A decision to enter a 'pooling' or 'sweep' arrangement whereby the bank aggregates the council's various balances daily to minimise interest costs, must be approved by the council.**
243. **Where held, corporate credit card accounts must be set up to operate within a limit set by the council and must be cleared monthly by direct debit from the main bank account.**
244. The council should approve the bank mandate, including the list of authorised signatures and the limits of authority on each account as well as any amendments. Where multiple accounts are held, authorised signatures should not be allocated to just a few members; sharing responsibility adds to control. Authorised signatories should be rotated.
245. Internal controls set out within Financial Regulations should include the temporary holding, transit and permanent storage of money.
246. Councils should set out clearly in writing the responsibilities of officers and their managers in relation to money. Where employees have responsibilities for collecting money or making payments, their terms and conditions of employment should include adherence to internal controls, including any updates. Officers should acknowledge in writing they have understood these special responsibilities and received appropriate training.

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247. When recruiting officers to be responsible for money and funds management, or when choosing members to be controlling account signatories, councils should consider a Criminal Records Bureau (CRB) check before appointment and periodically thereafter. Any decision not to carry out a CRB check should be clearly documented.
248. Councils should avoid the use credit cards as they do not meet minimum money control standards and present unacceptable and unnecessary risks to public funds.

### Corporate controls to manage risk, error and fraud

249. **Risk assessment and internal controls must focus on the safety of the council's assets, particularly money. Councils must practice a clear segregation of duties regarding money and its movements.**
250. **Councils must be constantly vigilant and avoid complacency about managing money.**
251. Members should keep themselves informed so that they can address known risks and threats to money. Councils may engage with the police and local anti-fraud and corruption networks to keep up to date with risks and security threats.
252. Insurance is an important tool in any security plan. Fidelity Guarantee or any other form of insurance over threats to money is not by itself acceptable protection for the council's funds. Insurance should always be adequate to cover risk exposure. Insurers do not, as a rule, pay claims where internal controls are inadequate or unenforced. Police investigations are hampered and prosecutions weakened by lax controls over vulnerable assets.
253. The council should insist on accurate record keeping of transactions by regular review. Rotation of responsibilities should be practiced to avoid familiarity.
254. Members should always be aware where their money is and who has access to the funds they are responsible for. A listing of all accounts held, their current authorised signatures and their current balances should be available for members in the form of bank reconciliation. Councils should expect to see a bank reconciliation produced by the RFO at every council meeting. In the event of bank reconciliation discrepancy, explanations should be checked and verified independently. A failure to produce a bank reconciliation indicates a possible threat to financial resources.
255. Transfers between bank accounts are excluded from bank reconciliation but should be subject to the same authorities and controls as other payments and receipts. Therefore, a listing of non- 'pooled' or 'swept' inter account transfers made during the year should be maintained and made available to members or auditors on request.
256. Councils may from time to time wish to ask banks and other institutions holding the council's funds for written confirmation of balances. This should be sent to a named member who is not an authorised signatory. This is a particularly important control where paper statements are not received and reliance is placed on electronic information.
257. The RFO should issue any cheques or other orders for payment immediately after approval by the council. Cheques approved for payment by the council but held back by the RFO are not only vulnerable to theft or misappropriation but can result in an over-optimistic view of available financial resources.
258. Trade credit arrangements with local suppliers should be cleared monthly. This not only meets government targets on proper payments procedures by local government bodies but also supports local businesses that should not be called on to finance local councils.

## Part 3 – Accounting guidance for councils <£1 million

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## Chapter 12: Format of accounts – receipts and payments or income and expenditure

*This chapter explains the meaning of ‘receipts and payments’ accounts and ‘income and expenditure’ accounts and the differences between the two formats of accounts. This chapter is relevant to councils under £1 million.*

### What form of accounts must be kept?

259. The Regulations set thresholds to determine the form of accounts that local councils must keep. These are based on the council’s income and expenditure (whichever is the higher). The requirements on individual councils change once the council has exceeded or fallen below, the threshold for three consecutive years.
260. Councils that change the basis on which they present their accounts should ensure that they present comparative amounts in the annual return on a consistent basis. Any change in the way that the accounts are presented, i.e. from income and expenditure to receipts and payments (or vice versa) must be reported on the annual return e.g. by inserting the word “Restated” at the top of the prior year column in Section 1, and explained by means of a note to the auditor.
261. The current thresholds are set out below:

Value of annual income and expenditure	Basis of accounts	Format of accounts
Up to £200,000	Receipts and payments: or Income and expenditure	Annual Return – Record of receipts and payments: or Annual Return - Income and expenditure account and a statement of balances
Between £200,000 and £1,000,000	Income and expenditure	Annual Return - Income and expenditure account and a statement of balances; or Accounting statements required by proper practices (see Part 4)
Over £1,000,000	Income and expenditure	Statement of accounts required by proper practices (see Part 4)

### Receipts and payments accounts vs. income and expenditure accounts

262. Receipts and payments accounts show only the money actually received or spent during the period with no timing adjustments. If there are any capital receipts or payments, they are recorded in full in the period in which they occur.
263. Income and expenditure accounts match transactions to the accounting period to which they relate. Income is recognised when it is earned or when it is due rather than when it

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is actually received. Expenditure is recognised when it is incurred i.e. when the council has an obligation to pay rather than when it pays.

Example	Receipts and payments	Income and expenditure
The council lets the village hall for a fee of £100 on 1 March 2011. It receives £75 as part payment on 30 March 2011. The remaining £25 is received on 30 April 2011.	The monies are recorded as they are received. In this case, the council will show a receipt in 2010/11 of £75 and a receipt in 2011/12 of £25.	Income is recognised when the council earns the £100 by letting the hall. The full £100 will be shown in the 2010/11 accounts.
Payments: The council pays £1,500 for three months rent in advance for its offices on 28 February 2011.	The full payment of £1,500 is recorded in the accounts for 2010/11.	Expenditure is recognised in the years the payment relates to. Although three months rent was paid, only one month (£500) relates to 2010/11. The remaining two months (£1,000) relates to 2011/12. Therefore the 2010/11 accounts show expenditure of £500 and the 2011/12 accounts show expenditure of £1,000.

264. Most councils will maintain a receipts and payments book (cashbook). This will be adjusted at the year-end to prepare income and expenditure accounts. Chapter 19 describes this process.

### Format of accounts

265. Section 1 of the annual return standardises the presentation of accounts by local councils into a simple, easy to read format. It will be used for both receipts and payments accounts and for income and expenditure accounts. For the benefit of both the compiler and the reader, each of the thirteen line items carries a note of explanation of the intended source of the information and an explanation of how the figure is calculated.

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Item of account	What this means
1. Balances brought forward	Total balances and reserves at the beginning of the year as recorded in the council's financial records. Must agree to Line 7 of the previous year.
2. (+) Annual precept	Total amount of precept income received in the year.
3. (+) Total other receipts	Total income or receipts recorded in the cashbook minus the precept. Includes support, discretionary and revenue grants.
4. (-) Staff costs	Total expenditure or payments made to and on behalf of all council employees. Include salaries and wages, PAYE and NI (employees and employers), pension contributions and related expenses.
5. (-) Loan interest/capital repayments	Total expenditure or payments of capital and interest made during the year on the council's borrowing (if any).
6. (-) Total other payments	Total expenditure or payments as recorded in the cashbook minus staff costs (Line 4) and loan interest/capital repayments (Line 5).
7. (=) Balances carried forward	Total balances and reserves at the end of the year. Must equal $(1+2+3) - (4+5+6)$ .
8. (+) Debtors and stock balances	Income and expenditure accounts only: enter the value of debts owed to and stock balances held by the council at the year-end.
9. (+) Total cash and investments	All accounts: The sum of all current and deposit bank accounts, cash holdings and investments held at 31 March. This must agree with the reconciled cashbook balance as per the bank reconciliation.
10. (-) Creditors	Income and expenditure accounts only: enter the value of monies owed by the council (except borrowing) at the year-end.
11. (=) Balances carried forward	Total balances should equal Line 7 above: enter the total of $(8+9-10)$ .
12. Total fixed assets and long-term assets	The recorded current book value at 31 March of all fixed assets owned by the council and any other long-term assets – e.g., loans to third parties, other investments to be held for the long term i.e., more than 12 months.
13. Total borrowing	The outstanding capital balance as at 31 March of all loans from third parties (including PWLB).
14. Trust funds disclosure note	The council acts as sole trustee for and is responsible for managing (a) trust fund(s)/assets (readers should note that the figures above do not include any trust transactions).

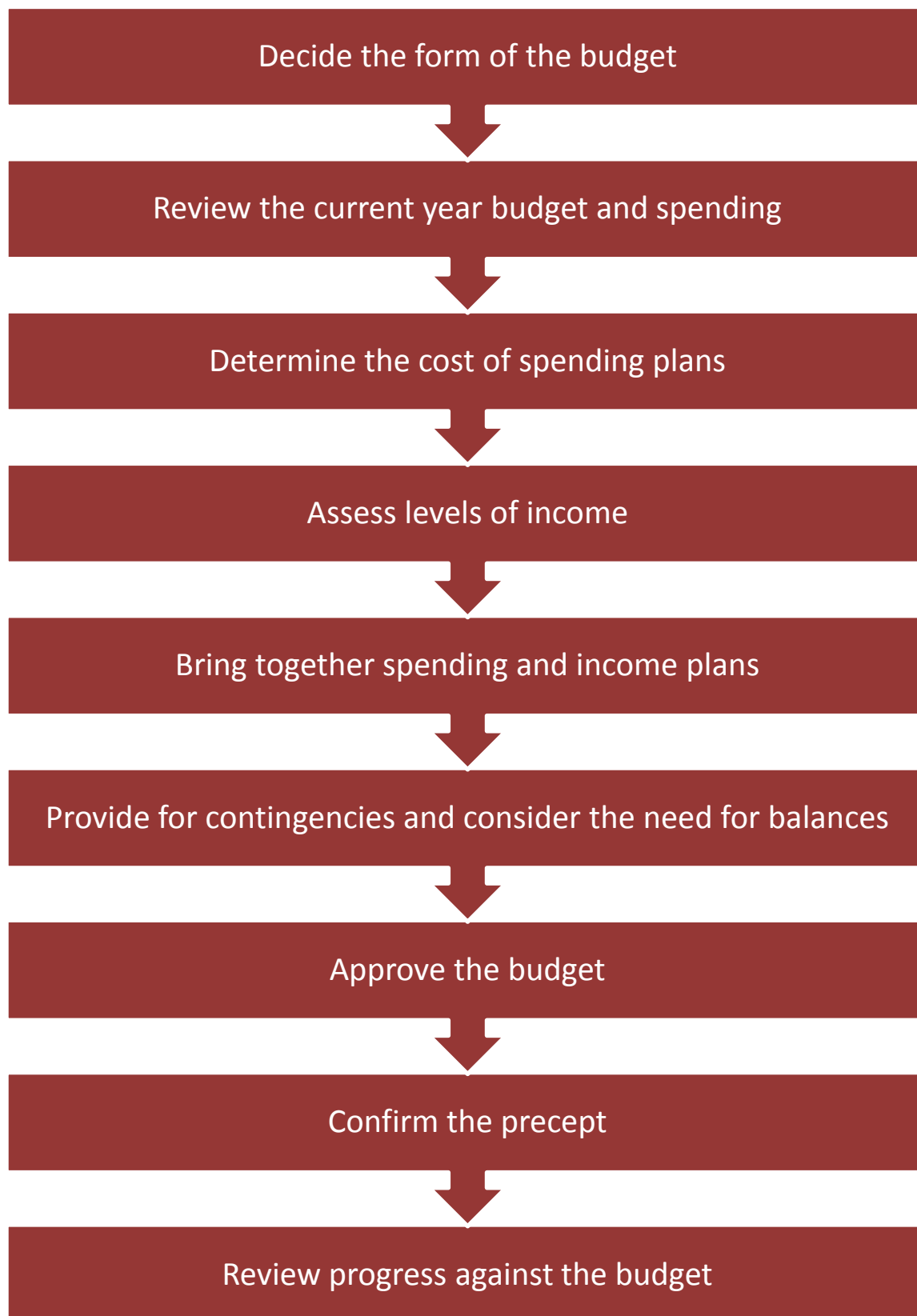


### Chapter 13: Budget setting and monitoring

*This chapter explains the importance of the budget and describes how local councils should set and monitor their budgets.*

#### The budgeting process

266. One of the key statutory tasks a local council undertakes, irrespective of its size, is to prepare an annual budget. The budget has three main purposes:
- it results in the council setting the precept for the year;
  - subject to the council's financial regulations, it may give the clerk and other officers overall authority to spend money, in accordance with the plans approved by members; and
  - it provides a basis for monitoring progress during the year by comparing actual spending against planned spending.
267. Members should not underestimate the importance of the budget. It is essential that they understand how it is put together and how it should be used in the running of the council. At its simplest, the budget compares what a council would like to spend in the forthcoming year on local services with the amount of income it expects to generate. The excess of planned spending over income is made up by the precept or by drawing on reserves held by the council. As the year progresses, things will not always go to plan. Reviewing the budget against actual expenditure will give warning when this happens and will help to decide what action to take.
268. The following chart sets out the process for preparing and making use of the annual budget:



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### Deciding the form of the budget

269. The first decision that a council must take is the level of detail at which to prepare the budget. This involves scheduling out all the headings under which the council expects to make payments or is likely to receive cash (e.g. clerk's remuneration, village hall booking fees). An estimate will then be prepared for each of these headings of the value of transactions that will take place in the next year.

### Review the current year budget and spending

270. To make estimates most councils will start by looking at current year figures to identify:
- activities that are being carried out this year that will also be carried out next year and need to be budgeted for again (e.g. payment of the clerk, running costs of the village hall)
  - things that are happening in the current year that will not happen next year and do not need to be budgeted for again (e.g. a one-off grant to the local sporting association for renovating their premises, running costs of a sports centre that is to be closed)
  - items that are not in the current year budget, and need to be added for next year's budget (e.g. major drainage works in the cemetery, employment of a caretaker for the village hall).
271. This is called incremental budgeting, as it builds on the decisions that the council has taken in the past. An alternative approach that councils sometimes take is to start with a clean piece of paper and build a fresh budget that is not constrained by what has happened in previous years. This is sometimes described as “zero-based” budgeting.

### Determine the cost of spending plans

272. Having determined what the council wants to spend its money on, the next stage is to work out the costs of its plans. For existing activities, this will require an assessment of likely changes in the level of the activity and the possible impact of wage and price inflation. The prices of new activities will have to be estimated using the best information currently available.

### Assess levels of income

273. Careful consideration should be given to budgeted levels of income for the forthcoming year. Many councils may have no other income but the precept. For others the budget setting process will usually be the time when the council makes decisions about at what level fees and charges should be set for the next twelve months.

### Bring together spending and income plans

274. In many cases, spending and income decisions are linked directly. For example, if the council decides to extend the opening hours of the community hall, it will spend more on heat and light but also generate more income from charges. However, it is an important stage of the budget process when spending plans are brought together with assessments of income to see how affordable the plans are. When doing this councils are usually more:
- optimistic about spending plans (i.e. to expect that the council will be able to carry out all its plans and spend as intended); and
  - pessimistic about income levels (i.e. to assume that the council might not be able to generate all the income it hopes to).

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275. Councils usually judge affordability by the impact the overall plans have on the precept. If there is an increase in the council's budgeted net spending for next year over the current year, would this result in an increase in the precept that would be acceptable to the local population as an addition to their council tax? In fact, many councils will work the other way around. They first decide what a reasonable increase would be for the precept and then work out what the extra funds generated can be spent on.

### **Provide for contingencies and consider the need for balances**

276. Some councils may have absolute certainty in their spending plans for the forthcoming year. For instance, if the only major outgoing is the clerk's pay and the council agrees this before the start of the year, the council will know exactly how much it will spend. However, most councils will have some uncertainty in their plans, perhaps because of general factors such as inflation or changes in interest rates on cash deposits or specific things such as not knowing exactly how much firms will tender for the re-wiring work planned for the village hall.
277. Before committing itself to its spending plans, the council should review the need for amounts to cover contingencies, for example, in case inflation is higher than expected or works are more costly than was first thought. The amounts added to the budget should not be excessive. Councils might work to the principle that it is better to raise cash from a higher precept and not use it than to set the precept too low, and so run out of cash and run the risk of incurring an unlawful overdraft.
278. A well-managed council will also look forward beyond the end of the year for which the budget is being set. It will think about whether there are any substantial commitments for which it would be prudent to set aside funds. For example, the village hall may need re-roofing in three years time, but the council could not afford the cost from that year's budget. Instead, a balance could be built up by raising the precept for a proportion of the cost in each of the next three years. Most councils will therefore budget to carry forward a balance to cover contingencies or specific spending plans. This means that in setting the budget the council will have to estimate what balance will be brought into the new year, decide what balance it wants to carry forward and charge the difference against the new year's precept.
279. Councils have no legal powers to hold revenue reserves other than those for reasonable working capital needs or for specifically earmarked purposes. Earmarked reserves, which are set aside for specific purposes and for savings for future projects, should be realistic and approved by the Council. It is generally accepted that general (un-earmarked) revenue reserves usually lie within a range of three to twelve months of gross expenditure. However, the amount of general reserve should be risk assessed and approved by the Council.
280. The council's spending plans may require a level of external borrowing e.g. for capital projects. Borrowing by local councils is subject to government controls and with certain limited exceptions, the Assembly Government's approval is required. The Assembly Government may also impose conditions in accordance with which the borrowing shall be carried out.
281. The Assembly Government publishes guidance on applying for borrowing approvals. The guidance may be found at:  
<http://new.wales.gov.uk/topics/localgovernment/publications/borrowingapprovals0809/?lang=en>.
282. Councils must always take advice before commencing any contractual borrowing arrangements. One Voice Wales or SLCC can provide useful guidance to assist councils in

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making borrowing decisions and obtaining the necessary approvals and funds. Decisions to pay outright, hire or lease should be taken with the rules on borrowing in mind. Councils should also be aware of and have internal controls in place to avoid, the possibility of ‘accidental’ borrowing. For example, if a council makes regular payments at a low point in the council’s cash flow cycle, e.g. at year-end, and just before it receives the precept payment.

### Approve the budget

283. Having determined the planned levels of spending, anticipated income and the balances needed for contingencies and future spending plans, the budget needs to be approved.
284. Much of the work preceding this stage may be delegated to the RFO. However, the council must approve the finalised budget. Members should receive sufficient information with the budget papers so that they can make a reasonable and informed decision about the desirability and affordability of the plans for the coming year. At the same time that the budget is set, members will also approve any delegation of responsibility for spending amounts set out in the budget. For example, the budget might include amounts for paying a grant to the local youth club. The RFO may then be authorised to pay the grant without having to make further reference to the council.
285. There is no statutory requirement to publish the budget but many councils will put a copy on the notice board once it has been approved. It must be made available on request under the Freedom of Information Act 2000.

### Confirm the precept

286. The important statutory stage of the budget process is confirming the precept that the local council will raise on the unitary authority for the area. The law requires that precepts be issued a month before the new financial year starts i.e. by 1 March. The unitary authority may ask receive precepts by an earlier date to assist their setting and administration of the council tax. They will normally provide assistance to local councils to ensure that everything goes smoothly. All other parts of the budget process will be timed so that the date for setting the precept can be achieved safely.

### Monitor the budget

287. Once the council approves the budget, it should be an active tool used to manage the council's finances. At regular intervals, the well-run council will prepare progress reports showing spending and income to date against budgeted amounts. The council should take care to profile the budget across the year and not necessarily assume, say, that it will spend half the budget after six months. For instance, a significant element of spending may be grants to local organisations paid at the start of each financial year. The peak of spending in April will not be characteristic of the other months of the year. An effective report would therefore contain projections for the full year based on the spend to date and future plans.
288. The council should receive these progress reports at each council meeting. This provides members either with comfort that the spending plans were proceeding as hoped or with information about areas where spending was higher or lower than anticipated. In the latter case, members will be able to consider the need to amend their expenditure plans (perhaps by switching amounts from one budget heading to another that is overspent – known as virement), to take steps to increase income, or to make decisions about using the funds that have been saved for contingencies.

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289. It is good practice to change a budget where it is clearly necessary. However, changes should only be made with the authorisation of those who approved the original budget.
290. It is also good practice for local councils to incorporate an analytical review into their regular budget monitoring procedures. The review probes the underlying reasons for variations in expected income or expenditure. This helps to ensure that members of the council understand fully the pattern of income and expenditure flows during the year and informs decision making.
291. Analytical review can be carried out in a number of ways. It leads to an understanding of:
- variations in income or expenditure (or receipts and payments) from year to year;
  - variations between actual figures and budgeted income and expenditure (or receipts and payments); and
  - the relationships between various figures or line items in the same set of accounts.
292. For example, an unexplained increase in precept of say 20%, which is not matched by a corresponding increase in expenditure, requires an explanation. Conversely, a 50% rise in annual precept with a corresponding increase in balances that is explained as being, say, the first of a number of budgeted annual contributions to an earmarked reserve for the planned rebuilding of a village hall, may well be accepted by the auditor as being reasonable and requiring no further action.
293. Similarly, an increase in borrowing without an equivalent increase in capital spending and in the value of fixed assets would raise a question. The answer may well be that the timing of the borrowing and the expenditure fell in different financial years, but an explanation is required nonetheless.
294. The question ‘what is significant?’ is often asked. Any change (or even the absence of change when one might be expected – as in the above example of a precept increase not matched by expenditure) can be significant and the RFO should be prepared to explain any figure presented in the accounts. However, as a general ‘rule of thumb’, changes (either up or down) of 10% to 15% and greater will almost certainly require a formal explanation.
295. Balances that move to or from zero will also generally require an explanation. As most expenditure by local councils comes from the provision of statutory (rather than voluntary) services, the sudden absence or appearance of an expenditure category implies a change in service provision.

### Capital budgeting

296. By law, councils can only use receipts from the sale of fixed assets (known as capital receipts) in excess of a set value for specified purposes. The main purposes are the repayment of external debt and the financing of capital payments. Capital payments relate to the acquisition, construction and enhancement of land, buildings, vehicles, plant and equipment. The provision of grant-aid for such expenditure by another body will, in many cases, also be within the definition of capital expenditure. This work generally involves high levels of payments that need to be planned properly over an appropriate timescale.
297. It is unlikely that the majority of smaller councils will embark on many major capital schemes. However, where they do, they should have a long-term capital budget or a rolling capital programme. Councils should seek advice from One Voice Wales or SLCC where a capital receipt is to be realised.

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298. The capital budget should be reviewed annually and the impact of any capital schemes on the revenue budget assessed. This is particularly important in relation to the running costs that will be incurred when a new asset is brought into use. Where such schemes cannot be funded from capital balances the impact on borrowing and the level of the precept will have to be considered.

### Chapter 14: Routine financial procedures

*This chapter describes the routine financial procedures that councils should follow to maintain their cashbook.*

#### What financial records and procedures must the council have?

299. The Regulations provide a wide-ranging framework for the accounts of a local council. Their broad definition of what makes up the accounts include:
- the day-to-day records of financial activity that help with the management of the council's funds – the books of account; and
  - the summary of the council's financial activity that is prepared at the end of each year for reporting to the public – the accounting statements (i.e. section 1 of the Wales Audit Office's annual return).
300. Manually kept books of account or an effective computerised accounting system provide the basis for the accounting statements. However, the books of account are important in themselves in the running of the council throughout the year. A good set of books will allow a council to appreciate at any time:
- the amounts that it has spent in the year, the income it has received and its financial commitments;
  - whether, in the light of this information, its spending plans for the rest of the year are still affordable;
  - the assets that it owns (things that will be of economic benefit to the council in the future: e.g., buildings, vehicles, investments, cash) and the liabilities that it owes (e.g. outstanding payments for goods and services, borrowings); and
  - the extent to which it secures its funds from loss by internal checks and controls.
301. To achieve minimum standards of accounting, the Regulations specify what councils must do to achieve them. Local councils must ensure that:
- the body's RFO has determined the accounting system and the form of their accounts and supporting accounting records;
  - the RFO ensures that the accounting systems are observed and that the accounts and supporting records of the body are maintained in accordance with proper practices and kept up to date; and
  - the accounting records are sufficient to show the body's transactions and to enable the RFO to ensure that the accounting statements complies with the Regulations.

#### Accounting system requirements

302. The council's accounting records must contain the following:
- entries, from day to day, of all sums of money received and expended by the council and the matters to which the income and expenditure or receipts and payments account relate;
  - a record of the council's assets and liabilities; and
  - a record of income and expenditure in relation to claims made by the council for contribution, any grant or subsidy from the Government.



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303. The accounting system must also contain measures to:
- ensure that the financial transactions of the council are recorded as soon as reasonably practicable and as accurately as reasonably possible;
  - enable the prevention and detection of inaccuracies and fraud; and
  - enable the council to reconstitute any lost records;
  - identify the duties of officers dealing with financial transactions and divisions of responsibilities of those officers in relation to significant transactions; and
  - ensure that uncollectible amounts, including bad debts, are only written off with the approval of members, or under delegated authority, the RFO, and for this approval to be shown in the accounting records.

### Routine financial procedures

304. When they determine their accounting systems and procedures, councils should consider the following guidance.

### Accounts for payment

305. Under section 135 of the Local Government Act 1972, local councils must make Standing Orders that include provisions for securing competition and regulating the manner in which tenders are invited. To comply with these requirements, councils should set within their Financial Regulations, a limit for the purchase of goods and services above which three estimates or quotes should be invited from persons or firms competent to do the work. Standing Orders will state a higher value above which competitive tenders in sealed envelopes should be invited. It is the responsibility of councils to determine their own limits that are most appropriate to local circumstances.
306. As far as possible, a fully priced official order should be sent to suppliers in advance of delivery of goods. Official orders both commit a supplier to a price and help prevent unauthorised credit being granted in the council's name.
307. On receipt of invoices, the council should verify that it has received the relevant goods or services. It should also check invoices to ensure that the arithmetic is correct, agreed discounts deducted and VAT details recorded. Practitioners should keep up to date with VAT Guidance issued by HM Revenue & Customs (HMRC) and, from time to time, by One Voice Wales, NALC and SLCC.
308. The payment process should always be in accordance with the council's own financial regulations and the proper practices set out in Chapter 11. Payments should only be released once adequate funds are available. All payments made since the last meeting should be reported to the next council meeting. **Members should never sign blank cheques or approve funds transfers or similar bank instructions that are unsupported by the appropriate documentation.**
309. If there is any doubt as to how much the council owes to one of its regular suppliers, it should ask the supplier to send a statement of the council's account. It would be appropriate to request statements as at 31 March each year to assist with the preparation of the annual return.

### Receipts

310. Cash and cheques should be entered into the cashbook on the date of receipt. They should be banked promptly and intact (i.e. without any of the cash being kept back for spending). RFO's should be aware that some receipts may require VAT to be accounted for and paid over by the council, particularly where sales of items are involved and certain thresholds have been reached. Once again, the RFO should be familiar and up to

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date with the rules governing such transactions. HMRC publishes the rules accompanied by guidance for practitioners.

311. Where any employee or member receives money on behalf of the council, they should be clear that it is their responsibility to ensure that such funds are either banked or promptly deposited with the RFO. Anyone handling cash on behalf of the council should be properly trained in the procedure that they are to operate. The council should also provide appropriate duplicate receipt records. The person in receipt of the money must also maintain a record showing, in strict date order, the money and cheques received and bankings or deposits made. From time to time, the council should arrange to examine this collection and deposit record to ensure money is banked regularly and that the cumulative totals match to the cashbook and bank statements.

### Cash balances

312. Where a council builds up balances, it should safeguard the money by investment in an appropriate account. The Local Government Act 2003 and the Assembly Government's guidance (see Appendix 6) govern the investment of balances by local councils.
313. Before finalising and adopting procedures and internal control systems involving cash, the RFO should always check the requirements of insurers under fidelity guarantee insurance cover arrangements. Insurers may specify the amount, location and minimum security arrangements required for handling of cash or bank balances.
314. Councils should keep the number of petty cash floats to a minimum. They should not be used when an official order is more appropriate. The floats should be adequate in size to meet small items of expenditure and should not require reimbursement more frequently than once a month. This will require careful setting of float levels. Those responsible for petty cash must keep adequate records of the receipts and payments for each float. Internal controls should require regular reconciliation of balances to be reported to the councils.

### Debts due to the council

315. Effective debt collection is an essential part of proper financial management. Local councils need to ensure that invoices raised are paid promptly or that appropriate recovery action has been taken. Additionally, debts shown to be unrecoverable should be written off only after full consideration of the possibilities for and the likely costs of pursuing the debt.
316. Debt monitoring arrangements should be in place covering all activities of the council that involve receiving payment. For example, if the council rents out a number of allotments, a separate record may be appropriate for that purpose. The record would need to include details of the person who owes the debt, the amount, the arrears brought forward at the start of the accounting period, amounts due in the year, amounts paid in the year, any debts written off, and a note of the current state of any recovery action taken.
317. At the end of each year, the record will need to be reconciled to ensure that the figures for arrears brought forward plus new amounts due, less new receipts and write-offs, balances to the arrears that need to be carried forward into the next year's accounts.

### Payroll

318. The council must approve the remuneration payable to all staff in advance. Councils should refer to the guidance issued jointly by One Voice Wales, the National Association of Local Councils and the Society of Local Council Clerks.

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319. Local councils with any paid officers are, by definition, employers. They must therefore, operate under Pay as You Earn (PAYE) rules from HM Revenue and Customs (HMRC). PAYE and National Insurance Contributions (NIC) should be deducted in every instance unless authority to the contrary has been received from HMRC in writing. Such deductions should be passed on to the Collector of Taxes on or before the date prescribed. In addition the general requirements of the Employment Acts will apply (written statements, holiday and similar which are not within the remit of this guidance).
320. In March 2011, HMRC issued new guidance on the tax treatment of clerks of parish and community councils. **HMRC have determined that clerks cannot be treated as self-employed for tax purposes** because the position of clerk is that of an office holder. The HMRC guidance notes that in many cases, clerks earnings are likely to exceed the PAYE and National Insurance contributions thresholds. In addition, where the clerk has other income e.g. another employment or a pension, this means that their earnings should be subject to PAYE. Therefore, every community council must register as an employer with HMRC and operate PAYE for both income tax and NIC on the income the clerk earns from the council. The HMRC guidance can be found at [http://www.hmrc.gov.uk/employers/parish\\_council.htm](http://www.hmrc.gov.uk/employers/parish_council.htm).
321. Practitioners may also find useful the HMRC Basic PAYE tools. The tools include:
- an employer database on which to record employees' details;
  - a P11 calculator that will work out and record employees' tax, National Insurance contributions (NICs) and Student Loan deductions every pay day with a linked P32 Employment Payment record that works out what councils need to pay HMRC;
  - a range of other calculators that work out, for example, statutory payments; and
  - interactive forms such as P11D working sheets.
322. Local councils should also pay particular attention to situations (other than the clerk's role) where contractors are engaged to carry out the council's services. Councils should always be alert to the risk that occasions may arise when contractors cease to be self-employed and become employees for tax purposes.
323. As part of risk management, the council should always seek written confirmation from HMRC to ensure they treat payments for services correctly. If they do not do this, councils may find themselves with unexpected and significant liabilities to pay income tax and employers National Insurance contributions. Councils must also take care when they pay expenses or allowances to non-employees e.g. members, which should also be considered as falling within the scope of PAYE.

### Chapter 15: Keeping the cashbook

*This chapter describes the routine financial procedures that councils should follow to maintain their cashbook.*

#### What is the cashbook?

324. The most important accounting record maintained by local councils will be the cashbook. This is a register of all the payments made and receipts taken in by the council. There may be a temptation to rely on the bank statement as a record of cash transactions. However, a cashbook is essential because the statements provided by the bank will not necessarily be a reliable record of the council's cash balances. For example:
- the bank can make errors and omissions in processing transactions. The council needs its own records to provide a check on the bank statement; and
  - there can be considerable timing differences between writing cheques to other parties and their being cashed by the bank and between receiving income and it being credited to the council's account. The bank statement therefore takes time to catch up with the actual cash flows of the council and cannot provide an up-to-date position.
325. The cashbook therefore provides the day-to-day record of all cash and cheques received and cash payments made and cheques drawn. However, there is no prescribed format for the cashbook. Depending upon the complexity of the council's finances it can be kept in a notebook, a ledger, or on a computer spreadsheet or specialist accounting package.
326. Whatever medium the cashbook uses, it will normally be set out in a columnar format. It will record the date and description of the transaction in the left-hand column with the value of the transaction entered in other columns across the page according to the nature of the receipt or payment. The council will choose headings for the columns to cover the main categories into which their transactions fall.
327. The following example shows a typical layout for the cashbook. Where the Council uses its own bank account for an administered charity's receipts and payments, the Council must add columns for the administered charity's transactions.

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### Example cashbook

Date	Details	Voucher No	Receipt	Payment	Receipts			Transfers	Payments				VAT Transactions			Transfers
					Precept	Hall Booking Fees	Grants		From Deposit A/c	Clerk's Salary	Admin	Grants	Hall Expenses	VAT Input	VAT Output	
20xx	Balance brought forward		1,008.75													
1 April	Clerks pay	1		100.00					100.00							
2 April	Cleaning materials	2		24.65								20.98	3.67			
8 April	Booking fees	3	75.00			75.00										
21 April	Gas Bill	4		102.34								102.34				
22 April	Repairs to windows	5		45.00								38.30	6.70			
27 April	Booking fees	6	100.00			100.00										
30 April	Precept	7	600.00		600.00											
1 May	Clerks pay	8		100.00					100.00							
7 May	Booking fees	9	75.00			75.00										
15 May	VAT reimbursement	10	10.37												10.37	
17 May	Kitchen supplies	11		29.29								24.93	4.36			
17 May	Grant to Sports Assoc'n	12		250.00							250.00					
19 May	Electricity bill	13		96.02								81.72	14.30			
24 May	Booking fees	14	150.00			150.00										
27 May	Office supplies	15		37.69						32.08			5.61			
31 May	Grant from Sports Council	16	100.00				100.00									
31 May	Transfer from Deposit A/c		500.00					500.00								
	Subtotal		1,110.37	784.99	600.00	400.00	100.00		200.00	32.08	250.00	268.27	34.64		10.37	
31 May	Balance carried forward			1,334.13												
			2,119.12	2,119.12												
1 June	Balance brought forward		1,334.13													

\* The headings used in this example are for illustration only. Individual councils should decide appropriate headings for their circumstances.

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### Managing the cashbook

328. The basic principles for managing a cashbook effectively are:

Principle	Explanation
The cashbook should start each year at 1 April on a fresh page or new spreadsheet	The first entry should be the cash balance brought forward at the end of the preceding financial year. If a page is filled during the course of a year, the page should be balanced off and balances carried forward to the top of the new page (see below for guidance on balancing off).
The cashbook must record all transactions in the year	The cashbook must present a complete record of all transactions during the year. This includes direct debit and standing order payments and payments for wages and salaries.
All entries should be dated	<p>The cashbook should record receipts on the day that the cash or cheque comes into the council's possession (not when banked). Payments should be recorded on the day that cash is handed over or cheques despatched (not when the cheques are eventually cashed).</p> <p>No cashbook entries should be made for income that the council knows it should have received but has not, or monies that it should have paid over but has not or cheques written but not despatched. These are items for inclusion in the listing of assets and liabilities at year end.</p>
Details of the transaction should be entered, as well as a reference to supporting documentation	<p>The description should be sufficiently detailed to allow the cashbook to be understandable if the supporting documentation were lost or destroyed. However, the detail should not be excessive.</p> <p>Each council will have its own referencing system for voucher numbers. These numbers will link transactions to the bills, invoices, receipts, etc, that support the cash transaction. It will usually use the numbers already marked on the council's own documents (receipts and cheques) and mark up new serial numbers on the documents received from other parties.</p>

329. When recording receipts and payments, it is useful, particularly as an aid to bank reconciliation, to employ a system in which the gross receipts and payments are written down in their own columns on the left-hand side of the cashbook and the receipts and payments are analysed on the right-hand side across the various account headings that the council has chosen. The account headings in the cashbook analysis are usually the same ones that the council has chosen for its budget. This system has a number of advantages:

- The system contains an element of internal check. If all the entries have been made properly, the total of the left-hand side and the sum of all the columns on the right-hand side will equal each other;
- it is particularly useful for separating out the reclaimable VAT elements of receipts and payments for the preparation of claims for reimbursement by HMRC; and

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- it also makes for easier budget monitoring as each of the columns can be ruled off and added periodically and then compared against the planned budget spend for the same period.
330. For example, the clerk orders goods from a supplier on credit in the council's name. They spend £30 on computer supplies and £20 on cleaning materials. The clerk draws a cheque for £50 to settle the bill. The council records would show the following:
- the need to make the payment of £50 would be recorded on the council's list of liabilities when the goods are received;
  - just before the cheque is put in the post, entries in the cashbook would be required;
  - a gross payment of £50 would be written in the payments column on the left-hand side of the cashbook; and
  - entries would be made in the appropriate columns on the right-hand side of the cashbook for computer supplies and cleaning materials to the value of £25.75 and £16.80 respectively (i.e., net of 17.5 per cent VAT) and for reclaimable input VAT of £7.45.

### Transfers between current and deposit accounts

331. Where a council has more than one bank account, it should normally operate a separate cashbook for each account. The cashbooks record transfers between accounts as receipts and payments in the same way as for transactions with other parties.

For example, a transfer of £500.00 from the deposit account to the current account would be shown as follows:

Current account	Deposit account
Receipts	Payments
30/5/XX Transfer from deposit a/c £500.00	30/9/XX Transfer to current a/c £500.00

However, if the council only has a straightforward savings account, there may be room in the cashbook for two additional columns for the receipts and payments of the savings account. Practitioners' should note that transfers between accounts must be clearly identified because they are not reported as income and expenditure in the accounting statements.

### Cancelled cheques

332. Circumstances will arise when it is necessary to cancel a cheque or a payment after it has been drawn. If the cheque has been made out incorrectly (wrong name, date, amount, etc.), it should not be destroyed but crossed through with the word 'cancelled' written across the face and stapled to the back of the cheque book or kept safely for future reference. An entry in the cashbook should be made recording the date, the cheque number and the fact that it has been cancelled.
333. If the error is discovered after the cheque or payment has been recorded in the cashbook, it is not helpful simply to cross through the entry. Good practice would be to record the cancellation as an entry in the receipts column giving all the details of number, name, date and amount together with a comment that this represents a cancelled cheque. If the cheque has already been sent, a copy of the letter to the bank cancelling the payment should be kept in the file of cancelled cheques.

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334. These cancelled cheque procedures, if followed, will allow the process of balancing the cashbook (see below) to take place most easily.

### Balancing the cashbook

335. Apart from making day-to-day receipts and payments entries on a timely basis, there are two important tasks that have to be performed on the cashbook:
- reconciling the cashbook to the bank statement (see chapter 16); and
  - balancing the cashbook at the end of the financial year.
336. The process of balancing the cashbook involves putting new entries in the cashbook so that the totals in the receipts and payments columns equal each other. Paradoxically, this equalisation is done in order to confirm the differences between the two.
337. The purpose of balancing the cashbook is explained as follows (and demonstrated in the example cashbook on page 68):

Step	Description
1	The first step in balancing the cashbook is to add up the figures in the receipts and payments columns. This will include the brought forward cash figure. In the example this gives totals of £2,119.12 and £784.99 respectively.
2	As a cross check, the totals in the receipts and payments columns on the left-hand side should be reconciled to the detailed receipts and payments entries on the right-hand side.  The brought forward cash balance is ignored in the totals for the left-hand side. In the example, the total for receipts would be reduced from £2,119.12 to £1,110.37, the receipts actually taken in the year. The right-hand totals add back in the VAT elements that have been separated out.
3	Looking at the totals for the receipts and payments columns on the left-hand side, the next step is to work out the amount that would bring whichever is the lower of the two figures (£784.99) up to the value of the higher (£2,119.12).  In this example, the difference is a net receipt of £1,334.13. This figure is entered under the lower of the two figures as the balance to be carried forward.  This figure will become the balance brought forward, which opens the next financial period. RFO's should always check that the opening balance in the cashbook is identical to the balance to be carried forward from the previous period.
4	When the balance carried forward is added to the total figure (in this case under the payments column) it should equal the total for the other column - £2,119.12. The cashbook is thereby balanced, and is ruled off to start a fresh period of accounting. The figures that balance are not very meaningful in themselves – it is just important that they are the same.
5	When the balance carried forward is added to the total figure (in this case under the payments column) it should equal the total for the other column - £2,119.12.  The cashbook is thereby balanced, and is ruled off to start a fresh period of accounting. The figures that balance are not very meaningful in themselves – it



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	is just important that they are the same.
6	To complete the process, the balance carried forward at the end of the old period is entered as the first item in the new period of accounting. This is done by entering the balancing figure (£1,334.13) in the other column to the one that was used in the balancing process. This figure will then represent the cash balance carried forward to the new period. This will be either cash-in-hand (if in the Receipts column) or cash overdrawn (if in the Payments column). The bank reconciliation uses this figure as the cashbook balance.

### Chapter 16: The bank reconciliation

*This chapter explains the purpose of the bank reconciliation and provides guidance on the reconciliation process. It is applicable to all councils.*

#### What is the bank reconciliation and why is it important?

338. A bank reconciliation is the process you go through to ensure that the bank statement and the cashbook agree. The balance recorded in the cashbook will often not agree to the balance shown on the bank statement. This is because of delays in processing cheques and other payments and in clearing deposits close to the period end. By identifying these differences, the bank reconciliation will help to verify the completeness and accuracy of the cashbook.
339. Bank statements are important documents as they are evidence provided by an independent party of the state of the council's cash balances. They contrast with the cashbook, which is the council's own record of its cash position. This will reveal whether there are any errors or omissions in either the bank records or the cashbook. The council is then able to investigate the reasons for any identified differences.
340. The bank reconciliation is a key tool for management. It identifies available funds at a given moment in time. This can aid good decision making, particularly when there are competing priorities. As bank statements may be made up to different dates in the month, councils should take care, particularly at year-end, to ensure that the statement being reconciled includes the month end balance. The year-end bank reconciliation is particularly important because it will 'prove' the total cash and investments balance shown on the council's annual return (Section 1 line 9).

#### When should a bank reconciliation be completed?

341. Councils should reconcile the cashbook to the bank statements regularly. This would normally be monthly or quarterly. Whenever it is done, the reconciliation should cover each of the council's bank accounts. Normally councils will operate a current account through which it processes most transactions. They may also hold one or more deposit accounts. The council should reconcile each account.
342. Some councils will carry out a reconciliation every time they receive a bank statement. This is an example of good practice because it identifies errors early on. It is for each council to decide how regularly it wants to receive the assurance that a successful reconciliation can provide. Members should receive a report on the bank reconciliation as part of their regular monthly reports, along with a copy of the full reconciliation. Approval of the bank reconciliation by the council or the chair of finance or another council nominee is not only good practice but it is also a safeguard for the RFO and may fulfil one of the councils internal control objectives.

#### What should a bank reconciliation look like?

343. A standard layout for the financial year-end bank reconciliation would look something like this. Councils can however, apply this model for reconciliations carried out at any time of year.


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### Example year end bank reconciliation


Bank reconciliation		
Financial year ending 31 March 20XX		
Prepared by (Name and role (Clerk/RFO etc)):	Date:	
Approved by (Name and role (RFO/Chair of Finance etc)):	Date:	
	£	£
Balance per bank statements as at 31 March 20XX		
Current account	1,000.00	
High Interest account	3,000.00	
Building society premium account	10,000.00	
Petty cash float	10.00	
		14,010.00
Less: Unpresented cheques at 31 March (normally only current account)		
Cheque number 000154	(40.00)	
Cheque number 000154	(18.00)	
Cheque number 000154	(2.00)	
		(60.00)
Add: Uncredited deposits at 31 March		
e.g. allotment rents banked 31 March but not credited in bank account until 1 April	30.00	
		30.00
Net bank balances as at 31 March 20XX		13,980.00
Add: Value of other short term investments as at 31 March 20XX*		4,030.00
Total Cash and Short Term investments 31 March 20XX		18,010.00
<b>Cashbook</b>		
Opening balance		15,280.00
Add: Receipts in the year		6,500.00
Less: Payments in the year		(7,800.00)
Closing balance per cashbook at 31 March 20XX (Must equal net bank balances as above)		13,980.00
Add: Value of other short term investments as at 31 March 20XX*		4,030.00
Total Cash and Short Term investments 31 March 20XX		18,010.00
* If the council holds other short term investments, they should be added to the closing balances of the cashbook at historic cost and included in Line 9 of section 1 of the Annual Return		

### How do I prepare a bank reconciliation?


344. The procedure for preparing the bank reconciliation will usually be:




- Enter the balances from each of the bank statements for the chosen date at the head of the page.




- Work through the items shown on the bank statement and match to items in the cashbook. If they match, tick both items.




- Check the validity of unticked items on the bank statement that have not been recorded in the cashbook, such as standing orders, direct debits, interest and bank charges, and make the appropriate cashbook entries. These should then be ticked on both the bank statement and the cashbook.




- Balance off the cashbook (Chapter 15) and enter the resultant balance at the foot of the page. Note that where the Council has more than one bank account, transfers between the accounts must be netted off when calculating the total receipts and payments for the year.




- Identify the cheques that have been recorded as drawn in the cashbook but have yet to show up on the bank statement – this will usually be the cheques that have been drawn on the days immediately prior to the bank statement date, but there may be others where the payee is taking a long time to present the cheque at its bank.



- Identify the cash collected or cheques received that have been entered in the cashbook but not been banked in sufficient time for the bank to have processed them and add them to the bank balance.



- If bank balance (unpresented cheques + payments in to the bank outstanding) does not then equal the cashbook balance, an in-depth analysis of the bank statement and cashbook may be necessary to discover the reason for the unreconciled difference.



- The bank reconciliation should always be balanced to the penny – you cannot stop looking for reconciling items once the difference has been reduced to a tolerable amount, as this difference might actually be comprised of two significant undiscovered errors (one positive and one negative) that just happen to cancel each other out.

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345. There are a limited number of reasons for differences between the cashbook and bank statements. The common reasons are:

Difference	Explanation
Unpresented cheques	<p>The council records payments in the cashbook when it commits itself to making them. This will be when they hand over or post a cheque or complete the instructions for an automated payment. The balance on the bank account is only reduced some time later when the bank receives and processes the cheque or instruction.</p> <p>The council therefore deducts the value of unpresented cheques from the bank balance in the reconciliation.</p>
Cash in transit (uncleared deposits)	<p>The cashbook records receipts when the council receives the money. However, the bank does not recognise them until after the council banks cash or presents cheques for clearance.</p> <p>Payments into the bank but not recorded on the bank statement are added to the bank balance in the reconciliation.</p>
Unrecorded transactions	<p>There may be transactions recorded in the bank statement that the cashbook does not record. This will apply in particular to interest payable and bank charges. The bank will advise the council of these charges for the first time in the bank statement.</p> <p>The statement may also show up direct debits, standing Orders and other automated payments that the cashbook also omits. The council should update the cashbook balance for these items.</p>

346. Where a council has more than one bank account, it should prepare a reconciliation for each account, including any inactive accounts that may be open. In these circumstances there will be a third category of possible reconciling items – transfers between accounts that have been requested but not processed by the bank.
347. RFO's should note that transfers are neither receipts nor payments so they should not be included in the totals of receipts and payments in the cashbook. Therefore, transfers are excluded from the totals reported in lines 3 and 6 of section 1 of the Annual Return (see also paragraph 331).

### What if the bank reconciliation doesn't balance?

348. If the bank reconciliation does not balance, you need to find the error or errors. There are a limited number of errors that may be identified. These will be in the following areas:
- errors on the bank reconciliation;
  - items recorded in the cashbook but not on the bank statement (timing differences);
  - items on the bank statement but not in the cashbook; and
  - cashbook errors or bank errors.

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349. Examples of these differences are provided in the table below:

<b>Errors on the bank reconciliation</b>	
Arithmetic errors	The first step required to identify differences with the bank reconciliation is to double check the arithmetic of the reconciliation.
Transposition	All the entries on the bank reconciliation should be checked to make sure they have been copied correctly. If the difference is a multiple of 9, then the error may be a transposition error e.g. you entered £10.76 instead of £10.67 or £23.25 instead of £32.25.
Omissions and duplications	Reconciling transactions may be omitted from or duplicated in the reconciliation. The entries in the cashbook should be agreed to the bank statements for the period as shown below.
<b>Items recorded in the cashbook but not on the bank statement (timing differences)</b>	
Cheques issued but have not cleared the bank	After a cheque is issued, it may take some time before its holder presents it to the bank. Therefore, a bank statement would not show such cheques until they are presented to the bank, but the council has already recorded such cheques as cash deductions in the cashbook.
Deposits in transit	Cheques or amounts received and deposited into the bank account, but not yet processed and recorded by the bank. Similar to cheque payments, such deposits have been recorded by the council, but are not yet reflected on a bank statement.
<b>Items on the bank statement but not in the cashbook</b>	
Bank interest / charges	Interest or charges already recorded by the bank, but not by the council as the council did not know about them until the council received the bank statement.
Standing orders	A bank has a right to pay fixed amounts at regular intervals to another account. Such orders are given to the bank by the bank customer (the council). The council may record such amounts until it receives a bank statement.
Direct debits	An instruction / permission that a bank account holder gives to another organisation to deduct amounts directly from its bank account. The council may not know or record such amounts transferred until a bank statement is received.
Credit transfers	An incoming transfer of money from one bank account to another. For example, a council returns goods purchased from its suppliers and receives the money back from them directly into the council's bank account.
Dishonoured cheques	For example, a council's payer does not have enough money to cover the payment by cheque or the cheque is post-dated. The council has already recorded the cheque as a cash receipt in the cashbook, but no cash was deposited into the council's bank account and is shown on a bank statement.

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Cashbook errors or bank errors	
Casting errors	A casting error arises when a sub-total or total is recorded at an incorrect amount.
Recording errors	These errors arise where a transaction's details are recorded inaccurately.
Transposition	A transposition error occurs when two or more numbers are reversed or transposed for each other. For example, £36.79 is recorded as £37.69. The existence of a transposition error is indicated when the unreconciled error is divisible by 9.
Omissions	A transaction is either wholly or partially not recorded in the books.
Duplications	A transaction is recorded twice.

350. Any differences noted must be evaluated and if necessary, corrected in the cashbook. Where there is an error on the bank statement, the bank should be contacted to resolve it.
351. If you are unable to reconcile the cashbook to the bank statement, ask someone else to go through it. The task becomes much simpler if the bank reconciliation is done regularly.

### Chapter 17: Accounting for fixed assets

*This chapter explains what fixed assets are and how local councils account for their assets.*

#### What are fixed assets?

352. This section covers the arrangements in respect of the acquisition, maintenance and eventual replacement of capital items where values tend to be high and which have a useful life of more than one year. These items are usually described as Fixed Assets (or more frequently now as non-current assets). They comprise the sum of land, buildings, play equipment, plant, office equipment and vehicles etc. Making a long-term investment also creates a non-current asset. These investments must also be accounted for in the asset register. Chapter 18 provides guidance on how to report long-term investments.

#### How should fixed assets be recorded?

353. Fixed assets acquired in any year must be added to the asset register for management purposes. For accounting purposes, however:
- acquisitions of fixed assets must be treated as any other purchase and recorded as part of annual payments or expenditure in line 6 of section 1 of the annual return; and
  - proceeds from the disposal of fixed assets must be treated as any other receipt and recorded as part of annual receipts or income in line 3 of section 1 of the annual return.

Commercial concepts of depreciation, impairment adjustments, etc are not appropriate for local councils. For reporting purposes therefore, the 'book' value of fixed assets will usually stay constant until disposal.

#### What are the risks with fixed assets?

354. If these assets are not being managed properly the Council is exposed to risk of financial loss relating to:
- improper asset management – without the right management information, outdated patterns of use may run on unchallenged or unnoticed;
  - improper asset usage and maintenance – assets may not be fit for purpose, be underused or so out-of-date as to be incapable of satisfactory modernisation. Equally, they may be capable of alternative, additional or more intensive use or be readily saleable. These opportunities may be missed where no comprehensive information on assets is available; and
  - asset ownership – the continued ownership of assets may be overlooked altogether.
355. These risks are most likely to be realised when information is poor e.g. where information about assets is not available or access to information about assets is denied because it is out-of-date or non-existent. The council can greatly reduce the risk of financial loss by setting up an asset register which holds all the information needed.



## Part 3 – Accounting guidance for councils < £1 million

### The asset register

356. An asset register is the starting point for any system of financial control over assets as it:
- facilitates the effective physical control over assets;
  - provides the information that enables the Council to make the most cost effective use of its capital resources;
  - ensures that no asset is overlooked or under-utilised and is therefore used most efficiently;
  - pools all the information available about each asset from across the organisation and makes it available to every part of the organisation,
  - provides a record of the sources of evidence used to support the existence and valuation of assets to be covered by insurance;
  - supports the annual return entry for capital assets by collecting the information on the cost or value of assets held; and
  - forms a record of assets held for insurance purposes.
357. The key information needed in the asset register is:
- dates of acquisition, upgrade and disposal (it is useful to keep a record of disposed assets as an asset management tool);
  - costs of acquisition and any expenditure which increases the life of the asset;
  - useful life estimate;
  - location;
  - responsibility (it may be appropriate to assign responsibility for each asset to members of staff);
  - present use and capacity, for example in terms of site area, internal floor areas, and measures of occupancy and/or usage;
  - corresponding periodic measures of usage or occupation;
  - any available indications of asset value and condition; and
  - charges for usage or occupancy.
358. Councils will first record most assets in the asset register at their purchase cost. In some cases, this may not be known and a proxy cost substituted, usually the insurance value, or, where the asset is land or is not insured, the council estimates a value based on external advice. Whatever valuation basis the council adopts for accounting purposes, it is essential that it applies the basis consistently. If for some reason the basis of valuation is to be changed, the figures shown for the previous year should also be changed to the same new basis and marked as RESTATED. The council must provide an explanation for the change to the external auditor.

### Reporting fixed assets

359. The recorded book value of fixed assets should be reported in the total of annual return Line 12 – Total fixed assets and long-term assets.

### Disposal of fixed assets

360. On disposal, fixed assets must be written out of the asset register. Although disposal proceeds are recorded as a receipt in the year in which they are received, there are rules over how the Council can spend the money. Councils should note that fixed assets should normally be disposed of for the best consideration available.

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361. Where the proceeds exceed £10,000, the proceeds are 'capital receipts.' Capital receipts can only be used for the following purposes:
- to meet capital expenditure (e.g. purchase/construction of assets, buildings; equipment etc)
  - to repay principal of any amount borrowed (e.g. loans); and
  - to meet any liability in respect of credit arrangements other than liabilities which must be charged to revenue (e.g. long term leases).

### Chapter 18: Accounting for investments

*This chapter explains how local councils should account for investments and investment income.*

#### Short term investments

362. For ease of reference, councils may assume that bank deposits and accounts are classed as short-term investments. Where a council holds short-term investments, it must report all year-end balances in detail within the bank reconciliation and be included in the sum of annual return Line 9 - Total cash and short-term investments.

#### Long term investments

363. The council may also hold long-term investments (see chapter 10 on how to distinguish short-term and long-term investments). On acquisition, the cashbook should record long-term investments as capital expenditure. The payments will therefore appear as part of the annual return Line 6 - Total other payments. The asset register should also record the asset at purchase cost. At year-end, the asset will therefore appear within the sum at annual return Line 12 Total fixed assets and long-term assets.
364. The asset register should record each asset owned by the council at its original purchase cost. In the event that the original purchase cost is not known at the time of first recording on the asset register, the council should, having taken appropriate advice, establish a current value for the asset. This value will act as a proxy for the original purchase cost and remain unchanged until disposal.
365. The market value of long-term investments may change over time. At each year-end, the RFO should make a note on the asset register of the market value of each investment at 31 March to inform readers. However, the council will only account for any gain or loss as compared to purchase cost at the time of disposal. At this point, the total proceeds will be included in annual return Line 3.
366. When the council has incurred expenditure by giving a loan, grant or other financial assistance to a body this transaction should also be recorded as a capital expenditure item in the cashbook. Any loan made must also be added to the asset register.
367. The council reports the outstanding amount of any loan at 31 March each year, excluding interest, in line 12 – *Total fixed assets and long-term assets*, in the annual return. Any repayment of a loan or part of it, or any interest received should be recorded as an income item in the cashbook when received and reported in annual return line 3 – *Total other receipts*. This receipt will also be reflected as an increase in annual return line 7 - *Balances carried forward*. Any repayments of loan principal must also be applied to reduce the amount of the loan outstanding on the asset register.

#### Income from investments

368. The council should record any dividend or interest payments received during the year as income reported in line 3 *Total other receipts* in the annual return.

### Chapter 19: Preparing the accounting statements

*This chapter explains how councils prepare the statement of accounts set out in section 1 of the annual return.*

#### Why must the council prepare accounting statements?

369. Section 13 of the Public Audit (Wales) Act 2004 requires local councils to make up accounts each year to 31 March. Regulation 8 of the Accounts and Audit (Wales) Regulations 2005 (as amended) specifies the form of accounts. For local councils with income and expenditure below £1,000,000 an annual return may be prepared.

#### The annual return

370. Section 1 of the Wales Audit Office annual return represents the statutory accounting statements that councils will be required to prepare, to have audited and to publish. If the books of account have been kept in good order during the year and the cashbook has been balanced and reconciled to the bank statement at the 31 March, then the Return should be straightforward to prepare.

#### Receipts and payments accounts (councils below £200,000)

371. For councils with gross income or expenditure (whichever is the higher) in any year of less than £100,000 the Return should be prepared on a receipts and payments basis. Or, if the council so wishes, it may be prepared on an income and expenditure basis. In this case, councils should refer to paragraphs 374 to 387 below.
372. The receipts and payments basis requires councils only to consider their actual bank and cash transactions during the year. The entries for the annual return will usually be taken straight from the summary totals in the cashbook.
373. For example, if the council whose cash book is shown in the example in chapter 15 had no further transactions for the year, then its annual return would be compiled like this:

## Part 3 – Accounting guidance for councils < £1 million

Row	Description	£	Notes on compilation from the example 1 cash book
1	Balances brought forward	1,009	This should be the brought forward figure shown at the head of the cash book for this year – it will equal the last year figure in line 7 of the Return
2	(+) Annual Precept	600	The total in the Precept column in the cashbook
3	(+) Total other receipts	510	The total in the Receipts column (£2,119.12), less the balance brought forward (£1,008.75) and the annual precept (£600)
4	(-) Staff costs	(200)	The total in the Clerk's Salary column
5	(-) Loan interest/capital repayments	Nil	No entries required
6	(-) Total other payments	(585)	The total in the Payments column (£784.99) less staff costs (£200) and loan interest/capital repayments
7	(=) Balance carried forward	1,334	The sum of the above entries
8	Debtors	Nil	No entry required
9	Total cash and short term investments	1,334	Sum of all cash balances, bank accounts and other short term investments
10	Creditors	Nil	No entries required
11	Balances carried forward	1334	Totals of line 8 + 9 – 10 must equal line 7
12	Total fixed assets	Nil	-
13	Total borrowings	Nil	-

### Potential difficulties with the Annual Return

374. Compilation of the Return from the cashbook might not always be straightforward. The following table discusses the difficulties that might arise with each line of the Return.

## Part 3 – Accounting guidance for councils < £1 million

Row	Description	Potential difficulties
1	Balances brought forward	<p>The balance brought forward at the start of the current year should match the balance carried forward at the end of the previous year. However, it is always possible that the council will find errors and omissions in the accounts, even after an audit.</p> <p>If the council did find mistakes in the previous year's accounts, then the current year Return should be prepared as if the mistake had not been made i.e. the last year figures for the balance brought forward should be the corrected figures and not those published last year. The council should prepare a note for the auditor explaining the mistake and how it has been corrected this year. The changes should be highlighted on the Annual Return by inserting the word "Restated" at the top of the prior year column in Section 1.</p>
2	(+) Annual precept	<p>There will be very few occasions when the unitary council does not pay the precept in full before the end of the relevant year or pays the precept early when the normal payment dates fall on a weekend or bank holiday.</p>
3	(+) Total other receipts	<p>This figure will simply be the total cash receipts taken by the council in the year, reduced by the value of precept payments recorded in the preceding line.</p> <p>If the accounting statements are prepared on a receipts and payments basis, VAT charged on goods and services provided by the council should be included, even though the tax is payable to HMRC.</p> <p>Some adjustments may be necessary where the council has more than one bank account – transfers between bank accounts (e.g. between current and deposit account) would show up as receipts and payments for the individual accounts in the cash book, but they are not receipts and payments for the council as a whole. Both sides of a transfer between the council's own bank accounts should be ignored when adding up receipts and payments for the year.</p> <p>Similarly, Councils should review their cashbook and schedule of assets and liabilities to see if there are any receipts arising from the disposal of investments reflected in the cashbook balance. On disposal, these are recorded as a cash receipt in the cashbook. However, in order to give a fair view of the council's finances the cash receipts related to disposal of investments should not be included in line 3.</p>
4	(-) Staff costs	<p>This figure comprises all payments made in relation to the employment of staff. Including employment expenses that are benefits (mileage, travel, etc) but not items of reimbursement of postage, stationery or other outlays made on behalf of the council.</p> <p>For many councils it will simply comprise payments made to the clerk. However, where the council has to make deductions for PAYE and National Insurance and pay employer's contributions for NI and pensions, then the amount should include payments to HMRC etc.</p>

## Part 3 – Accounting guidance for councils < £1 million

Row	Description	Potential difficulties
5	(-) Loan interest/capital repayments	<p>Most councils will not have any borrowings and will not then have interest or capital repayment transactions.</p> <p>For those that have borrowed from the Public Works Loans Board the figure will be the payments made in the year in accordance with the PWLB repayment schedule. If a council goes overdrawn at the bank then any interest or charges paid because of the overdraft should be included under this heading. Bank charges other than those arising because of temporary borrowing should be included in <i>Total other payments</i> in line 6.</p>
6	(-) Total other payments	<p>This figure should simply be the total cash payments made by the council in the year reduced by the value of staff costs and loan interest and capital repayments recorded in the preceding two lines.</p> <p>If the accounting statements are prepared on a receipts and payments basis, VAT on goods and services acquired by the council should be included, even though the council can reclaim the tax from HMRC.</p> <p>Some adjustments may be necessary where the council has more than one bank account and transfers have been made between them – see <i>Total other receipts</i> above.</p> <p>Similarly, Councils should review their cashbook and schedule of assets and liabilities to see if there are any payments arising from the acquisition of short-term investments reflected in the cashbook balance. On acquisition, these are recorded as a cash payment in the cashbook, However, in order to give a fair view of the council's finances the cash payments related to purchase of short term investments should not be included in line 3.</p>
7	(=) Balances carried forward	<p>This should be the total of all the preceding entries, taking care to get the + and – entries the right way round. It should also match the balance carried forward on the cashbook at the end of the year.</p>

### Income and expenditure accounts (councils between £200,000 and £1m)

375. Councils with gross income or expenditure (whichever is the higher) in any year between £200,000 and £1,000,000, must prepare the return on an "income and expenditure" basis. Councils with income and expenditure below £200,000 may choose to prepare their accounts on this basis. In income and expenditure accounts, the transactions for the year comprise all those instances in the year where the council received economic benefits (irrespective of the year when it will pay for them) or gave other economic benefits (irrespective of the year when it will receive payment for them).
376. For example, suppose a council has its owned offices re-roofed in March but the builders do not issue an invoice until April and the council does not settle the bill until May. The cashbook will therefore record a bank outgoing in May of the new financial year. However, the council will have received the benefit of the works before the end of the financial year in March and have an obligation to pay the builders, even though the invoice has not arrived to confirm the exact amount due. In order to show the proper financial position of the council for the old year, expenditure should be recognised in March.

## Part 3 – Accounting guidance for councils < £1 million

377. In contrast, someone might put down a refundable deposit in February on a booking for the hall in June. The cashbook would record a cash receipt in February. However, the council will not be providing any economic benefits to the booker (in the form of use of the hall) until June of the new financial year. It would be unwise to spend the cash receipt until the event takes place. The receipt would not then count as income in the old financial year and would be a prepayment to be accounted for in the new financial year.
378. Income and expenditure accounts give a more complete picture of a council's true financial position, focusing on the balance of economic benefits that it has under its control, rather than just its bank balance.
379. Very few councils will actually maintain their books of account on an income and expenditure basis. The cashbook will be the main focus for day-to-day accounting. Balancing off the cashbook and the bank reconciliation will remain the most important controls over the accounting system. Subsidiary records will be kept of the council's debtors (people who owe money to the council) and creditors (people the council owes money to) based on invoices. However, transactions will be made in the cashbook for this activity only when cheques and cash are actually received or issued.
380. At the end of the financial year, the council needs to convert the receipts and payments record represented by the cashbook into the income and expenditure account required by Section 1 of the annual return.
381. The exercise is a little complicated because care has to be taken to make adjustments for both ends of the financial year. For example, as well as adding in amounts owed at the end of the year that are not in the cash book, payments that are in the cash book but relate to amounts owed at the end of the previous year have to be taken out.
382. The adjustments required will comprise:

Transaction	Adjustment required
<b>Debtors:</b> situations where the council has provided goods or services before the end of the year, but has not yet been paid for them by 31 March	To convert "receipts" into "income" take the cash book totals for receipts and: <ul style="list-style-type: none"> <li>deduct the amount of debtors brought into the calculation of income for the previous year</li> <li>add the amount of debtors outstanding at the end of this year</li> </ul> <p><i>Include the year end debtors balance in line 8</i></p>
<b>Receipts in advance:</b> situations where the council has received cash before the year end, but has not yet provided the relevant goods and services by 31 March	To convert "receipts" into "income" take the cash book totals for receipts and: <ul style="list-style-type: none"> <li>add the amount of receipts in advance excluded from the calculation of income for the previous year</li> <li>deduct the amount of receipts in advance held at the end of this year</li> </ul> <p><i>Include the year end receipts in advance balance in line 10</i></p>



## Part 3 – Accounting guidance for councils < £1 million

Transaction	Adjustment required
<p><b>Creditors:</b> situations where the council has received goods or services before the end of the year, but has not yet paid for them by 31 March</p>	<p>To convert "payments" into "expenditure" take the cash book totals for payments and:</p> <ul style="list-style-type: none"> <li>• <i>deduct</i> the amount of creditors brought into the calculation of expenditure for the previous year</li> <li>• <i>add</i> the amount of creditors outstanding at the end of this year</li> </ul> <p><i>Include the year end creditors balance in line 10</i></p>
<p><b>Prepayments:</b> situations where the council has paid cash before the year end, but has not yet received the relevant goods or services by 31 March</p>	<p>To convert "payments" into "expenditure" take the cash book totals for payments and:</p> <ul style="list-style-type: none"> <li>• add the amount of prepayments excluded from the calculation of expenditure for the previous year</li> <li>• deduct the amount of prepayments made at the end of this year</li> </ul> <p><i>Include the year end prepayments balance in line 8</i></p>
<p><b>Stock:</b> consumable goods (e.g. bar supplies) purchased before the end of the year but which have not been used by 31 March</p>	<p>To adjust for stock in expenditure take the cash book totals for payments and:</p> <ul style="list-style-type: none"> <li>• add the amount of stock brought forward as an asset from the previous year</li> <li>• deduct the amount of stock held at the end of this year</li> </ul> <p><i>Include the year end stock balance in line 8</i></p>
<p><b>Provisions:</b> any other situation in which the council has an obligation to make a payment, but it is uncertain when the payment will be due (e.g. a claim has been made for compensation against the council that is likely eventually to result in the council making recompense) (NB, this is only likely to occur in rare circumstances for councils.)</p>	<p>To adjust for provisions in expenditure take the cash book totals for payments and:</p> <ul style="list-style-type: none"> <li>• add the value of any provision that needs to be made for events taking place in this year</li> <li>• deduct the value of any provisions made in previous financial years and brought forward, to this financial year and where payment has been made to settle the obligation and those no longer required.</li> </ul> <p><i>Insert the year-end provisions balance in line 10.</i></p>

383. Councils will need to have effective arrangements in place to identify and calculate the adjustments needed. These will include:
- deciding on a level of materiality for adjustments – income and expenditure needs to be shown fairly but excessive accuracy is not beneficial. For instance, most councils will have utilities bills that include prepayments for standing charges and payments in arrears for energy consumption that strictly should be adjusted for into their appropriate years. However, as this is a regular item of expenditure it is not usually worth apportioning individual bills across financial years, but just ensuring that four bills (if payable quarterly) are charged in full to each year;
  - making sure that a record is retained of the adjustments that were made in preparing the income and expenditure accounts for the previous financial year;

## Part 3 – Accounting guidance for councils < £1 million

- examining entries in the cash book before 31 March for possible receipts in advance and prepayments and entries after 31 March for possible debtors and creditors;
- examining invoices after 31 March for possible debtors and creditors;
- assessing the value of stock at the 31 March (having a formal stocktaking if the council has a proper stock control system); and
- considering whether the council has any other obligations arising from events that took place before 31 March that mean it will not be able to avoid making a payment at some time after 31 March.

### Moving from receipts and payments to income and expenditure

384. Having prepared a receipts and payments account from the cashbook the receipts and payments account needs to be converted into an income and expenditure account by the adjustments set out below. Suppose that the council in this example had the following circumstances:

Transaction	Details
Debtors	<ul style="list-style-type: none"> <li>• the hall booking fee of £75 received on 8 April 20xx was paid in arrears for an event that took place on 30 March 20xx before the year start and had been accounted for as a debtor in last year's income figure</li> <li>• a hall booking fee of £200 for an event held on 14 March 20yy was not paid until 30 April 20yy after the year-end</li> </ul>
Receipts in advance	<ul style="list-style-type: none"> <li>• hall booking fees of £300 were taken before 1 April 20xx for events that were to take place after 1 April and these were accounted for as receipts in advance in last year's income and expenditure figure</li> <li>• the hall booking fees of £150 received on 24 May 20xx were for an event that did not take place until April 20yy in the following financial year</li> </ul>
Creditors	<ul style="list-style-type: none"> <li>• the payment of £45 for the repair of a window made on 22 April was for work carried out before the start of the year and had been accounted for as a creditor in last year's income and expenditure figures</li> <li>• no payment has yet been made for the replacement of a door in February 20yy – an invoice received after the year-end confirms that £56 is payable</li> </ul>
Prepayments	<ul style="list-style-type: none"> <li>• before 1 April 20xx the council paid £220 in advance for a service cover agreement on its kitchen equipment for the year starting on 1 April 20xx</li> <li>• the grant of £250 paid to the sports association on 17 May was to cover the period running from June 20xx to May 20yy, extending beyond the end of the financial year – one sixth of the grant (around £40) is a prepayment for amounts due after 31 March 20yy</li> </ul>

## Part 3 – Accounting guidance for councils < £1 million

Transaction	Details
Stock	<ul style="list-style-type: none"> <li>checks of the levels of stocks of cleaning products in the village hall showed that £120 was held at 31 March 20xx and £70 at 31 March 20yy</li> </ul>
Provisions	<ul style="list-style-type: none"> <li>in July 20xx there was an accident in the village hall that resulted in slight injury – the council's solicitor estimates that the council will end up with a bill for compensation of £300 that will not be covered by insurance</li> <li>in November 20xx, an earlier claim for accident compensation was settled without the council having to pay a penny – however, a provision had been made in the previous year's income and expenditure account for £100 for a likely settlement</li> </ul>

385. The following adjustments to the receipts and payments account would be necessary:

Line	Description	R & P	Last year adjustments	Current year adjustments	I & E	Notes on compilation from receipts and payments account
1	Balances brought forward	1,009	(30)	0	979	This should equal the last year figure in line 7 of the Return. The adjustment requires replacing the R&P amount with last year's I & E figure.
2	(+) Annual Precept	600	0	0	600	
3	(+) Total other receipts	510	(75) 300	200 (150)	785	Debtors adjustments Receipts in advance adjustments
4	(-) Staff costs	(200)	0	0	(200)	
5	(-) Loan interest/capital repayments	0	0	0	0	
6	(-) Total other payments	(585)	45 (220) (120) 100	(56) 40 70 (300)	(1026)	Creditors adjustments Prepayments adjustments Stock adjustments Provisions adjustments (Note – the prepayments figure is shown as a negative, deductions from payments are shown as positive figures and additions as negative)
7	(=) Balance carried forward	1,334	0	(196)	1,138	The sum of the above entries

## Part 3 – Accounting guidance for councils < £1 million

386. As a check that the income and expenditure figures have been properly prepared, councils should agree the balance carried forward in line 7 back to the assets and liabilities held at 31 March that have been taken into account in the conversion. Lines 8 to 10 in section 1 of the annual return show the balance sheet totals on an income and expenditure basis.

Line	Description
8 Debtors and stock	This should be the total value of the current year debtor and prepayment adjustments plus the value of stock balances held at the year-end. These figures will have been calculated as shown above.
9 Total cash and short term investments	For most councils, this line will be identical to the figure carried forward from the end of year balanced cash book that was taken into account in the bank reconciliation. Councils should review their schedule of assets and liabilities to see if there are any balances of investments that are not reflected in the cashbook balance. For instance, the council might have invested surplus funds in Government securities. The cashbook may have recorded these as if they were a payment out of the cashbook, suggesting that the council had spent money rather than invested it. In order to give a fair view of the council's finances, the cost value of these investments (as recorded in the schedule of assets and liabilities) should be added to this line.
10 Creditors	This will be the total of current year creditors, receipts in advance and provisions adjustments, calculated as shown above.
11 Balances carried forward	This line provides a proof in total check for the accounts. The total of lines 8 plus 9 minus 10 should be entered here and must equal line 7.

## Part 3 – Accounting guidance for councils < £1 million

Line	Description	R & P	Last year adjustments	Current year adjustments	I & E	Notes on compilation from receipts and payments account
8	Debtors and stocks			200 40 70	310	Debtors adjustments Prepayments adjustments Stock adjustments
9	Total cash and short term investments				1334	Cash balances as per receipts and payments account
10	Creditors			(150) (56) (300)	(506)	Receipts in advance adjustments Creditors adjustments Provisions adjustments
11	Balances carried forward				1,138	Sum of lines 8 to 10

387. The other entries in Section 1 of the annual return will be compiled separately from the income and expenditure exercise

Line	Description
12 Total fixed assets and long term assets	This should be the value of all fixed assets recorded in the schedule of assets and liabilities, measured at current book value (usually the insured value). Fixed assets comprise land, buildings, plant and equipment, vehicles, etc – property that will be of economic benefit to the council over a period substantially longer than one financial year. Current book value should be an informed assessment of the open market value of the asset or the cost of reconstructing it in its existing condition. Other long-term assets might include loans to other local authorities and long-term investments held. Loans will be valued at the cash value of the outstanding balance at the year-end. In order to give a fair view of the council's finances, the cost value of any long term investments (as recorded in the schedule of assets and liabilities) should be added to this line.
13 Total borrowings	This should be the amount outstanding at 31 March each year. If a council has borrowings, they will usually be in the form of longer-term loans from the Public Works Loan Board. Instalment finance, including HP or leases that have not been classed as borrowing by the Assembly Government, should not be included here. The amount borrowed at 31 March should be easily calculated by reference to official loan schedules.

## Part 4 – Accounting guidance for councils > £1 million

### Part 4: Contents

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21. General requirements and accounting principles	Chapter 21 describes the general requirements and accounting principles that larger local councils should follow.	97
22. The statements of accounts	Chapter 22 describes the format of the accounts to be prepared by larger local councils.	108

### Chapter 20: Proper practices

*This chapter describes proper practices for local councils with income and expenditure exceeding £1 million.*

#### What are proper practices?

388. Local Councils, governed by the Local Government Acts and with a turnover in excess of £1 million per annum (larger local councils), are 'local government bodies' according to Regulation 2(1) of the Accounts and Audit (Wales) Regulations 2005 (as amended).
389. The regulations require all local government bodies 'to prepare, in accordance with proper practices in relation to accounts, a statement of accounts each year...'
390. The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 (as amended) define Governance and Accountability for Local Councils: A Practitioners' Guide 2008 (Wales) and its successor publications ('the guidance') as proper practices for community councils in Wales. For financial years commencing on or after 1 April 2009, the 'proper practices in relation to accounts' guiding larger local councils in the preparation of the annual statement of accounts are found in Part 4 of the guidance. All authorities to which section 21 of the Local Government Act 2003 applies that are required to prepare a Statement of Accounts by the regulations therefore have a statutory duty to comply with these proper practices.
391. This guidance is designed to assist larger local councils to prepare statements of accounts in accordance with 'proper practices', that is, the relevant professional standards which, given the scale of a council's activities, are applicable.
392. The guidance is based on the provisions of the Accounting Standards Board's Financial Reporting Standard for Smaller Entities effective April 2008 (FRSSE 2008) and its successor publications. By following the guidance, larger local councils will therefore follow generally accepted accounting practices. Councils should note that the guidance takes precedence over the requirements of the FRSSE. However, in the event of any ambiguity in the guidance, it should be read as being consistent with the FRSSE.
393. By adopting and applying the guidance, larger local councils become exempt from applying more complex accounting standards such as Statements of Recommended Accounting Practice (SoRP), Codes of Practice on Accounting, other Financial Reporting Standards (FRS including IFRS) and Urgent Issues Task Force (UITF) Abstracts.
394. Councils should note that this guidance will be updated when the International Financial Reporting Standard – IFRS for Small and Medium Size Entities – is developed and issued.

#### Applying the guidance

395. The guidance in this Part should be applied to all accounting periods commencing on or after 1 April 2009. Local councils operating below the £1 million annual turnover threshold ('smaller local councils') continue to complete an annual return and are not required to prepare and submit accounts in accordance with this Part 4.
396. In the event of conflict between this guidance and any statutory requirement, the statutory requirement shall represent the proper practices to be applied.
397. Chapter 20 below covers general principles and accounting concepts for the accounts. Chapter 21 describes the statements of accounts in detail and the form of their presentation.

## Part 4 – Accounting guidance for councils > £1 million

### Calculating income and expenditure

398. In order to decide whether councils need to prepare a statement of accounts in accordance with Regulation 7(3), it is necessary to check if the council's income or expenditure exceeds £1 million. To establish income and expenditure for this purpose, councils should calculate their income and expenditure on an accruals basis as shown in part 3 of this guide.

### Transition arrangements

399. In the first year of adoption of this guidance, as opposed to the preparation and presentation of income and expenditure accounts in the form of an annual return, the following approach should be adopted:
- a clear statement should be included within the notes on the basis of preparation that the accounts have been prepared for the first time following the guidance. The statement should explain that the format of the statements has changed and that the comparative period has been restated in the newly adopted format;
  - details of any changes in accounting policy arising in accordance with Chapter 21, paragraph 412 of this guidance; and
  - such matters should be accounted for as a Prior Period Adjustment in accordance with paragraph 2.15 of the FRSSE with disclosure at the foot of the Statement of Total Recognised Gains and Losses.



### Chapter 21: General requirements and accounting principles

*This chapter describes the general requirements and accounting principles that larger local councils should follow.*

#### The structure of the accounts

400. Local councils that exceed the turnover threshold should follow this guidance. When preparing their statement of accounts, practitioners must recognise that not all of the elements do apply to the local councils given their statutory framework, powers, duties and functions.

The statement of accounts subject to audit should consist of the following:

- an annual report ;
  - an annual governance statement;
  - a statement of responsibilities for the statement of accounts;
  - a statement of accounting policies;
  - an income and expenditure account;
  - a statement of movement of reserves;
  - a statement of total recognised gains and losses ;
  - a balance sheet;
  - notes to the accounts; and
  - the external auditor’s report.
401. The Accounts and Audit (Wales) Regulations 2005 require a statement of internal control, prepared in accordance with proper practices, to be included with the statement of accounts. This requirement is met by including the annual governance statement with the statement of accounts. Assembly Government guidance identifies this practitioners’ guide as the source of appropriate professional guidance on proper practice in relation to internal control, details of which may be found in Part 2 above.
402. A local council should add such additional information or statements as are necessary to ensure that the statement of accounts give a true and fair view of its financial position and transactions. Councils should note that the Regulations also require disclosure of certain information (see chapter 22 and Appendix 2).
403. The FRSSE requires a directors’ report to accompany the statement of accounts. To meet this requirement, local councils should provide an annual report on its activities during the year. The council must approve the annual report.
404. The annual report should include information to enable the user of the accounts to gain a better understanding of any matters set out in the accounts. Practitioners should note the external auditor’s opinion does not cover the annual report. However, auditors will check that it meets minimum disclosure requirements and will check for consistency between financial information presented in the annual report and within the council’s statement of accounts.
405. The FRSSE while recommending the voluntary disclosure of cash flow information states that this is not a mandatory requirement. Councils may prepare a cash flow statement if they wish to.
406. All accounts and notes the council prepares should present both current and preceding accounting period information.

## Part 4 – Accounting guidance for councils > £1 million

407. Where a council is the sole managing trustee for a trust fund, including charitable trusts, it should disclose in a note, a separate trust fund revenue account and balance sheet.
408. If, for example, the council runs leisure or cultural services or car parks, it should use discretion in providing additional information over and above that required by proper practice. The council must provide this information separately from the accounting statements. It should include the information preferably within the annual report and clearly exclude it from those statements that are subject to the auditor's opinion and report.
409. Local councils should also note that if additional information is published with the statement of accounts, the auditor will review this information in the same way as the annual report to check consistency with the audited statement of accounts.

### Accounting Principles and Policies

410. The statement of accounts state that they have been prepared in accordance with this guidance and should include:
- a description of each material accounting policy (see below);
  - a statement (if necessary) detailing any changes to the accounting policies from one period to another, including reasons for change and an analysis of the financial effect of the change; and
  - where the effect of a change to an estimation technique is material, a description of the change and where practicable the effect on the result for the current period.
411. When preparing the statement of accounts local councils should have regard to the following accounting principles:

<b>Going concern</b>	Local councils carry out their functions as a going concern. Any material uncertainties about this presumption are disclosed.
<b>Prudence</b>	Local councils determine any amount of any item on a prudent basis. That is to exercise a degree of caution when making estimates under conditions of uncertainty so that assets are not overstated and liabilities not understated.
<b>Accruals</b>	The statement of accounts are prepared on an accruals basis. All income and expenditure relating to the financial period to which the accounts relate is taken into account without regard to the date of payment or receipt.
<b>Relevance</b>	The statement of accounts provide information about the council's financial performance that is useful for assessing the stewardship of public funds and for making economic decisions.
<b>Consistency</b>	Consistent accounting policies are applied both within the accounting period and between accounting periods. Where accounting policies are changed, the reason and effect are separately disclosed.

## Part 4 – Accounting guidance for councils > £1 million

<b>Reliability</b>	The financial information provided is reliable and: <ul style="list-style-type: none"><li>• reflects the substance of the transactions and other events that have taken place;</li><li>• is free from deliberate or systematic bias;</li><li>• is free from material error;</li><li>• is complete within the bounds of materiality; and</li><li>• under conditions of uncertainty, is prudently prepared.</li></ul>
<b>Comparability</b>	The statements of account are prepared with consistent and adequate disclosure to allow comparability.
<b>Understandability</b>	All reasonable efforts are taken in preparing statement of accounts to ensure they are as easy to understand as possible.
<b>Materiality</b>	An item of information is material if its mis-statement or omission might reasonably be expected to influence assessments of stewardship and economic decisions, or comparisons with other entities, based upon the statement of accounts.

412. Accounting policies and estimation techniques shall be consistent with the FRSE and applied consistently within the same accounts and from one financial period to the next. If there is a material change in accounting policy the amounts for the current and corresponding periods shall be restated based on the new policies by making prior period adjustments.
413. Prior period adjustments shall be made by restating the comparative figures for the proceeding year and adjusting the opening balances of reserves accordingly. Where a statement of total recognised gains and losses has been prepared, the cumulative amount should also be noted at the foot of the current period.

### Accounting for Grants

414. Councils should credit revenue grants and subsidies to revenue accounts. The council should only accrue for amounts known to be receivable at the end of the accounting period.
415. The council must only recognise a government grant in the income and expenditure account when:
- the conditions for its receipt have been met: and
  - there is reasonable assurance that it will be received.
416. Where a government grant or other contribution finances either completely or in part the acquisition of a fixed asset, the council should deduct the amount of the grant or contribution from the purchase price of the asset.
417. Larger local councils previously adopting a policy of accounting for grants as deferred assets which are amortised (written off to the income and expenditure account) over the useful life of the related asset by taking annual contributions to revenue may:
- apply any unamortized grant balance against the depreciated value of the asset and depreciate the adjusted asset value over the remaining life of the asset, restating the opening balances accordingly; or

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- continue with a policy of depreciating the gross value of the asset and releasing the associated capital grant as previously. Councils opting for this approach must make full disclosure in their accounting policies and identify in a note to the balance sheet any assets and grants subject to this treatment.
418. Where a larger local council opts to continue to defer government grants in its balance sheets and amortise them on the same basis as the associated asset that amortisation should be reversed out of the income and expenditure account as follows:
- Insertion of an additional line below the Net Operating Surplus or Deficit for Year 'Reversal of government grant amortisation'; and
  - By processing the following journal:

<b>Debit</b>	General Fund: Reversal of government grant amortisation
<b>Credit</b>	Capital financing account
Reversal of government grant amortisation	

### Fixed Assets

419. Expenditure on tangible fixed assets shall be measured at cost and then written down to its recoverable amount if necessary. Assets are defined as rights or other access to future economic benefit controlled by a local council because of past transactions or events. Other than for investment property, the option of revaluing assets, although permitted by the FRSSE, is not recommended.
420. All expenditure on the acquisition, creation or enhancement of fixed assets above a de minimis level should be recognised on a consistent basis and capitalised on an accruals basis in the accounts. Councils must set an appropriate de minimis level for each category of asset and review this level from time to time.
421. Fixed assets are to be classified between:
- research and development, intangible assets and goodwill;
  - tangible fixed assets;
  - investments (in companies) and investment properties.
422. Councils are likely to have only tangible fixed assets (land & buildings, vehicle and plant) and some may hold investment properties. No specific sub-division into type of fixed assets is required. However if Councils consider that users of the statement of accounts should be provided with further information, a sub division of tangible fixed assets (between land and buildings, vehicles and plant and non-operational assets) is suggested by way of a note to the accounts).
423. Tangible fixed assets should be recorded at historic cost and written down to a recoverable amount if less. In the event of the rare occurrence where historic cost is not known, the Members of the council based on professional guidance may estimate the book value of an asset. Assets valued in this way must be individually identified in asset registers and in the notes to the accounts.
424. For the first accounting period for which this guidance is applied, if a larger local council does not adopt an accounting policy of revaluation of tangible fixed assets but the carrying amount of its tangible fixed assets reflects previous revaluations and impairment it may:
- retain the book amounts. In these circumstances the council shall disclose the fact that the transitional provisions in paragraph 19.3 of the FRSSE are being

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- followed and that the valuation has not been updated and give the date of the last valuation; or
- restate the carrying amount of the tangible fixed assets to historical cost (less restated accumulated depreciation) as a change in accounting policy.

### Investments

425. Where held, councils should disclose investments in the balance sheet at historic cost. A note to the accounts, supported by an investment register should disclose the market value of investments at the balance sheet date. Realised gains are taken to the income and expenditure account as they occur. The council should make an adjustment for any diminution in value of investments.
426. Where the council holds investment properties, it must disclose these on the balance sheet within Fixed Assets at market valuations. Because of the inherent risk of such investments for local councils, investment property valuations must be made at frequent intervals, at least annually.

### Depreciation

427. All tangible fixed assets (other than investment properties) should be depreciated over their useful economic life on an appropriate basis. Land is regarded as having an unlimited life and is therefore not depreciated. Investment properties are not depreciated except where held on a lease with an unexpired term is 20 years or less.
428. The notes to the accounts should disclose the depreciation method applied and the useful economic lives of the assets.
429. For fixed assets other than non-depreciable land and non-operational investment properties, the only ground for not charging depreciation is that the depreciation charge is immaterial.
430. For simplicity, it is suggested that depreciation is provided by the straight-line method. This writes off the cost of the relevant assets in equal instalments over their useful lives. However, councils should consider whether other more appropriate methods should be adopted depending on their circumstances. Any changes to depreciation methods or periods must be disclosed in the accounting policies and highlighted in notes in the year of change.
431. Depreciation should be charged to the income and expenditure account.
432. However, larger local councils must also meet the requirement contained in paragraph 3 of Schedule 1 to the Local Government Act 2003. This requires that where a larger local council meets any expenditure by borrowing, it shall in each financial year debit the 'appropriate amount' to the account from which that expenditure would otherwise fall to be met.
433. The 'appropriate amount' is a sum equivalent to an instalment of principal and interest combined such that if paid annually it would secure the payment of interest at the due rate on the outstanding principal together with the repayment of the principal not later than the end of the fixed period. The appropriate amount should be debited to the Income and Expenditure account with an offsetting credit to the Capital Financing account.
434. The effect of the statutory requirement is that the council's income and expenditure account will be debited each year with actual depreciation and any annual loan interest charges as well as the statutory cost of an annual instalment of debt plus interest within the 'appropriate amount'. Therefore, in order that taxpayers are not affected by this

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double charge to the precept, larger local councils must make the necessary adjustments to their statement of accounts.

435. In order to reach an accurate Net Surplus or Deficit for the Year (see 4.92 below) larger local councils must each year reverse out from the income and expenditure account:
- the annual depreciation charge; and,
  - any actual loan interest paid.
436. These amounts should be credited to the Income and Expenditure account and debited to the Capital Financing Account. The Capital Financing Account will show the net cumulative effect of these offsetting adjustments. The annual reversal of depreciation is required whether the council borrows or not.
437. Practitioners are reminded that the duty to make a minimum revenue provision (MRP) contained in Regulation 21(1) of the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 does not apply to any community council. Regulation 21(2) states that a community council may charge to a revenue account any amount in respect of the financing of capital expenditure incurred by the community council in that year.

### Impairments

438. Where a local council adopts a policy of carrying tangible fixed assets at valuation the adjustment line in the Income and Expenditure account 'Reversal of annual depreciation charge' should be renamed 'Reversal of annual depreciation charge and impairments.'
439. Where an impairment is charged to the income and expenditure account its impact should be reversed as follows:

<b>Debit</b>	Capital financing account
<b>Credit</b>	General Fund
Reversal of annual depreciation charge and impairments	

440. Any reversal of impairments in subsequent years should similarly be reversed.

### Leasing

441. Leases take two forms. Finance leases are leases where substantially all of the risks of ownership are transferred to the council. Operating leases are defined as any lease that is not a finance lease. If, at the inception of a lease, the present value of the minimum lease payments, including an initial payment, amounts to substantially all (i.e. normally 90% or more) of the fair value of the asset subject to lease, it is presumed to be a finance lease.
442. A finance lease should be recognised on the balance sheet as an asset and as an obligation to pay future rentals. At the inception of the lease, the sum to be recorded both as an asset and a liability shall normally be the fair value of the asset. An asset held under a finance lease should be depreciated over the shorter of the lease term and its useful life.
443. The finance charge under a finance lease should be allocated to each accounting period over the lease term and a straight line method is reasonable,
444. Operating lease rentals should be charged to revenue on a straight-line basis over the lease term whether or not this matches actual payments.
445. Hire purchase contracts that have the characteristics of a finance lease should be accounted for as a finance lease. Other hire purchase contracts should be treated as operating leases.

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### Stock and Work In Progress (WIP)

446. Stock and WIP should be included at the lower of cost or net realisable value.

### Short Term Investments

447. Investments that will or may mature during the following financial year should be included in the balance sheet at the lower of cost or net realisable value.

### Debtors

448. Debtors should be stated net of a provision for bad and doubtful debts where one is necessary. The note to the accounts should analyse debtors (with previous accounting period comparatives) analysed as to amounts falling due within one year and over one year. The following subdivision is suggested:

Trading debtors: amounts falling due under one year

Trading debtors: Amounts falling due after one year

Sundry debtors

Less: Provision for bad and doubtful debts

Subtotal: Trading and sundry debtors

HM Revenue and Customs (VAT and PAYE/NIC)

Cash with officers

Total debtors

### Cash at Bank and In Hand

449. Cash at bank should include current and deposit accounts as well as short-term investments such as building society and similar accounts. Cash in hand is the value of all petty cash floats.

### Creditors

450. Councils should identify trading creditors and the value of HM Revenue and Customs creditor in the supporting note. It should disclose amounts owed for VAT and payroll deductions (Income Tax, Employees and Employers NI) separately..
451. Amounts received by way of development contributions that are held on a conditional basis and may be repayable if not used for the purpose provided, must be treated as receipts in advance. They should be included with creditors and must not be shown as reserves.

### Other short-term liabilities

452. Short-term liabilities should include the current portion of long-term debt – the capital amount of loans outstanding repayable within the next financial year.

### Long Term Liabilities

453. For those local councils that have taken out loans to finance capital expenditure must include a note to the accounts showing the nature of the borrowing and an analysis of the maturity profile. For ease of reading, the note may present this in a table identifying

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borrowing due to be repaid within one year, one to two years, two to five years and over ten years. The current portion of long-term debt should be shown as a current liability.

### Reserves

454. Reserves are the net worth of the council at the accounting date. Reserves should only include amounts held by the council as development contributions where such contributions are unconditional.
455. The disclosure of reserves reflects the historic financial position as at the end of the accounting period. Further analysis by local councils into designated or undesignated reserves is optional and should only be presented as note to the accounts.

### Capital Financing Account

456. The Capital Financing Account is a non-distributable reserve. Councils use the reserve to hold the adjusting balances between annual depreciation and the statutory annual ‘appropriate charge’ for borrowing.

### Revaluation Reserve

457. The revaluation reserve is a non-distributable reserve used to hold the adjusting balances arising from the revaluation of assets. Where a council adopts a policy of carrying tangible fixed assets at a valuation, an annual adjustment should be made to the Revaluation Reserve in respect of the difference between the actual depreciation charge and the historical cost depreciation. The journal required is:

<b>Debit</b>	Revaluation reserve
<b>Credit</b>	Capital financing account
For the excess of the actual depreciation charge compared with the historical cost depreciation	

### Usable Capital Receipts Reserve

458. Where a council disposes of an asset during the year, the proceeds of which are a capital receipt under the local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003, the resultant gain or loss will be reported in the Income and Expenditure account. This amount should then be reversed out of the general fund as follows:

- inserting an additional line below the Net Operating Surplus or Deficit for the Year for ‘reversal of Gains and Losses’; and
- processing the following journals.

<b>Debit</b>	General Fund “Reversal of Gains and losses
<b>Credit</b>	Usable Capital Receipts Reserve
With the proceeds of sale	

<b>Debit</b>	Capital Financing Account
<b>Credit</b>	General Fund “Reversal of Gains and Losses”
With the carrying value of the asset disposed	



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459. Where a local council acquires tangible fixed assets that it proposes to fund from usable capital receipts, an adjustment should be made by debiting the Usable Capital Receipts Reserve and crediting the Capital Financing Account. This adjustment should be reported in the Statement of Movements in Reserves

### Pensions

460. Section 10 of the FRSSSE covers the accounting requirements for entities operating either direct contributions or defined benefits pension schemes and deals with matters of recognition, valuation and presentation as well as measurement.
461. The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 (SI 2003/3239) (the 2003 Regulations) establish the principle that it is the actual contributions and payments in relation to retirement benefits, as required by the relevant Regulations that must be taken into account for the purpose of determining revenue (taxation) requirements.
462. Employees of local councils are usually members of the Local Government Pensions Scheme, a statutory scheme, which provides members with defined benefits (retirement lump sums and pensions) related to pay and service. As such, councils should account for the retirement benefits on that basis.
463. However, although the Local Government Pensions Scheme (LGPS) is a defined benefits scheme, it may not always be possible to identify clearly and specifically the share of the underlying assets and liabilities of the particular scheme that relate to a larger local council's employees. It may therefore not be possible to determine a fair value of the scheme attributable to the Council's employees. This would occur, for example, where the scheme actuary groups a number of smaller admitted bodies together and determines a common contribution rate.
464. Councils are expected to obtain the best information available in relation to meeting accounting standards. The cost of obtaining information is not a barrier. In the event that information is available from the pension scheme actuary valuing the council's share of the pension scheme assets and liabilities, then this information must be applied in the preparation of the accounts.
465. If a fair valuation is not possible, larger local councils should account for pensions on a defined contributions basis See paragraph 471 below.

### Defined benefit schemes

466. Where a fair valuation is possible, larger local councils should follow the requirements of section 10 and Appendix II of the FRSSSE and the statutory requirements set out in the 2003 Regulations.
467. Larger local councils following the requirements of this guidance must charge to the income and expenditure account an amount equal to the retirement benefits payments and contributions to pension funds which are payable for that year in accordance with statutory requirements of the 2003 Regulations.
468. This means that a number of adjustments must be made to proper practice accounting as set out in FRSSSE.
469. Where a larger local council participates in a defined benefit pension scheme for which its share of assets and liabilities can be identified:
- A Pension Reserve should be included in the Reserves section of the balance sheet. The Pensions Reserve is an adjustment account that manages the effects of FRS17 changes made to the income and expenditure account against the

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statutory requirements for meeting the cost of retirement benefits from local taxes. It also absorbs the impact of actuarial gains and losses. It will normally balance exactly the pensions liability carried in the top half of the Balance Sheet. The movement on the pensions liability calculated as set out in the FRSSE needs to be reconciled to the pensions costs required to be made for council tax purposes by appropriations to or from the Pensions Reserve;

- An additional line in the Income and Expenditure account should be included between the Net Operating Surplus/Deficit for the Year and the Net Surplus/Deficit for the Year (to General Fund) described as Pension fund adjustment; and
- Amounts included in the Income and Expenditure account in respect of the pension fund in accordance with the FRSSE (current service costs, past service costs, settlements, interest cost & expected return on assets) should be reversed out and replaced with the contributions payable by the council for the year as follows.

470. Amounts included in the I&E will be:

<b>Debit</b>	Pension reserve
<b>Credit</b>	Pension fund adjustment
With the amounts included in I&E as required by FRSSE	

and;

<b>Debit</b>	Pension fund adjustment
<b>Credit</b>	Pension reserve
With the value contributions payable	

### Defined contribution schemes

471. The cost of a defined contribution scheme (or of a defined benefits scheme where a fair valuation is not possible) is equal to the contributions payable to the scheme for the accounting period and should be recognised in the income and expenditure account. In addition, the following disclosures should be made in a note to the Income and expenditure account:

- the nature of the scheme;
- the cost for the period; and
- any outstanding or prepaid contributions at the balance sheet date.

### Revenue expenditure funded from capital under statute (REFCUS)

472. Section 16 of the Local Government Act 2003 provides that the Welsh Assembly Government may:

- (a) by regulations provide that expenditure of local authorities shall be treated as being, or as not being, capital expenditure; and
- (b) by direction provide that expenditure of a particular local authority shall be treated as being, or as not being, capital expenditure.

473. A capitalisation direction allows a council to treat specific revenue expenditure as capital expenditure. Instead of charging it to revenue, it may be funded from borrowed money or capital receipts.

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474. An additional line should be included in the Income & Expenditure Account below “Net Operating Surplus or Deficit for the Year” entitled ‘Revenue expenditure funded from capital under statute.’
475. Where there are revenue items included within the Income & Expenditure that are to be funded from capital under statute these should be adjusted as follows:

<b>Debit</b>	Capital financing account
<b>Credit</b>	General Fund: RECUS
With the value of revenue items funded from capital	

### Post Balance Sheet Events

476. Post balance sheet events whether favourable or unfavourable are identified as either adjusting or non-adjusting events. Adjusting events are those that provide evidence of conditions that existed at the balance sheet date. Non-adjusting events are those that are indicative of conditions that arose after the balance sheet date.
477. Councils should adjust the amounts recognised in the accounts to reflect adjusting events after the balance sheet date.
478. Councils should not adjust the accounts for non-adjusting events after the balance sheet date. However if the event is material it should be disclosed by way of a note identifying the nature of the event and an estimate of its financial effect if it can be made, or a statement otherwise.

### Related Party Transactions

479. Two or more parties are related if at any time during the accounting period:
- One party has a direct or indirect control of the other party; or
  - The parties are subject to common control from the same source; or
  - One party has significant influence over the financial and operating policies of the other party.
480. Where a council purchases, sells, transfers goods and other assets or liabilities, renders or receives services or provides or receives financial support to or from a related party of a material nature such transactions must be disclosed. Transactions with members of the council or with companies controlled by them should be disclosed.
481. Disclosure of pension contributions and employees salaries, transactions with utility companies and government departments and agencies are not required to be reported as related party transactions.

### Signing and Approval of the Accounts

482. The statement of accounts should be prepared and approved in accordance with Regulations 8 and 9 of the Accounts and Audit (Wales) Regulations 2005 (as amended). The RFO must certify the statements prior to submission to the auditor. The council must approve the statements in accordance with the Regulations.

### Chapter 22: The statements of accounts

*This chapter describes the format of the accounts to be prepared by councils with income and expenditure exceeding £1 million.*

#### General disclosure requirements

483. The statement of accounts should state that they have been prepared based on this guidance. Councils should disclose any departure from the guidance so that the statements give a true and fair view. The disclosure must identify the reasons for the departure together with an explanation of how the position shown in the statement of accounts is different because of the departure.
484. The statement of accounts shall include:
- a description of each material accounting policy followed;
  - details of any changes to the accounting policies followed in the proceeding period. In addition to the disclosures necessary for prior period adjustment, a brief explanation of why each accounting policy is more appropriate and where practicable a indication of the effect on the current accounting period is required;
  - where the effect of a change to an estimation technique is material, a description of the change and where practicable an indication of the effect on the results of the current accounting period;
  - disclosure of any material uncertainties as to the going concern presumption should be disclosed; and
  - comparative amounts from previous accounting periods for every item disclosed in the balance sheet, income and expenditure accounts and notes to the statement of accounts, with the exception of details of additions and disposals etc of fixed assets and their cumulative depreciation.

#### Annual Report

485. The FRSE requires the preparation of an annual report along with the statement of accounts. This formal annual report is a useful means of presenting detailed financial information in the context of the council's operating environment. Larger local councils should prepare an annual report along with their statement of accounts.
486. Councils that include an annual report should note that it will not be subject to detailed audit review although auditors will report by exception any inconsistency with the statement of accounts. Preparers of statement of accounts should ensure that there is internal consistency throughout before presenting the statement of accounts to the council for approval. The annual report should be approved by the council and signed by the Chair accordingly.
487. The annual report should be an easily understandable guide to the most significant matters reported in the statement of accounts. It should provide an explanation in overall terms of the council's financial position and assist in the interpretation of the statement of accounts. It should also contain a commentary on principal activities of the council, the major influences affecting the council's income and expenditure during the year and information on the financial needs and resources of the council.

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488. Where the council prepares an annual report, the following disclosures should be included:
- a description of the principal activities of the council;
  - details of the Members of the council; and
  - a statement describing the policy adopted in relation to disabled people (only required if over 250 employees).
489. The annual report should be concise and restricted to significant matters. It should include such items that are likely to be significant to the understanding of the statement of accounts such as:
- an explanation of which statements follow, their purpose and the relationship between them;
  - a comparison of expenditure in the year with the original budget for the accounting period, and an explanation of significant variations from it;
  - a brief note of any major fixed asset acquisitions and disposals or material liabilities incurred;
  - an explanation of any material and unusual charge or credit in the accounts;
  - any significant change in accounting policies. The reason for the change, and the effect on the accounts, should be explained;
  - any major change in statutory functions which has a significant impact on the accounts. In addition, a comment on planned future developments in service delivery, including a summary of revenue and capital investment plans, distinguishing between expenditure intended to maintain existing levels of service provision and that intended to expand existing services or develop new services;
  - a brief note of the council's current borrowing facilities and capital borrowing, outlining the purpose and impact of financing transactions entered into during the year; and
  - a summary of the council's internal and external sources of funds available to meet its capital expenditure plans and other financial commitments.

### Annual Governance Statement

490. Regulation 4 of the Regulations requires each council to conduct an annual review of the effectiveness of its system of internal control. Once complete the council must report its findings by including a statement on internal control, prepared in accordance with proper practices, with its annual accounting statements.
491. Part 2 of this guidance is recognised by the Assembly Government as a source of proper practice and requires the production of an annual governance statement. Therefore, the statement of accounts should include the annual governance statement. The annual governance statement should contain:
- an acknowledgement of council's responsibility for ensuring there is a sound system of internal control;
  - an indication of the level of assurance that a system of internal control can provide;
  - a brief description of the key elements of the internal control environment;
  - a brief description of the process that has been applied in maintaining and reviewing the effectiveness of the system of internal control, including some

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comment on the role of the council and any committee charged with an overview of the council's governance arrangements, internal audit and any other assurance mechanisms; and

- an outline of the actions taken, or proposed, to deal with significant internal control issues.
492. The chair of the council and the chief executive officer or clerk of the council should sign the statement. The minimum amount of disclosure required in the annual governance statement is the same as that contained in the annual return used by smaller local councils (See part 2 of the Practitioners' Guide). Larger councils may wish to apply the guidance contained in the joint CIPFA/SOLACE framework - Delivering Good Governance in Local Government.

### The Statement of Responsibilities for the Accounts

493. The statement of responsibilities should:
- acknowledge the council's responsibilities for the proper administration of its financial affairs and the appointment of an RFO;
  - acknowledge the council is required to manage its affairs to secure economic, efficient and effective use of its resources;
  - set out the RFO's responsibilities for the preparation of the accounts, the selection and application of appropriate accounting policies, for estimation techniques and compliance with generally accepted accounting practice, the maintenance of proper records and steps taken to prevent and detect irregularities; and
  - the statement should be signed and dated by the RFO.

### Statement of Accounting Policies and Estimation Techniques

494. The statement should include the following:
- an acknowledgement that the accounts have been prepared in accordance with proper accounting practices and this guidance;
  - the fundamental accounting concepts and estimation techniques used in the preparation of the statement of accounts (accruals, relevance, consistency, reliability, comparability, understandability, materiality, and going concern);
  - for fixed assets, the basis of recognition, initial measurement, valuation, depreciation and disposal of each class of tangible fixed assets;
  - the accrual of income and expenditure;
  - the treatment of contingent liabilities and contingent assets;
  - the basis on which stocks are included in the accounts;
  - the accounting treatment for capital receipts;
  - the accounting treatment for grants and contributions;
  - the accounting treatment for leases and other similar instruments;
  - the recognition and treatment of provisions and other liabilities;
  - the recognition and treatment of balances and earmarked and general reserves;
  - the accounting treatment for pensions;
  - the reporting of contingent liabilities and contingent assets;
  - the accounting treatment for post balance sheet events;

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- exceptional items, extraordinary items and prior period adjustments; and
  - the accounting treatment of acquired or discontinued operations.
495. If other material accounting policies are adopted and applied these should also be fully disclosed here.

### The Income and Expenditure Account

496. The income and expenditure account should include information for both current and prior year accounting periods.
497. Revenue arises from precepts, grants, rents, interest and other investment income, delivering services and sundry activities.
498. It is recommended that the analysis of income and expenditure should contain a summary of the main fund raising and spending areas:

<b>Income</b>
Precept
Grants received
Rental income, interest and investment income
Charges made for services
Other income or contributions
Total income
<b>Expenditure</b>
Direct Service costs
<ul style="list-style-type: none"><li>• Salaries and wages</li><li>• Grant aid expenditure</li><li>• Other expenditure</li></ul>
Democratic, Management and Civic Costs
<ul style="list-style-type: none"><li>• Salaries and wages</li><li>• Grant aid expenditure</li></ul>
Exceptional items (if any)
Gains or losses on disposal of fixed assets
<b>Net Operating Surplus or Deficit for Year</b>
Reversal of annual depreciation charge (usually a Cr)
Statutory charge for capital ('the appropriate amount') (Dr)
<b>Net Surplus or Deficit for Year (to General Fund)</b>

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### Disclosure Notes to the I & E Accounts

Note	Description
1	An analysis of grants received. Grants may be received from other local authorities. The nature and the amount of grants received should be identified where material.
2	Information about the Pension Scheme offered to employees identifying the administering authority, the nature of the scheme, the cost for the period and the amount of any outstanding or prepaid contributions at the balance sheet date
3	Disclosure of remuneration of staff earning over £60,000 per annum in bands of £10,000 with current year and previous year numbers of employees
4	Audit fees and expenses
5	Related party transactions: Councils should disclose related party transactions that are material to the Council's accounts including: <ul style="list-style-type: none"><li>• the name of related parties;</li><li>• a description of the relationship;</li><li>• the amounts involved;</li><li>• any other elements of the transaction necessary for an understanding of the statement of accounts;</li><li>• the amounts due to or from related parties at the balance sheet date and any provisions for doubtful debts at that date; and</li><li>• any amounts written off in the accounting period in respect of debts due from related parties.</li></ul>
6	Details of adjustment for depreciation and calculation of the 'appropriate amount.
7	Overheads including depreciation should be included within other costs under Democratic, Management and Civic Costs. A note to the accounts should provide an analysis of these costs into the principal components.

### The Statement of Movement of Reserves

499. This statement reconciles the change in reserves between accounting periods.
500. It is anticipated that this statement will be provided in columnar form showing
- each separate reserve, as reported on the balance sheet; and
  - the net movements during the year that reconcile the opening balance to the closing balance.
501. Supporting this table should be detailed reconciliations in respect of those reserves where this is not already provided elsewhere in the accounts. For example the Capital Financing Account, Earmarked reserves and Usable Capital Receipts Reserve. Where the detail is elsewhere in the accounts this should be cross-referenced from the statement.



### **The Statement of Total Recognised Gains and Losses**

502. Where it is prepared, the presentation of a statement of total recognised gains and losses should have the same prominence as the income and expenditure account. The statement should include all gains and losses that are not included in the income and expenditure account such as surplus or deficit arising on revaluation of fixed assets.
503. In the case of local councils who account for assets on an historic cost basis and account for pensions on a defined contribution basis it is likely that all gains and losses will have been recognised in the income and expenditure account and therefore this statement will not be required.
504. If required, the format of the statements is:
- Surplus or deficit on the income and expenditure account;
  - Surplus or deficit on the revaluation of fixed assets;
  - Actuarial gains or losses on pension fund assets or liabilities (not required for councils accounting for pension funds on a defined contribution basis); and
  - Any other gains or losses.
505. Current accounting period and prior period comparatives are required.

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### The Balance Sheet

506. The balance sheet should include information for both current and prior year accounting periods.

Assets and liabilities	
Intangible assets (if any)	A
Fixed assets	
• Land and buildings	B
• Vehicles and plant	C
Non-operational assets	$D = A + B + C$
Current assets	
Stock and work in progress	E
Debtors and prepayments	F
Short term investments	G
Cash at bank and in hand	H
Current liabilities	
Creditors and receipts in advance	I
Current portion of long-term debt	J
Net current assets	$K = E + F + G + H - I - J$
Total assets less current liabilities	$L = D + K$
Long term borrowing	M
Total assets less liabilities	$N = L - M$
Reserves	
Usable capital receipts reserves	O
Revaluation Reserve (if used)	P
Capital financing account	Q
Earmarked revenue reserves	R
General reserves	S
Total reserves	$T = O + P + Q + R + S = N$

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### Disclosure Notes to the Balance Sheet

Note	Description
1.	<p><b>Post balance sheet events:</b></p> <p>Disclosure of any material non-adjusting post balance sheet event is required. This should include the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.</p>
2.	<p><b>Tangible Fixed Assets and Depreciation:</b></p> <p>The notes to the accounts should disclose;</p> <ul style="list-style-type: none"><li>• the cost or valuation at the beginning of the accounting period;</li><li>• the effect of any revaluation made during the accounting period;</li><li>• acquisitions made during the accounting period; and</li><li>• disposals made during the accounting period.</li></ul> <p>The accounts should also disclose:</p> <ul style="list-style-type: none"><li>• the cumulative amount of depreciation at the beginning of the accounting period;</li><li>• the amount of any depreciation during the accounting period;</li><li>• the amount of any adjustments made on disposal during the accounting period; and</li><li>• the amount of any other adjustments made during the accounting period.</li></ul> <p>Note: Investment properties are not depreciated.</p>
3.	<p><b>Leases:</b></p> <p><b>Finance Leases:</b></p> <p>Assets held under finance leases can either be aggregated with other fixed assets owned by the council along with the accumulated depreciation or be disclosed separately. If disclosed in aggregate the net amount of assets held under finance leases and the amount of depreciation allocated should be separately disclosed. The amount of future obligations related to finance leases should also be disclosed.</p> <p><b>Operating Leases:</b></p> <p>The note should disclose the payments that the council is committed to make during the next year analysed between those in which the commitment expires within that year, in the second to fifth years inclusive and over five years from the balance sheet date, showing separately the commitments in respect of leases of land and buildings and other operating leases.</p>

## Part 5 – The external audit

### Part 5: The external audit

*Local councils must have their accounts audited each year. Part 5 explains the audit process and provides guidance what the council needs to do for the audit.*

Chapter		Page
23. Public rights and external audit responsibilities	Chapter 23 describes the rights of members of the public to inspect the accounts and to approach the external auditor.	117
24. External audit for smaller local councils	This chapter explains the limited assurance audit arrangements for local councils with income and expenditure below £1 million who prepare an annual return.	120
25. External audit for larger local councils	Chapter x explains the audit arrangements for larger local councils with income and expenditure more than £1 million.	128

### Chapter 23: Public rights and the external auditor's responsibilities

*This chapter describes the rights of members of the public to inspect the accounts and to approach the external auditor.*

#### What rights does the public have in respect of the council's accounts?

507. Councils are custodians of public money. The Act and the Regulations contain important provisions that open the accounts of a council up to public scrutiny. Members of the public, as well as local councillors, have rights to satisfy themselves about the regularity of a council's finances and to ask questions and make objections to particular items of account.

508. In summary, the public has the right to:

Public rights	Explanation
Inspect and make copies of the statement of accounts and auditors' reports	When the council prepares the accounts it advertises they are available for inspection. Members of the public can obtain copies of the accounts, inspect, and make a copy of any report the auditor makes to the council.
Inspect the accounts and supporting documents	When the council has advertised the availability of its accounts for inspection, members of the public can inspect the accounts and all books, deeds, contracts, bills, vouchers and receipts relating to them. They may not inspect documents that are not relevant to the accounts or are otherwise legally protected e.g. employee records.
Ask questions at the audit	Once the audit begins, members of the public can ask the auditor questions about the accounts for the year they are auditing.
Object to the accounts or items within the accounts	Registered electors of the council or their representative may object to the accounts or items within them. There are two grounds for an objection: <ul style="list-style-type: none"><li>• That an item of account is unlawful; or</li><li>• There is something in the accounts that the auditor should tell the public about in a public interest report.</li></ul>

509. These opportunities for scrutiny cover both the books of account and the statement of accounts, but are restricted to particular times. Although councils are not required to open their books on request, increasingly there is a move towards their doing so in pursuit of demonstrating openness and transparency.

## Part 5 – The external audit

510. For more detailed information about the rights of electors please refer to the Auditor General's publication 'Your rights in Wales: Councils' Accounts'. This can be found at: [http://www.wao.gov.uk/assets/englishdocuments/WAO\\_Council\\_Accounts\\_A5\\_eng.pdf](http://www.wao.gov.uk/assets/englishdocuments/WAO_Council_Accounts_A5_eng.pdf) or [http://www.wao.gov.uk/assets/welshdocuments/WAO\\_Council\\_Accounts\\_A5\\_welsh.pdf](http://www.wao.gov.uk/assets/welshdocuments/WAO_Council_Accounts_A5_welsh.pdf)

### What does the council have to do?

511. The particular things that the council must do to facilitate public rights in relation to the accounts are:
- advertise the rights of the public at the appropriate times;
  - allow public inspection of the statement of accounts prepared in accordance with either part 3 or Part 4 of this guide and the supporting accounting records and other documents once the statement of accounts has been drafted; and
  - publish the statement of accounts after the audit, together with the auditor's report, and make available other relevant documents e.g. reports in the public interest.
512. The council's appointed external auditor is the person responsible for setting the date of the commencement of the audit. Members of the public can exercise their rights under the Act from this date until the audit is closed. The appointed auditor will inform the clerk of this date in the notice of audit sent to the council in order that it can be advertised by display in a prominent place. Similarly, the council must display a public notice that it has received the auditor's certificate. This certificate closes the audit for the year. For councils below the £1 million threshold and preparing an annual return, the auditor's certificate is in section 3 of the annual return.
513. The council must carry out its duties in accordance with the law. As with all aspects of the law, there is scope for interpretation as to what the provisions of the Regulations require. Councils often ask if they have any discretion to restrict access to the books of accounts if they suspect that the interested party is seeking to get hold of personal or commercially sensitive information. Personal information held by a council, for example, is protected under s30 (3) of the Act. This protection extends to personal details of staff and their individual salaries and deductions. If the council is uncertain what information it should make available, it should seek appropriate advice.
514. To ensure they understand requirements of the Act and Regulations, members, clerks and RFOs should read the relevant sections of the Act, the Regulations and the Assembly Government's guidance on the Regulations. The council should also be aware of the consequences of failing to meet those requirements.
515. Councils should use this guidance only to provide support for their own conclusions as to what the Regulations require them to do. Where there is doubt, councils should consider taking legal advice.

### The external auditor's responsibilities

516. The Auditor General for Wales appoints external auditors for local councils. The external auditor makes sure that the council has effective financial checks and balances and prepared the accounts properly. The external auditor gives an opinion on whether or not the council properly completed its accounts. The external auditor performs his or her statutory responsibilities by the examination of the accounts or annual return and by responding to issues raised by members of the public.
517. The external auditor is not responsible directly for enforcing the provisions relating to public scrutiny. However, they may be unable to carry out the audit because others do

## Part 5 – The external audit

not discharge their responsibilities (e.g. failure to advertise the audit), they may be willing to comment on issues that the council finds difficult to resolve.

518. The auditor does not have to answer questions about the council's policies, finances, procedures or anything else that is not relevant to the accounts. If an elector makes an objection because an item of account is unlawful, the auditor must reach a decision and if requested, provide a statement of reasons. If the objection is on the grounds of a matter of public interest, the auditor must decide whether to take any action but is not required to give reasons for the decision.

### Chapter 24: External audit for smaller councils with income and expenditure below £1 million

*This chapter describes the audit process for councils with income and expenditure below £1 million and who prepare an Annual Return.*

#### What form does the audit take?

519. Councils that complete an annual return receive a limited assurance audit carried out in accordance with guidance issued by the Auditor General. Councils that prepare a full statement of accounts in accordance with Part 4 of this Practitioners' Guide receive a different form of audit as described in Chapter 22. This applies even if the council's income and expenditure are below the £1 million threshold. The flowchart in Appendix 8 illustrates the different audit approaches.
520. The auditor's responsibilities are governed by:

Guidance	Description
Legislation	The Public Audit (Wales) Act 2004 provides the statutory basis for the appointed auditor's responsibilities and powers.
Auditor General's Code of Audit Practice	The Code prescribes the way in which auditors of local government bodies are to carry out their functions. It includes: <ul style="list-style-type: none"><li>• The General Code – prescribes the way in which the auditor must carry out his/her functions: and</li><li>• The Specific Code – further prescribes the way in which the auditor must carry out particular functions as part of a co-ordinated approach to audit work.</li></ul>
Other Auditor General Guidance	From time to time, the Auditor General issues guidance to auditors. Auditors must comply with the guidance as it applies to their work.

#### How does the auditor report the results of the audit?

521. In normal circumstances, the external auditor provides the Council with two documents that summarise their audit. These are:
- The audit report on completion of the audit; and
  - The audit opinion and certificate.

##### **The audit report on completion of the audit**

522. When the audit is complete, the external auditor will send a report to the Council setting out what they found during the audit. They send this report to the Council before the Council approves the Annual Return.



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523. The report may include the following matters
- Errors found in the accounting statements;
  - Weaknesses in the Council's financial and governance arrangements;
  - Details of where the Council has failed to meet regulatory and other requirements; and
  - Recommendations for how the Council can improve its arrangements and prevent these problems from occurring again.
524. This report will also say what opinion the auditor will give when they complete section 3 of the annual return.
525. The external auditor sends this report to the council but does not at this stage complete the audit opinion in section 3 of the annual return. When the Council receives this report, it must meet to consider the report and consider any suggestions made for amending the annual return and recommendations for improving the Council's arrangements. The RFO then certifies section 3 of the Annual Return and the Council approves the Annual Return. The Chair's signature in section provides evidence that the Council approved the return.
526. When all this is complete, the Council sends the original Annual Return to the external auditor for the audit opinion to be completed.

### **The audit opinion and certificate**

527. The audit opinion sets out the external auditor's conclusion from the audit work they perform. The opinion confirms whether or not, in the auditor's opinion, the information contained in the return is in accordance with proper practices and explains if any matters came to the auditor's attention during the audit, that give the auditor reason to believe the Council failed to meet its responsibilities in relation to the audit. The audit opinion is said to be 'qualified' when the auditor reports issues in section 3.
528. Typically, auditors qualify annual returns for the following reasons:
- Failure to meet the requirements of the Accounts and Audit (Wales) Regulations e.g. preparing the accounting statements on the wrong basis, failing to keep proper accounting records, failing to prepare and/or approve the annual return within the timetable set by the Regulations and failing to have an adequate internal audit function; and
  - Other breaches of legislation. Most commonly, these involve the council incurring expenditure for which it has no legal power to incur.
529. Other matters that do not affect the auditor's opinion will be included in audit report on completion of the audit.

### **How do external auditors meet their responsibilities?**

530. Auditors meet their responsibilities by:
- reviewing compliance with the requirements for the preparation of the annual accounts;
  - carrying out a high level analytical review of financial and other information provided to the auditor (including information provided by the public);
  - obtaining and reviewing such additional information and explanation as is necessary to provide sufficient evidence that the council maintained an adequate system of internal control throughout the financial year.
531. Where based on this review the auditor requires further evidence in relation to any relevant matter, they may undertake additional testing to address their concerns.

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532. When the auditor has completed the audit, they give an opinion on the accounts and certify the annual return. Auditors provide assurance in the form of an opinion whether, based on their review, the accounts and other information provided are in accordance with the specified requirements and that no matters have come to their attention giving cause for concern that relevant legislative and regulatory requirements have not been met.

### What is the audit process?

533. The following table summarises the tasks that a typical council will need to schedule in order to prepare the accounts and facilitate the audit process (references are to the Accounts and Audit (Wales) Regulations 2005). Following this process will help to ensure that the Council complies with the Regulations and avoid some of the most common qualification matters:

Step	Task	Comments
1	Arrange for the council to receive the documents needed to prepare the annual return	<p>Likely tasks include:</p> <ul style="list-style-type: none"> <li>requesting bank statements for 31 March for all bank accounts</li> <li>arranging for savings account books to be made up to date for 31 March</li> <li>obtaining written confirmation of other investments at 31 March, including interest for the year</li> </ul>
2	<p>Close, balance and reconcile the cashbook, update the schedule of assets and liabilities.</p> <p>Draw up accounting statements and Annual Governance Statement</p>	<p>This should be done as soon as practicably possible after the end of the financial year and certainly in good time for the RFO to certify Section 3 of the annual return by 30 June (30 September for 2010/11).</p> <p>For advice on balancing and reconciling the cashbook, see chapters 15 and 16. For advice on preparing income and expenditure adjustments, see chapter 19.</p> <p>The RFO prepares the annual accounting statements, and annual governance statement (on behalf of the Council) on receipt of the Annual Return from the external auditor.</p>
3	Internal auditor completes the Internal Audit Report (Section 4 of the Annual Return) by 30 June (30 September for 2010/11)	Internal audit is a key element of the council's system of internal controls. Therefore, the council must receive the internal auditor's report (Section 4) before the Annual Governance Statement is completed. The internal auditor will review and where appropriate, rely on the work of the RFO's preparation of the accounting statements (see line J of section 4 of the Annual Return)
4	RFO certifies that the accounting statements properly presents (receipts and payments accounts) or presents fairly (income and expenditure accounts) the finances of the Council	<p>Ensure receipt of current year annual return from the external auditor in good time.</p> <p>Regulation 8B requires the RFO to certify that the accounting statements properly presents (receipts and payments accounts) or presents fairly (income and expenditure accounts) the finances of the Council. This is completed on page 1 of the Annual Return.</p> <p>The latest date for the RFO to certify the accounting statements is 30 June (30 September for 2010/11).</p>
5	Council approval of annual return	Arrange for the necessary committee and/or full council meeting to receive and approve (on page 1) the Annual Return before sending a copy of the return and supporting information to the external appointed auditor.

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5	Receive confirmation of the date of audit with the auditor	<p>As part of their statutory responsibilities, the external auditor will appoint a date when local electors can exercise their right to ask questions about the accounts or to object to any item of account and to notify the council (Regulation 12).</p> <p>The council has no official role to play on this date, but needs to know the date to complete steps 6 and 7 before the date appointed.</p>
6	Display a notice of public rights under audit	<p>In preparation for step 7, regulation 15 requires councils to display a notice (or notices) in a conspicuous place(s) in the council's area setting out:</p> <ul style="list-style-type: none"> <li>• the dates of the 20 working day period during which the accounts and other documents will be available for inspection;</li> <li>• the place at which, and the hours during which, they will be available;</li> <li>• the name and address of the auditor;</li> <li>• the rights conferred on the public by sections 29, 30 and 31 of the Public Audit (Wales) Act 2004 (public inspection of accounts and right to challenge), especially the effects of section 31 (2) requiring prior written notice of objections to be sent to the auditor and the council; and</li> <li>• the date appointed by the auditor.</li> </ul> <p>The council must display the notice for at least 14 days immediately before the date in step 7.</p> <p>Step 7 must begin at least 20 working days before the date appointed by the auditor. This means that the notice is required at least six weeks before the appointed date (and longer if there are any public holidays during the inspection period). It is important for the council to ensure that the notice is posted promptly and that it remains displayed for the whole 14-day period. The council will be giving a public assurance as part of the annual governance statement in the annual return that it carried out this step.</p>
7	Make the accounting statements and other documents available for inspection	<p>Regulation 13 requires the accounts and all books, deeds, contracts, bills, vouchers and receipts relating to them to be available for inspection by interested parties for 20 working days before the auditor's appointed date. The council can require that interested parties give reasonable notice that they want to inspect records and do not have to grant immediate access on request. The public are entitled to make copies of any of the documents available for inspection. This can be the most contentious part of the accounts and audit process, where allegations can arise that the council does not make the documents available or that interested parties are taking advantage of the inspection period. Section 30(3) of the Act prevents a council from releasing certain personal information about members of staff. In other cases where a council wishes to withhold information, legal advice should be sought. The inspection period has to be complete before the auditor's appointed date for audit.</p>
8	The audit	<p>Section 18 of the Act entitles auditors to rights of access at all reasonable times to all documents of the council that the auditor determines are necessary for the audit. The auditor also has a right to require any persons holding or accountable for documents to provide any information and explanations the auditor thinks necessary for the audit. In</p>

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		<p>most instances, however the council and the auditor will co-operate by agreeing a time when the audit work is to be performed and the RFO will be available to assist the auditor. The Auditor General provides guidance to external auditors. Summarised guidance from the Auditor General to appointed auditors in Wales is at Appendix 5.</p> <p>On completing the audit work, the external auditor will send a report to the clerk setting out the findings from the audit and the proposed audit opinion. At this stage, the auditor will not have issued the audit certificate.</p>
9	<p>RFO re-certifies Section 3 of the Annual Return and submits the Annual Return to the Council for approval under Regulation 9. The external auditor's report must accompany the Annual Return.</p>	<p>Before submitting the Annual Return to the Council for approval, regulation 8B (3) requires the RFO to certify the accounting statements once more.</p> <p>The certification is set out in Section 3 of the annual return and just needs signing by the RFO. This certification is required from the post holder at the time rather than that for the year (or part year) under review.</p> <p>Once the RFO has re-certified Section 3, the Annual Return should be presented to the Council for formal approval. The external auditor's report must accompany the presentation of the Annual Return.</p> <p>After RFO certification, regulation 9 requires that the accounts be approved by a meeting of the council (or one of its committees if the Council's Standing Orders permit delegation of this duty) and that the person presiding at that meeting signs and dates the accounts to signify the completion of the approval process.</p> <p>Section 3 of the annual return provides space to record the Council's resolution and the presiding member's signature.</p>
10	<p>The clerk sends the approved annual return to the external auditor.</p>	<p>The council should send the annual return to the external auditor as soon as it is approved. The auditor will certify the return and send it back to the council.</p> <p>Councils should allow sufficient time for the auditor to send the Annual Return back to the Council for the publication of the accounts.</p>
11	<p>Publish the statement of accounts</p>	<p>Regulation 11(1) states that as soon as reasonably possible after the completion of the audit or by 30 September in any event (31 December for 2010/11), the local council should publish its accounting statements and the auditor's certificate.</p> <p>The council can meet this requirement by displaying in a conspicuous place sections 1-3 of the annual return. Any report issued by the auditor should also be made available for inspection.</p> <p>Copies should also be kept for purchase by any person on payment of a reasonable sum.</p> <p>A public notice in a conspicuous place stating that the accounts have been published is also required.</p> <p>If the accounts are published before the audit certificate is received, the notice should declare and explain the fact that an audit opinion has not yet been given.</p> <p>The Assembly Government's guidance circular (04/2005) on the Accounts and Audit (Wales) Regulations 2005 clarifies the meaning of "publication" in Regulation 11 and gives examples of good practice. Although publication does not require any preparation beyond the annual return nor the distribution of copies of the statement of accounts to persons who have not expressed an interest in receiving them, it does require positive action. Publication does not mean merely the</p>

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appearance of the accounts in the documents of meetings, committees or sub-committees of the council. Nor is the requirement covered by merely providing copies to enquirers on demand. Good practice might include putting a copy on each of the council's notice boards, copying it onto a website, publishing it as a separate leaflet or publication in a newspaper or as part of a newsletter. It is a matter for the council to consider the appropriateness of the publication arrangements they have in place, bearing in mind the need to make information as widely available as practicable, but also taking into account local circumstances, including the size of the local council, the resources available, the number of electors, and the existence of any local information networks

### What information does the auditor need?

534. The annual return also requires the council to provide supporting documentation for the accounts in Section 1 to the auditor. Because of its importance as confirmation that the bank's records support the council's books of accounts, the most important document for the audit is the year-end bank reconciliation. A reconciliation should be prepared to at least the detail of the example in chapter 16. This allows the auditor to appreciate the difference between the year-end cashbook and bank account balances and the nature of the items that reconcile the difference. The external auditor will expect a separate reconciliation for each of the bank accounts operated by the council.
535. The other supporting documentation required to accompany the statement of accounts is a brief explanation of significant year-on-year variations between the figures on the Return. This is because the auditor will consider the reasonableness of the Return using a technique called analytical review. The auditor will look at the council's figures for last year and, using their knowledge of the council and of the influences over the council this year, develop an expectation for what this year's figures should be. The auditor will compare these expectations with the actual figures. Where they significantly differ, the auditor may have some concern that the accounts might be wrong. Councils will be able to remove this doubt by providing explanations where the differences between this year and last year are not straightforward.
536. For example, the expectation would be that staff costs would rise each year by wage inflation. Thus, if the clerk's remuneration had risen from £2,500 to £2,590 year on year (3 per cent), this could reasonably be assumed to be attributable to a cost of living increase. However, if the remuneration had risen to £2,900 (16 per cent), then the auditor would need reassurance that the council had not made a mistake in recording staff costs. If the explanation was that the council had implemented tighter new financial procedures that required the clerk to work more hours a week, this should be set out in a note to the auditor.
537. The important thing about such information notes is that they should remove doubts about possible errors or omissions, and they therefore need to explain fully the difference. For example, a note stating simply that staff costs had risen 20 per cent because the clerk's hours had risen 20 per cent would still leave the question as to why the hours had risen this year.
538. It is impossible to give definitive guidance on what significant year-on-year variations are by, for example, giving a standard percentage figure below which movements need no explanation. It might sometimes be significant that there has been no change between this year's and last year's figure. For instance, if a council's other payments were high in one year (e.g. because of exceptional expenditure on re-roofing the offices), the auditor

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would expect in the following year that payments would fall back to the usual level and not remain at the same high value. "No change" in the accounts would then be significant and need explanation. However, as a general 'rule of thumb' the council should explain any change of plus or minus 10 to 15 per cent or more in any line item. The council should also explain any item of income or expenditure that has either started or ceased.

539. The test for significance is whether, if the figures were amended to leave an item out, someone reading the annual return would get a different idea about how much the council had spent or how much income it had generated in the year. This difference might be enough to think it had done better or worse than it actually had.
540. In deciding what needs commenting on councils should think about noting the following:
- one-off items of spending or income from last year and this year;
  - regular items of spending and income where the relevant activity (e.g. number of hall bookings) has risen or fallen between the two years or where prices have not changed in line with inflation (e.g. a price freeze on charges for hall rentals);
  - items of spending and income that used to be regular but which were made for the last time last year and do not feature in the current year (e.g. a grant to a sporting association that went out of existence); and
  - items of spending and income that were made for the first time in the current year and will be made regularly in future years (e.g. running expenses for a newly opened one-stop shop facility).
541. The external auditor will also need written explanations where negative answers have been given in section 2 (Annual Governance Statement) and Section 4 (Internal Audit report). The explanations provided should clarify why the council or internal auditor has not given a positive response and the action the council will take to address the issues raised.
542. Appendix 8 provides a checklist for councils to use to ensure that the annual accounts and reporting tasks have been completed.

### The intermediate audit

543. The intermediate audit seeks to test one or more of the assertions made by the audited council and thereby obtain additional audit evidence through a 'show me' approach to the information provided by the council in the Annual Governance Statement. The auditor may request documents to support each of the assertions, request the council to complete an additional questionnaire or undertake other audit procedures.
544. In addition, the auditor may also consider the following factors, when information is received from the council:
- the outcome of the analytical review of information supplied; and
  - the level of compliance with auditor requirements.
545. The Auditor General expects the evidence required by auditors for intermediate audit to be proportionate to audit risk. Auditors may plan a cyclical approach to the audit of the statement of assurance based on risk in order to minimise the additional information required annually.
546. The auditor will tell councils in the audit notice if they are to be subject to an intermediate audit.

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### **What will the cost of the audit be?**

547. For both basic and intermediate audits, the external auditor will charge a fixed fee in accordance with the fee scale published by the Auditor General for Wales. The Auditor General's fee scale is set out in Appendix 9 and will be updated as and when appropriate.

## Chapter 25: External audit for councils over the £1m threshold

*This chapter explains the audit arrangements for larger local councils with income and expenditure over £1 million and those smaller councils that choose to prepare statements of accounts under Part 4.*

### What form does the audit take?

- 548. Councils that complete an annual return in accordance with Part 3 of this guide receive a limited assurance audit carried out in accordance with guidance issued by the Auditor General. This applies to the majority of councils with income/expenditure of less than £1 million. Those councils should refer to chapter 23 when preparing for the audit.
- 549. Councils that prepare a full statement of accounts in accordance with Part 4 of this Practitioners' Guide receive a different form of audit as described below. This applies even if the council's income and expenditure are below the £1 million threshold.
- 550. Councils that prepare a full statement of accounts in accordance with Part 4 of this Practitioners' Guide receive a different form of audit as described below. This applies even if the council's income and expenditure are below the £1 million threshold.
- 551. The auditor's responsibilities are governed by the following guidance:

Guidance	Description
Legislation	The Public Audit (Wales) Act 2004 provides the statutory basis for the appointed auditor's responsibilities and powers.
Auditor General's Code of Audit Practice	The Code prescribes the way in which auditors of local government bodies are to carry out their functions. It includes: <ul style="list-style-type: none"> <li>• The General Code – prescribes the way in which the auditor must carry out his/her functions: and</li> <li>• The Specific Code – further prescribes the way in which the auditor must carry out particular functions as part of a co-ordinated approach to audit work.</li> </ul>
Professional Standards	These include standards that auditors must follow e.g. International Standards on Auditing (ISA) issued by the Audit Practice Board (APB). The APB also publishes Practice Note 10 with guidance on the application of the ISAs when auditing public sector bodies.
Other Auditor General Guidance	From time to time, the Auditor General issues guidance to auditors. Auditors must comply with the guidance as it applies to their work.



## Appendices

552. Auditors discharge their responsibilities by:
- undertaking detailed audit testing to obtain reasonable assurance about whether the statement of accounts as a whole are free from material misstatement whether due to fraud or error;
  - expressing an opinion on whether the statement of accounts are prepared in all material respects, in accordance with the applicable financial reporting framework; and
  - communicating audit findings and audit opinion as required by statute and the ISAs.

### What is the audit process?

553. The following table summarises the tasks that a typical council will need to schedule in order to prepare the accounts and facilitate the audit process (references are to the Accounts and Audit (Wales) Regulations 2005):

Step	Task	Comments
1	Arrange for the council to receive the documents needed to prepare the annual return	Likely tasks include: <ul style="list-style-type: none"> <li>• requesting bank statements for 31 March for all bank accounts;</li> <li>• arranging for savings account books to be made up to date for 31 March; and</li> <li>• obtaining written confirmation of other investments at 31 March, including interest for the year.</li> </ul>
2	Close, balance and reconcile the cashbook, update the schedule of assets and liabilities. Draw up Statement of Accounts and Annual Governance Statement	This should be done as soon as practicably possible after the end of the financial year and certainly in good time for the RFO to certify the statement of accounts by 30 June (30 September for 2010/11). For advice on balancing and reconciling the cashbook, see chapter 15. The RFO prepares the annual statement of accounts in the form set out in Part 4.
3	RFO certifies that the statement of accounts presents fairly the finances of the council	Regulation 8B requires the RFO to certify that the statement of accounts presents fairly the finances of the council. The latest date for the RFO to certify the accounts (see step 6) of the annual return is 30 June (30 September for 2010/11).
4	Receive confirmation of the date of audit with the auditor	As part of their statutory responsibilities, the external auditor will appoint a date when local electors can exercise their right to ask questions about the accounts or to object to any item of account and to notify the council (Regulation 12). The council has no official role to play on this date, but needs to know the date to complete steps 5 and 7 before the date appointed.
5	Display a notice of public rights under audit	In preparation for step 7, regulation 15 requires councils to display a notice (or notices) in a conspicuous place(s) in the council's area setting out: <ul style="list-style-type: none"> <li>• the dates of the 20 working day period during which the accounts and other documents will be available for inspection;</li> <li>• the place at which, and the hours during which, they will be available;</li> <li>• the name and address of the auditor;</li> </ul>

## Appendices

		<ul style="list-style-type: none"> <li>the rights conferred on the public by sections 29, 30 and 31 of the Public Audit (Wales) Act 2004 (public inspection of accounts and right to challenge), especially the effects of section 31 (2) requiring prior written notice of objections to be sent to the auditor and the council; and</li> <li>the auditor's appointed date</li> </ul> <p>The council must display the notice for at least 14 days immediately before the date in step 7.</p> <p>Step 7 must begin at least 20 working days before the auditor's appointed date. This means that the notice is required at least six weeks before the appointed date (and longer if there are any public holidays during the inspection period). It is important for the council to ensure that the notice is posted promptly and that it remains displayed for the whole 14-day period. The council will be giving a public assurance as part of the annual governance statement in the annual return that it carried out this step.</p>
6	Make the statement of accounts and other documents available for inspection	<p>Regulation 13 requires the accounts and all books, deeds, contracts, bills, vouchers and receipts relating to them to be available for inspection by interested parties for 20 working days before the auditor's appointed date. The council can require that interested parties give reasonable notice that they want to inspect records and do not have to grant immediate access on request. The public are entitled to make copies of any of the documents available for inspection. This can be the most contentious part of the accounts and audit process, where allegations can arise that the council does not make the documents available or that interested parties are taking advantage of the inspection period. Section 30(3) of the Act prevents a council from releasing certain personal information about members of staff. In other cases where a council wishes to withhold information, legal advice should be sought. The inspection period has to be complete before the auditor's appointed date for audit.</p>
7	The audit	<p>Section 18 of the Act entitles auditors to rights of access at all reasonable times to all documents of the council that the auditor determines are necessary for the audit. The auditor also has a right to require any persons holding or accountable for documents to provide any information and explanations the auditor thinks necessary for the audit. In most instances, however the council and the auditor will co-operate by agreeing a time when the audit work is to be performed and the RFO will be available to assist the auditor. The Auditor General provides guidance to external auditors.</p> <p>On completing the audit work, the external auditor will send a report to the clerk setting out the findings from the audit and the proposed audit opinion. At this stage, the auditor will not have issued the audit certificate.</p>
8	RFO re-certifies the statement of accounts and submits them to the council for approval under Regulation 9. The external auditor's report must accompany the statement of accounts.	<p>Before submitting the statement of accounts to the council for approval, regulation 8B(3) requires the RFO certify the statement of accounts once more.</p> <p>This certification is required from the post holder at the time rather than that for the year (or part year) under review.</p> <p>Once the RFO has re-certified the statement of accounts, they should be presented to the council for formal approval. The external auditor's report must accompany the presentation of the statement of accounts.</p>

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		After RFO certification, regulation 9 requires that the accounts be approved by a meeting of the council (or one of its committees if the council's Standing Orders permit delegation of this duty) and that the person presiding at that meeting signs and dates the accounts to signify the completion of the approval process.
9	The clerk sends the approved statement of accounts to the external auditor.	The council should send the statement of accounts to the external auditor as soon as they are approved. The auditor will certify the statements and send them back to the council. Councils should allow sufficient time for the auditor to send the statement of accounts back to the council for the publication of the accounts.
10	Publish the statement of accounts	<p>Regulation 11(1) states that as soon as reasonably possible after the completion of the audit or by 30 September in any event (31 December for 2010/11), the local council should publish its statement of accounts and the auditor's certificate. Copies should also be kept for purchase by any person on payment of a reasonable sum.</p> <p>A public notice in a conspicuous place stating that the accounts have been published is also required.</p> <p>If the accounts are published before the audit certificate is received, the notice should declare and explain the fact that an audit opinion has not yet been given.</p> <p>The Assembly Government's guidance circular (04/2005) on the Accounts and Audit (Wales) Regulations 2005 clarifies the meaning of "publication" in Regulation 11 and gives examples of good practice. Although publication does not require any preparation beyond the accounts nor the distribution of copies of the statement of accounts to persons who have not expressed an interest in receiving them, it does require positive action. Publication does not mean merely the appearance of the accounts in the documents of meetings, committees or sub-committees of the council. Nor is the requirement covered by merely providing copies to enquirers on demand. Good practice might include putting a copy in public libraries, on notice boards, copying it onto a website, publishing it as a separate leaflet or publication in a newspaper or as part of a newsletter. It is a matter for the council to consider the appropriateness of the publication arrangements they have in place. They should bear in mind the need to make information as widely available as practicable, but also take into account local circumstances, including the size of the local council, the resources available, the number of electors, and the existence of any local information networks.</p>

### What will the audit fee be?

554. The audit of statement of accounts prepared under Part 4 of this guide falls outside the fixed fee scale set out in Appendix 9. Councils will agree a fee with their auditor based on the audit risk assessment and the extent of audit work required.

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### Appendix 1: Further information

*Local councils may find the following sources of information useful when they develop their governance and accountability arrangements.*

#### Accounts and Audit (Wales) Regulations 2005

The Accounts and Audit (Wales) Regulations set out the detailed framework for local councils' accounts. The Regulations were made in 2005 and amended in 2007 and 2010.

The original Regulations can be found at:

<https://opsi.gov.uk/legislation/wales/wsi2005/20050368e.htm>

The 2007 amendments can be found at:

[http://www.opsi.gov.uk/legislation/wales/wsi2007/wsi\\_20070388\\_en\\_1](http://www.opsi.gov.uk/legislation/wales/wsi2007/wsi_20070388_en_1)

The 2010 amendments can be found at:

[http://www.opsi.gov.uk/legislation/wales/wsi2010/wsi\\_20100683\\_en\\_1](http://www.opsi.gov.uk/legislation/wales/wsi2010/wsi_20100683_en_1)

#### Guidance on the Accounts and Audit (Wales) Regulations 2005 (as amended)

##### Welsh Assembly Government

This document provides guidance for local councils in operating the accounting regime under the Regulations

<http://wales.gov.uk/topics/localgovernment/finandfunding/publications/accandaudit/?lang=en>

#### Safeguarding Community Council Funds

##### Wales Audit Office

The Wales Audit Office issued a series of public interest reports setting out how four councils could improve their controls over council monies.

[http://www.wao.gov.uk/news/news\\_2126.asp](http://www.wao.gov.uk/news/news_2126.asp)

#### Community Council Money

##### Wales Audit Office

Good practice guidance to help local councils in Wales to manage their finances.

<http://www.wao.gov.uk/2594.asp>

#### Community Councils: Good Governance – Good Practice

##### Wales Audit Office

This report recommends ways to help councils to improve their controls over council monies

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[http://www.wao.gov.uk/news/news\\_2743.asp](http://www.wao.gov.uk/news/news_2743.asp)

### **Councils' Accounts: Your Rights**

#### **Wales Audit Office**

This leaflet explains the public's rights to inspect the accounts of local councils.

[http://www.wao.gov.uk/assets/englishdocuments/WAO\\_Council\\_Accounts\\_A5\\_eng.pdf](http://www.wao.gov.uk/assets/englishdocuments/WAO_Council_Accounts_A5_eng.pdf)

### **The Code of Audit Practice of the Auditor General for Wales**

#### **Wales Audit Office**

This Code of Practice prescribes how the auditors appointed by the Auditor General for Wales will carry out their audit functions.

[http://www.wao.gov.uk/assets/englishdocuments/Code\\_of\\_Audit\\_and\\_Inspection.pdf](http://www.wao.gov.uk/assets/englishdocuments/Code_of_Audit_and_Inspection.pdf)

### **Statement of the responsibilities of the auditors appointed by the Auditor General for Wales and of the bodies that they audit (2010)**

#### **Wales Audit Office**

This document clarifies where the different responsibilities of the local council and its auditor begin and end.

[http://www.wao.gov.uk/assets/englishdocuments/statement\\_of\\_responsibilities\\_of\\_auditors\\_eng.pdf](http://www.wao.gov.uk/assets/englishdocuments/statement_of_responsibilities_of_auditors_eng.pdf)

### **Guidance on Local Government Investments**

#### **Welsh Assembly Government**

This document contains the statutory guidance to which authorities must have regard. It can be found at:

<http://new.wales.gov.uk/topics/localgovernment/finandfunding/publications/lginvest/?lang=en>

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## **Appendix 2: Accounts and Audit (Wales) Regulations 2005 (as amended)**

The following Regulations are the Regulations in force at the date of Publication of this Guide. Readers are advised to check that no further changes have been made to the Regulations.

Regulations are published by the Office of Public Sector Information at [www.opsi.gov.uk](http://www.opsi.gov.uk). Readers can find new regulations by searching for “accounts and audit (Wales) regulations.”

### **Accounts and Audit (Wales) Regulations 2005**

Made 22 February 2005

Coming into force 1 April 2005

The National Assembly for Wales in exercise of the powers conferred on it under sections 13, 32, 105 and 106 of the Local Government Act 2000, sections 39 and 58 of the Public Audit (Wales) Act 2004, and after consulting in accordance with section 39(2) of that Act, the Auditor General for Wales, such associations of local authorities as appear to it to be concerned and such bodies of accountants as appear to it to be appropriate hereby makes the following Regulations--

#### **1 Name and commencement**

- (1) These Regulations are called the Accounts and Audit (Wales) Regulations 2005 and shall come into force on 1 April 2005.
- (2) These Regulations apply to Wales only.

#### **2 Interpretation and application**

- (1) In these Regulations--

"the 1972 Act" ("*Deddf 1972*") means the Local Government Act 1972;

"the 1989 Act" ("*Deddf 1989*") means the Local Government and Housing Act 1989;

"the 1996 Regulations" ("*Rheoliadau 1996*") means the Accounts and Audit Regulations 1996;

"the 1998 Act" ("*Deddf 1998*") means the Audit Commission Act 1998;

"the 2003 Act" ("*Deddf 2003*") means the Local Government Act 2003;

"the 2004 Act" ("*Deddf 2004*") means the Public Audit (Wales) Act 2004;

"community council" ("*cyngor cymuned*") means a community or town council in accordance with section 27 of the 1972 Act;

"fire and rescue authority" ("*awdurdod tân ac achub*") means an authority constituted by a scheme under section 2 of the Fire and Rescue Services Act 2004 or a scheme to which section 4 of that Act applies;

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["joint committee" ("*cyd-bwyllgor*") means a joint committee of two or more local authorities;]

"local government body" ("*corff llywodraeth leol*") means a local government body in Wales whose accounts are required to be audited in accordance with Chapter 1 of Part 2 of the 2004 Act other than a local probation board established under section 4 of the Criminal Justice and Court Services Act 2000 [or a probation trust];

["minor joint committee" ("*is-gydbwyllgor*") means a joint committee whose gross income or expenditure (whichever is the higher) for the year is, and each of the two immediately preceding years was, less than £1,000,000;]

"notice by advertisement" ("*hysbysiad drwy hysbyseb*") means a notice published in one or more local newspapers circulating in the area of the local government body;

"working day" ("*diwrnod gwaith*") means any day other than a Saturday, Sunday, Christmas Day, Good Friday or any other day which is a bank holiday in Wales; and

"year" ("*blwyddyn*") means the 12 months ending with 31st March.

(2) Any reference in these Regulations to the "responsible financial officer" ("*swyddog ariannol cyfrifol*") means--

(a) the person who, by virtue of section 151 of the 1972 Act, is responsible for the administration of the financial affairs of a local government body or, if no person is so responsible, the person who is responsible for keeping the accounts of such a body, or

(b) if the person referred to in paragraph (a) is unable to act owing to absence or illness, such member of that person's staff as is nominated by that person for the purposes of section 114 of the Local Government Finance Act 1988 or, if no nomination is made under that section, the person nominated by that person for the purposes of these Regulations.

[(2A) Any reference in these Regulations to a proper practice in relation to an internal drainage board, means the accounting practices contained in the "Governance and Accountability in Internal Drainage Boards in England: A Practitioners Guide 2006" (as revised in November 2007) issued jointly by the Association of Drainage Authorities and the Department for Environment, Food and Rural Affairs (which document is, by these Regulations, to apply to an internal drainage board in Wales as it applies to an internal drainage board in England).]

(3) These Regulations shall apply to all local government bodies.

(4) Regulations 10(1), 12 to 15 and 17(1) shall, with all necessary modifications, apply to the accounts of an officer whose accounts are required to be audited by section 38 of the 2004 Act.

### 3 Revocation and saving of instruments

(1) Subject to paragraph (2) the following instruments are hereby revoked--



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- (a) the 1996 Regulations; and
  - (b) the Accounts and Audit (Amendment) (Wales) Regulations 2001.
- (2) The Regulations in paragraph (1) are saved in so far as they apply to accounts for the financial year ending 31 March 2005 and the audit of those accounts.

### **4 Responsibility for internal control and financial management**

(1) The local government body shall be responsible for putting in place and ensuring that there is a sound system of internal control which facilitates the effective exercise of that body's functions and which includes

- (a) arrangements for the management of risk; and
- (b) adequate and effective financial management.

(2) The local government body shall conduct a review at least once in a year of the effectiveness of its system of internal control and shall include a statement on internal control, prepared in accordance with proper practices, when relevant, with--

- (a) any statement of accounts it is obliged to publish in accordance with regulation 10, or
- (b) any statement of accounts if the council so decides, any income and expenditure account, statement of balances or record of receipts and payments it is obliged to publish or display in accordance with regulation 11.

### **5 Accounting records and control systems**

(1) Subject to paragraphs (3) and (4) and in so far as they are not in conflict with this paragraph or to any instructions given by a local government body to its responsible financial officer, that officer shall determine on behalf of the body after consideration, when relevant, of proper practices, its--

- (a) accounting records, including the form of accounts and supporting accounting records; and
- (b) accounting control systems,

and such an officer shall ensure that the accounting control systems determined by that person are observed and that the accounting records of the body are kept up to date and maintained in accordance with the requirements of any enactment and proper practices.

(2) The accounting records determined by the responsible financial officer on behalf of a local government body in accordance with paragraph (1)(a) shall be sufficient to show the body's financial transactions and to enable the responsible financial officer to ensure that any statement of accounts, income and expenditure account, statement of balances or record of receipts and payments and additional information to be provided by way of notes to the accounts, as the case may be, which are prepared under these Regulations, comply with these Regulations.

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(3) The accounting records determined by the responsible financial officer on behalf of a local government body in accordance with paragraph (1)(a) shall in particular contain--

- (a) entries from day to day of all sums of money received and expended by the body and the matters to which the income and expenditure or receipts and payments accounts relate;
- (b) a record of the assets and liabilities of the body; and
- (c) a record of income and expenditure of the body in relation to claims made, or to be made, by them for contribution, grant or subsidy from the [Welsh Ministers], any Minister of the Crown or a body to whom the [Welsh Ministers] or such a Minister may pay sums of monies.

(4) The accounting control systems determined by the responsible financial officer on behalf of a local government body in accordance with paragraph (1)(b) shall include--

- (a) measures to ensure that the financial transactions of the body are recorded as soon as reasonably practicable and as accurately as reasonably possible, measures to enable the prevention and detection of inaccuracies and fraud, and the ability to reconstitute any lost records;
- (b) identification of the duties of officers dealing with financial transactions and division of responsibilities of those officers in relation to significant transactions;
- (c) procedures to ensure that uncollectable amounts, including bad debts, are not written off except with the approval of the responsible financial officer, or such member of that person's staff as is nominated for this purpose, and that the approval is shown in the accounting records; and
- (d) measures to ensure that risk is appropriately managed.

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## 6 Internal audit

A local government body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices, and any officer or member of that body shall, if the body requires--

- (a) make available such documents of the body which relate to its accounting and other records as appear to that body to be necessary for the purpose of the audit; and
- (b) supply the body with such information and explanation as that body considers necessary for that purpose.

## [7 Statement of accounts]

[(1) A body to which paragraphs (2) and (3) apply must prepare in accordance with proper practices in relation to accounts a statement of accounts for each year, prefaced by an explanatory foreword, which must include such of the following accounting statements as are relevant to the functions of the body--

- (a) housing revenue account;
- (b) firefighters' pension fund, if any;
- (c) any other statements relating to each and every other fund in relation to which the body is required by any statutory provision to keep a separate account.

(2) This paragraph applies to the following bodies--

- (a) a county council or a county borough council;
- (b) a joint authority;
- (c) a committee of a local authority (including a joint committee which is not a minor joint committee);
- (d) a National Park authority for a National Park;
- (e) a police authority for a police area;
- (f) a fire and rescue authority.

(3) Where in relation to a community council, the gross income or expenditure (whichever is the higher) for the year is, and for each of the two immediately preceding years was, £1,000,000 or more, the requirements of paragraph (1) above and regulation 7A apply to that council in respect of that period.

(4) Where a county council or a county borough council is required by section 74 of the 1989 Act to maintain a Housing Revenue Account the statement of accounts required by paragraph (1) must include a note prepared in accordance with proper practices in relation to any Major Repairs Allowance grant paid to the county council or county borough council under section 31 of the

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2003 Act detailing income and expenditure and any balance on any account used to record the grant.]

### **[7A Declaration of remuneration]**

[(1) The statement of accounts required by regulation 7(1) must be accompanied by a note of--

(a) except in relation to persons to whom paragraph (b) applies, the number of employees or police officers in the year to which the accounts relate whose remuneration fell in each bracket of a scale in multiples of £5,000 starting with £60,000;

(b) the remuneration, set out according to the categories listed in paragraph (3), by the local government body during the relevant financial year of--

(i) senior employees, or

(ii) relevant police officers,

in respect of their employment by the local government body or in their capacity as a police officer, whether on a permanent or temporary basis.

(2) The persons whose remuneration is to be noted under paragraph (1)(b) must be identified by way of job title only, except that those persons whose salary is £150,000 or more per year must also be identified by name.

(3) The categories are:

(a) the total amount of salary, fees or allowances paid to or receivable by the person;

(b) the total amount of bonuses paid to or receivable by the person;

(c) the total amount of sums paid by way of expenses allowance that are chargeable to United Kingdom income tax, and were paid to or receivable by the person;

(d) the total amount of any compensation for loss of employment paid to or receivable by the person, and any other payments made to or receivable by the person in connection with the termination of their employment by the local government body, or, in the case of a relevant police officer, the total amount of any payment made to a relevant police officer who ceases to hold office before the end of a fixed term appointment;

(e) the relevant body's contribution to the person's pension;

(f) the total estimated value of any benefits received by the person otherwise than in cash that do not fall within (a) to (d) above, are emoluments of the person, and are received by the person in respect of their employment by the local government body or in their capacity as a police officer; and

(g) in relation to relevant police officers, any payments, whether made under the Police Regulations 2003 or otherwise, which do not fall within (a) to (f) above.

(4) In this regulation--

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"contribution to the person's pension" means an amount to be calculated as follows--

(a) in relation to contributions to the local government pension scheme established under section 7 of the Superannuation Act 1972, the sum of--

(i) the common rate of employer's contribution specified in a rates and adjustments certificate prepared under regulation 36 (actuarial valuations and certificates) of the Local Government Pension Scheme (Administration) Regulations 2008, being the amount appropriate for that body calculated in accordance with the certificate and regulation 39(4) (employer's contributions) of those Regulations, multiplied by the person's pensionable pay; and

(ii) if applicable, the appropriate sum within the meaning of regulation 40 (employer's payment following resolution to increase membership or award additional pension) of those Regulations;

(b) in relation to contributions to the firefighters' pension scheme established under the Fire Services Acts 1947 and 1959, the percentage of the aggregate of the pensionable pay calculated for the purposes of paragraph G2(3) and (4) of Schedule 2 to the Firemen's Pension Scheme Order 1992, multiplied by the person's pensionable pay;

(c) in relation to contributions to the firefighters' pension scheme established under the Fire and Rescue Services Act 2004, the percentage of the aggregate of the pensionable pay calculated for the purposes of paragraphs (2) and (3) of Rule 2 of Part 13 of Schedule 1 to the Firefighters' Pension Scheme (Wales) Order 2007, multiplied by the person's pensionable pay;

(d) in relation to contributions to police pension schemes established under the Police Pensions Regulations 1987 or the Police Pensions Regulations 2006, the percentage of pensionable pay specified in regulation 5(1) of the Police Pension Fund Regulations 2007, multiplied by the person's pensionable pay;

"employee" includes a holder of an office under the local government body, but does not include a person who is an elected councillor, and "employment" is to be construed accordingly;

"relevant police officer" means--

(a) in relation to a police force maintained under section 2 of the Police Act 1996, the chief constable, and

(b) any other senior police officer whose salary is £150,000 per year or more;

"remuneration" means all amounts paid to or receivable by a person, and includes sums due by way of expenses allowance (so far as those sums are chargeable to United Kingdom income tax), and the estimated money value of any other benefits received by an employee otherwise than in cash;

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"senior employee" means an employee whose salary is £150,000 or more per year, or an employee whose salary is £60,000 or more per year (to be calculated pro rata for an employee employed for fewer than the usual full time hours for the local government body concerned) who falls within at least one of the following categories--

- (a) a person employed by a local government body to which section 2 of the Local Government and Housing Act 1989 applies who--
  - (i) has been designated as head of paid service under section 4 of that Act;
  - (ii) is a statutory chief officer within the meaning of section 2(6) of that Act; or
  - (iii) is a non-statutory chief officer within the meaning of section 2(7) of that Act;
- (b) the person who is the head of staff for any local government body to which section 4 of the Local Government and Housing Act 1989 does not apply; or
- (c) a person who has responsibility for the management of the local government body to the extent that the person has power to direct or control the major activities of the body (in particular activities involving the expenditure of money), whether solely or collectively with other persons; and

"senior police officer" means a member of a police force holding a rank above that of superintendent.]

### **[7B Internal drainage boards]**

[An internal drainage board must charge to a revenue account an amount equal to the retirement benefits payments and contributions to pension funds which are payable for that year in accordance with--

- (a) the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007; and
- (b) the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 or the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006.]

### **8 Other accounting statements**

(1) A body to which paragraph (2) applies shall prepare in accordance with proper practices an income and expenditure account and a balance sheet of the body for each year.

(2) This paragraph applies to the following bodies--

- (a) a port health authority; and
- (b) ...

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(c) an internal drainage board[; and

(d) a joint committee which is a minor joint committee].

(3) Where in relation to a community council, the gross income or expenditure (whichever is the higher) for the year is, and for each of the two immediately preceding years was, less than £1,000,000 and was:

(a) [£200,000] or more for the year and for each of the two immediately preceding years and if the council so determines, the council shall prepare in accordance with proper practices a statement of accounts in the form specified in regulations 7(1) [and 7A]; or

(b) [£200,000] or more for the year and for each of the preceding two years, the council shall prepare in accordance with and in the form specified in any Annual Return required by proper practices an income and expenditure account and a statement of balances of the council in relation to that period; or

(c) less than [£200,000] for the year or for either of the two immediately preceding years, the council shall prepare in accordance with and in the form specified in any Annual Return required by proper practices:

(i) a record of receipts and payments of the council in relation to that period; or

(ii) an income and expenditure account and a statement of balances of the council in relation to that period.

(4) ...

### **[8A Preparation of statement of accounts etc]**

[A local government body must ensure that--

(a) the statement of accounts, or

(b) where no statement of accounts is required to be prepared, the income and expenditure account and the statement of balances, or

(c) where no income and expenditure account and statement of balances are required to be prepared, the record of receipts and payments of the body,

is prepared in accordance with these Regulations.]

### **[8B Signing etc of statement of accounts etc]**

[(1) The responsible financial officer of a local government body must--

(a) in the case of a body which has prepared a record of receipts and payments, sign and date that record, and certify that it properly presents that body's receipts and payments for the year to which the record relates;

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- (b) in the case of a body which has prepared an income and expenditure account and statement of balances, sign and date the account and statement, and certify that they present fairly the financial position of the body at the end of the year to which they relate and that body's income and expenditure for that year;
  - (c) in the case of a community council to which regulation 7(3) applies or a community council which has determined in accordance with regulation 8(3)(a), sign and date the statement of accounts, and certify that it presents fairly the financial position of the council at the end of the year to which it relates and of that council's income and expenditure for that year;
  - (d) in the case of any other body, sign and date the statement of accounts, and certify that it presents a true and fair view of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year.
- (2) The responsible financial officer must comply with paragraph (1)--
- (a) before the 30 June following the end of a year; and
  - (b) immediately before the approval referred to in regulation 9(3) is given.
- (3) The responsible financial officer must also comply with paragraph (1) immediately before any approval referred to in regulation 9(4) is given.
- (4) If the responsible financial officer does not comply with paragraph (2) or (3), the local government body must:
- (a) publish immediately a statement setting out reasons for his or her non-compliance; and
  - (b) agree to a course of action to ensure compliance as soon as practicable.]



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### **[9 Approval of statement of accounts etc]**

- [(1) In this regulation "accounts" means the statement of accounts, the income and expenditure account and the statement of balances, or the record of receipts and payments, as required by regulation 7(1) or 8(1) or (3).
- (2) A local government body must approve the accounts in accordance with this regulation.
- (3) Approval pursuant to paragraph (2) must take place as soon as reasonably practicable and in any event before the 30 September immediately following the end of a year.
- (4) If the accounts were approved pursuant to paragraph (3) before the conclusion of an audit of those accounts, the accounts must be approved as soon as reasonably practicable after the receipt of any report from the auditor which contains the auditor's final findings from the audit and which is issued before the conclusion of the audit.
- (5) The approval required by paragraph (4) is in addition to approval pursuant to paragraph (3).
- (6) The approval required by paragraphs (3) and (4) must be by a resolution of a committee of the local government body or otherwise by a resolution of the body meeting as a whole.
- (7) Following approval in accordance with paragraph (3) and (4), the accounts must be signed and dated by the person presiding at the committee or meeting at which that approval was given.
- (8) Where any material amendment is made to the accounts, the responsible financial officer must report such amendment to the local government body or the committee of that body immediately before the body or committee is to approve the accounts pursuant to regulation 9(3) or (4).]

### **10 Publication of statement of accounts etc**

- (1) . . . As soon as reasonably possible after conclusion of an audit, and in any event before the 30 September immediately following the end of a year, a local government body to which paragraph (2) below applies shall--
- (a) publish by means other than merely by reference in the documents of meetings, committees or sub-committees of the body, the statement of accounts prepared in accordance with regulation 7 together with any certificate, opinion, or report issued, given or made by the auditor under sections 23(2) and 33 of the 2004 Act before the date of publication, or, if publication takes place prior to the conclusion of the audit and no such opinion has been given, together with a declaration and explanation of the fact that at the date of publication the auditor has given no opinion, and
- (b) keep copies available for purchase by any person on payment of such sum as the local government body may reasonably require.
- (2) This paragraph applies to--
- (a) a local government body to which regulation [7(2)] applies; and

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(b) a local government body referred to in regulation [7(3)] in relation to the accounts for a period referred to in that regulation.

(3) ...

### **11 Publication of income and expenditure account and receipts and payments**

(1) As soon as reasonably possible after conclusion of an audit, and in any event before the [30 September] immediately following the end of a year, a local government body to which paragraph (2) applies, shall--

(a) publish by means other than merely by reference in the documents of meetings, committees or sub-committees of the body, the statement of accounts, if the council so decides, or the income and expenditure account and the statement of balances prepared in accordance with regulation 8(3) together with any certificate, opinion, or report issued, given or made by the auditor under sections 23(2)(a) and 33 of the 2004 Act before the date of publication, or, if publication takes place prior to the conclusion of the audit and no such opinion has been given, together with a declaration and explanation of the fact that at the date of publication the auditor has given no opinion; and

(b) keep copies available for purchase by any person on payment of such sum as the local government body may reasonably require.

(2) This paragraph applies to--

(a) a local government body to which regulation 8(2) applies; and

(b) a local government body referred to in sub-paragraphs (a) or (b) of regulation 8(3), in relation to the accounts for a period to which that regulation applies.

(3) As soon as reasonably possible after the conclusion of an audit, and in any event before the [30 September] immediately following the end of a year, a local government body referred to in regulation 8(3)(c) shall, in relation to the accounts for a period referred to in that regulation, display a notice containing the requisite information in a conspicuous place or places in the area of the body for a period of at least 14 days and keep copies available for purchase by any person on payment of such sum as the local government body may reasonably require.

(4) For the purposes of paragraph (3) "requisite information" means the record of receipts and payments prepared in accordance with regulation 8(3)(c) together with any certificate, opinion, or report issued, given or made by the auditor under sections 23(2)(a) and 33 of the 2004 Act before the date of publication, or, if the notice is displayed prior to the conclusion of the audit and no such opinion has been given, together with a declaration and explanation of the fact that at the date when the notice is first displayed the auditor has given no opinion.

### **12 Appointment of date for the exercise of rights of electors**

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The auditor shall, for the purpose of the exercise of rights under section 30(2) and 31(1) of the 2004 Act, appoint a date on or after which those rights may be exercised, and shall notify the local government body concerned, of that date.

### **13 Public inspection of accounts**

(1) Subject to paragraph (2), the local government body notified under regulation 12, shall make the accounts and other documents mentioned in section 30 of the 2004 Act available for public inspection for 20 working days before the date appointed by the auditor under that regulation.

(2) The local government body notified under regulation 12 shall make the accounts and other documents in relation to a period to which regulation 8(3) applies available for public inspection on reasonable notice.

### **14 Alteration of accounts**

Except with the consent of the auditor, accounts and other documents shall not be altered after the date on which they are first made available for inspection in pursuance of regulation 13.

### **15 Notice of public rights**

(1) Not later than 14 days before the commencement of the period during which the accounts and other documents are made available in pursuance of regulation 13, a local government body to which regulation 10(2) applies, shall give notice by advertisement of the matters set out in paragraph (2).

(2) The matters referred to in paragraph (1) are--

- (a) the period during which the accounts and other documents referred to in paragraph (1) will be available for inspection in accordance with regulation 13;
- (b) the place at which, and the hours during which, they will be so available;
- (c) the name and address of the auditor;
- (d) the provisions contained in section 30 and section 31 of the 2004 Act; and
- (e) the date appointed under regulation 12.

(3) A local government body to which regulation 11(2) applies or which is referred to in regulation 11(3) shall display a notice containing--

- (a) subject to sub-paragraph (b), the information referred to in paragraph (2) above in a conspicuous place or places in the area of the body for a period of at least 14 days immediately prior to the period during which the accounts and other documents are made available under regulation 13; or

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(b) instead of the information referred to in paragraph 2(b) above, details of the manner in which notice should be given of an intention to inspect the accounts and other documents.

(4) A local government body shall on giving notice by advertisement or displaying a notice under paragraph (1) or (3) above notify the auditor immediately in writing that a notice has been given or displayed.

### **16 Written notice of ... objection**

(1) Any written notice of [an] objection given in pursuance of section 31(2) of the 2004 Act shall state the facts on which the local government elector [relies], and contain, so far as possible--

(a) particulars of any item of account which is alleged to be contrary to law, and

(b) particulars of any matter in respect of which it is proposed that the auditor could make a report under section 22 of that Act.

(2) ...

### **17 Notice of conclusion of audit**

(1) As soon as reasonably possible after conclusion of an audit, a local government body to which regulation 10(2) applies shall give notice by advertisement stating that the audit has been concluded and that the statement of accounts is available for inspection by local government electors and including--

(a) a statement of the rights conferred on local government electors by section 29 of the 2004 Act; and

(b) the address at which and the hours during which those rights may be exercised.

(2) As soon as reasonably possible after conclusion of an audit, a body to which regulation 11(2) applies or which is referred to in regulation 11(3) shall display a notice in a conspicuous place or places in the area of the body for a period of at least 14 days stating that the audit has been completed and that the statement of accounts, if the council so decides, the income and expenditure account and the statement of balances, or the record of receipts and payments, as the case may be, required by these Regulations is available for inspection by local government electors and including--

(a) a statement of the rights conferred on local government electors by section 29 of the 2004 Act; and

(b) the address at which and the hours during which those rights may be exercised.

(3) ...

(4) ...

(5) A local government body to which this regulation applies shall on giving or displaying a notice under paragraph (1) or (2) notify the auditor immediately in writing that paragraph (1) or

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## 18 Publication of annual audit letter

As soon as reasonably possible after it is received, a local government body shall--

- (a) publish the annual audit letter received from the auditor; and
- (b) make copies available for purchase by any person on payment of such sum as the local government body may reasonably require.

## 19 Joint committees etc

(1) Any joint committee, fire and rescue authority, police authority or National Park authority in Wales to which these regulations apply shall deposit with each constituent authority--

- (a) within the period of fourteen days specified by regulation 17(2), a copy of the auditor's report, and
- (b) where the committee, board or authority is a body to which [regulation 7(2)] applies, on giving notice under regulation 17(1), a copy of the statement of accounts.

(2) In this regulation "constituent authority" means any county, county borough or community council for the time being entitled to appoint members of the committee, board or authority in question and in relation to a National Park authority it includes the [Welsh Ministers].

## 20 Extraordinary audit

Where, under section 37 of the 2004 Act, the Auditor General for Wales directs an auditor to hold an extraordinary audit of accounts of a local government body, the body, shall--

- (a) in the case of a body to which regulation 10(2) applies, give notice by advertisement, and
- (b) in the case of a body to which regulation 11(2) applies or which is referred to in regulation 11(3), display a notice in a conspicuous place or places in the area of the body,

concerning the right of any local government elector for the area to which the accounts relate to attend before the auditor and make objections to any of those accounts.

## 21 Offences

(1) It is hereby declared that contravention of any of the provisions specified in paragraphs (2) and (3) is an offence.

(2) Subject to paragraph (3) the provisions referred to in paragraph (1) are regulations 4, 7, [7A,] 8, 10, 11, 13, 14, 15, 17, 18 and 20.

(3) The provisions referred to in paragraphs (1) and (2) include regulation 4 only in so far as regulation 4 requires that a statement of internal control be included with any statements of

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accounts, any income and expenditure account and the statement of balances or receipts and payments.

### **22 Amendment to the Local Authorities Executive Arrangements (Functions and Responsibilities) (Wales) Regulations 2001 and the Local Authorities (Alternative Arrangements) (Wales) Regulations 2001**

(1) Schedule 1 (Functions not to be the responsibility of an authority's executive) to the Local Authorities (Wales) Regulations 2001 and Schedule 1 (Functions not to be the responsibility of an authority's Board) to the Local Authorities (Alternative Arrangements) (Wales) Regulations 2001 shall be amended as follows.

(2) In column 2 of paragraph 8 of Part I (Miscellaneous functions) the following shall be substituted "The Accounts and Audit (Wales) Regulations 2005".

#### **[23 Transitional provision]**

[(1) This regulation applies to bodies referred to in regulation 8(2)(a) to (c) and (3).

(2) In respect of the years ending with 31 March 2010 and 2011--

(a) the references to 30 June in regulation 8B are to be read as references to 30 September; and

(b) the references to 30 September in regulations 9 and 11 are to be read as references to 31 December.]

Signed on behalf of the National Assembly for Wales under section 66(1) of the Government of Wales Act 1998

*D Elis-Thomas*

The Presiding Officer of the National Assembly

22 February 2005

## Appendix 3: Guidance for internal audit

	Subject	Guidance
1	Proper book keeping	<p>The basic record of receipts and payments is always the starting point of an accounting system; the majority of internal controls will work back to that original record. It is essential that the system requires that the basic cashbook is kept up to date and balances are regularly verified against a bank statement or the actual cash in the petty cash tin. This record will also agree with the supporting vouchers, invoices or receipts. Even though the arithmetic may be automatic on a computer based system it is necessary to check that the additions and balancing are correct. The level of checking will depend on who does what and at what frequency. Where there is a computer based system, the reliability of information reported by the system depends on the quality and accuracy of data input, and how it is then processed, and so tests of the integrity of data input and processing should be considered. A councillor or member of staff may do the checking or verification; internal audit will test that the checking verification within the system has been undertaken.</p>
2	Financial Regulations: a) Standing orders b) payment controls	<p>The first step in establishing a financial system is to identify the general rules applicable at council or committee meetings and in carrying out the council's business. The Standing Orders, Financial Regulations and other internal instructions do this. Model versions of Standing Orders and Financial Regulations are available from One Voice Wales or SLCC. Internal audit should have a copy of the current Standing Orders, Financial Regulations and any internal instructions. Internal audit's report to the council will include any recommendations for improvement in these documents arising as a result of their work during the year. The level of checking will depend on the content of the Standing Orders and Financial Regulations. Internal audit should comment on whether the council has reviewed Standing Orders and Financial Regulations for relevance. The amount of work may well vary, and more extensive testing of compliance may be needed from time to time, but as a minimum internal audit will test:</p> <p>(a) In purchase order procedures:</p> <ul style="list-style-type: none"> <li>• that the correct number of estimates, quotes or full tenders depending on estimated value of contract have been obtained (Standing Orders will state the value at which tenders are required; Financial Regulations or Standing Orders will show the value where estimates or quotes only are required);</li> <li>• that proper purchase authority by council, a committee or officers (under clear delegated powers) is in place; and</li> <li>• that a proper legal power has been identified for the expenditure.</li> </ul> <p>(b) In purchase payments:</p> <ul style="list-style-type: none"> <li>• that the supporting paperwork confirms that there is a fully approved invoice and authorisation for payment; and</li> <li>• that VAT is identified appropriately for reclaim.</li> </ul> <p>In most councils, these checks can be limited to a sample of transactions selected at random plus those which are large or unusual, such as each payment for a value in excess of £1000, or some other figure appropriate to the level of activity of the council. The aim is for internal audit to check that the systems put in place by management are working and are appropriate. Standing Orders and Financial Regulations may well repeat the statutory requirement to maintain „a separate account“ of expenditure and income under Local Government Act 1972 section 137 and Local Government Act 1986 section 5. Internal audit should check annually that such an analysis is kept and that the cash limit in section 137 is not exceeded. Internal audit may scrutinise the resulting list of expenditure and should consider whether the power is being properly used but would not check through for the correct analysis of every item. Internal audit should also check that payments of interest and principal in respect of loans (and investments if any are held) are in accordance with an agreed schedule.</p>

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3	Risk management	<p>The greatest risk facing a local authority is not being able to deliver the activity or services expected of the council. The council is likely to be managing many of those risks when it reviews its insurance and its systems. The minutes are an essential record of such reviews. Budget setting and insurance review are annual activities; the review of systems may be less frequent. It is suggested that systems should be reviewed in some detail (unless triggered by external or internal audit reports, or change in risk), at least every four years or on the change of Clerk/RFO. This might be more appropriate for larger councils on a cyclical basis. Minutes should be checked by internal audit for any suggestion of unusual activity and evidence that risks are being identified and managed. More guidance regarding risk management can be found in chapter 9.</p>
4	Budgetary controls	<p>Internal audit will not check the budget but will verify that when setting the precept, a budget has been properly prepared and adopted. The regular reporting of expenditure, and variances from budget, is an important part of the proper control of public money. Internal audit will expect to see the regular reports to council and the variance analysis. That variance analysis and the decisions of council or committee taken as a result may suggest areas for additional analysis by internal audit. Part of budgetary control is to ensure adequate but not excessive reserves or balances are held. Progress against budgets should be regularly monitored. It is particularly helpful when determining the likely precept that will be required for the following year. Internal audit will be keen to establish that this has taken place. More guidance on the budgetary process can be found in chapter 13 onwards.</p>
5	Income controls	<p>Internal audit will look for evidence that the precept and grant income is properly and promptly received. In value, this is usually the largest item of income. Internal audit is more likely to focus on other income particularly where it is unusual or cash-based. Cash income brings higher risks, in turn requiring greater control by ticket issues, receipt issues, segregation of duties of the cashier and the invoice-raising clerk. The need for greater control implies a need for internal audit to verify the operation of all checks and balances. If the council has let property or holds investments, then the council should have established a system to ensure regular income collection e.g. a diary of expected dates of income etc. Internal audit will look for evidence of such activity and any necessary progress or invoice chasing. If the income is from quoted investments these is a clear risk to be addressed in terms of identifying the investment policy to be followed, controls over who can initiate a change of investment and an awareness of the investment risks being accepted.</p>
6	Petty cash procedure	<p>Internal audit will be looking to see that there is an established system in place rather than ad hoc reimbursement. If the clerk is reimbursed for all small cost expenses or there is a separate cash float, a regular payment must be made to keep up to date. Internal audit would be looking to see:</p> <ul style="list-style-type: none"> <li>• that reimbursement is regular; and</li> <li>• evidence that on occasions an independent person has physically counted the cash balance and checked this to be in agreement with the up-to-date record.</li> </ul> <p>The council should have a system for the regular approval of petty cash expenditure.</p>
7	Payroll controls	<p>Internal audit will be seeking reassurance that the system is delivering the correct payments for wages and salaries and that PAYE/NIC is correctly deducted from the gross pay and paid to the HM Revenue &amp; Customs (HMRC). Historically, one of the greatest areas of risk for local councils has been the improper payment of wages and salaries, together with the lack of proper deduction of income tax and national insurance contributions. There are some simple tests to establish whether a person is employed by a local authority or can be regarded as a contractor. As an "office holder", the clerk is always regarded as an employee. If a deduction for tax or national insurance is not made by the employer HMRC has the right to seek the lost tax and contributions from the employer as if the payments made were after deduction of the appropriate amounts (i.e. the amount sought is "grossed up"). There may also be a liability for interest and penalties that can</p>



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		<p>increase the sum significantly. The clerk, even at the smallest of councils, will need to be able to produce evidence that the correct tax treatment of salary has been arranged with HMRC. HMRC seek to avoid setting up a PAYE scheme for a single employee whenever possible, so will seek to “code out” any community council salary through other income, pension scheme or by direct assessment. The council should have a letter from HMRC (addressed to the council) confirming that arrangements to their satisfaction have been made for the particular employee. Internal audit may verify that evidence each year as part of the annual statement forming part of the annual return. Changes to contracts of employment (whether annual salary change, or other) would normally require formal agreement by council, committee or less frequently the RFO, as well as a written statement for the employee. The council should record evidence of such agreement. Internal audit should check that this evidence is in place and would agree sums paid to those shown as payable. The purpose of specifically investigating the PAYE/NIC system recognises the risks inherent in these items, through either fraud or error, and the risk of significant management time and penalties in making corrections if errors arise.</p>
8	Asset control	<p>The council is required to maintain an asset and investment register. In the smallest councils, this may only be a note to the annual statement of accounts produced for the members and local electors. Internal audit will be interested in seeing that there is evidence that the continuing existence of owned and managed assets is checked on a regular basis. In a larger council, the register may be hand written, typed or computer produced: the essence is the same in that the system should require verification on a regular basis. This verification should include confirmation that insurance cover is adequate and sufficient. If investments are held then the asset, register will be a more active record; it should include details of cost, values, and expected income that can be checked against the actual income. Dates and references to minutes of the members’ review of the investments against the investment policy might also be included. The council will have regard to the advice from the Assembly Government published in March 2004. This will be particularly important when considering de-mutualisation or privatisation shareholdings that have no identifiable cost and may have a volatile value.</p>
9	Bank reconciliation	<p>In most councils, the bulk of the financial transactions will be concerned with a current account and a form of deposit account at a bank or building society. A regular feature of the financial system will be the reconciliation of the balances shown on the statements with those calculated in the council’s financial records. It is strongly recommended that on receipt of a bank statement, there should be a reconciliation of the appropriate cashbook record. Bank reconciliations should be prepared frequently. In larger councils, this may be on a monthly basis and at least quarterly for smaller councils. It is not appropriate to wait until the year-end before preparing the reconciliation. Internal audit will wish to see that the financial records or cashbook have been reconciled to bank statements, but should not undertake the reconciliation unless it requires re-performance. It may be appropriate for the year-end balances and their reconciliation to be checked in detail. The basic cashbook record must not be written up from the bank statements, as this does not provide any form of control. The cashbook record is written up from the council’s records: cheque counterfoils and the paying-in books, together with the known direct payments and credits. The cashbook record is checked regularly against the bank statements to provide a level of internal control. The bank reconciliation should include a note of the cost of short-term investments held by the council. This is to:</p> <ul style="list-style-type: none"> <li>• enable monitoring of the investments to ensure that these funds are performing in the way planned by the council; and</li> <li>• so that the council can have, each time this is reviewed, as complete a picture as possible of its liquidity and available funds.</li> </ul> <p>As part of internal control, a member may be appointed to review the bank reconciliation in detail and to evidence that review by signing the reconciliation form and the bank statements.</p>
10	Year end procedures	<p>It is the duty of the council and the RFO to produce the year-end statement of accounts. Internal audit will be looking to see that:</p>

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- the appropriate accounting basis is used;
- the figures can be followed through on working papers; and
- adjustments, transfers, contra entries etc are fully explained and justified.

Internal audit would not be expected to check all figures but will probably verify a small sample and the totals. In producing year-end statement of accounts, there is a need to consider proper valuation of assets and liabilities. A system will be in place for identifying outstanding amounts (receivable and payable) and then for deciding on their materiality for inclusion in the income and expenditure accounts. Internal audit will scrutinise the lists of creditors and other balances to ensure that the system is working adequately and that the RFO has correctly identified transactions in the one year that may relate to another.

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## Appendix 4: An approach to internal audit testing

The council will determine the scope and coverage of the work to be carried out by internal audit in accordance with proper practices guidance. Internal audit testing of internal controls will be sufficient for the proper completion of the annual internal audit report. The annual internal audit report should provide an adequate level of assurance for the council to complete assertion 2 in its annual governance statement. The council's review of the adequacy of internal audit will provide assurance for the purposes of assertion 6.

In completing the annual report at Section 4 of the annual return, internal audit will have planned and carried out the work necessary to give the assurances called for. The ten key control tests in the annual report represent the minimum level of internal audit coverage required. Additional testing and reporting should be tailored to local circumstances.

Internal audit work always requires the application of judgement and should only be carried out following risk assessment. The scope and frequency of testing should reflect that assessment, and therefore should always be in proportion to the likelihood of fraud, error or misstatement that could occur. It should be directly related to the size and level of business activity of the council.

The following schedule suggests an approach to the testing of key controls and provides assurance that the minimum level of coverage has been met.

Internal control	Suggested testing
Proper bookkeeping	<ul style="list-style-type: none"><li>• Is the cashbook maintained and up to date?</li><li>• Is the cashbook arithmetic correct?</li><li>• Is the cashbook regularly balanced?</li></ul>
a) standing orders and financial regulations adopted and applied; and b) payments controls	<ul style="list-style-type: none"><li>• Has the council formally adopted standing orders and financial regulations?</li><li>• Has a Responsible Financial Officer been appointed with specific duties?</li><li>• Have items or services above the de minimus amount been competitively purchased?</li><li>• Are payments in the cashbook supported by invoices, authorised and minuted?</li><li>• Has VAT on payments been identified, recorded and reclaimed?</li><li>• Is S 137 expenditure separately recorded and within statutory limits?</li></ul>
Risk management arrangements	<ul style="list-style-type: none"><li>• Does a review of the minutes identify any unusual financial activity?</li><li>• Do minutes record the council carrying out an annual risk assessment?</li><li>• Is insurance cover appropriate and adequate?</li><li>• Are internal financial controls documented and regularly reviewed?</li></ul>
Budgetary Controls	<ul style="list-style-type: none"><li>• Has the council prepared an annual budget in support of its precept?</li><li>• Is actual expenditure against the budget regularly reported to the council?</li><li>• Are there any significant unexplained variances from budget?</li></ul>

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Income Controls	<ul style="list-style-type: none"> <li>• Is income properly recorded and promptly banked?</li> <li>• Does the precept recorded agree to the Council Tax authority's notification?</li> <li>• Are security controls over cash and near-cash adequate and effective?</li> </ul>
Payment controls	<ul style="list-style-type: none"> <li>• Has the council approved and circulated to members its arrangements for making payments?</li> <li>• Did payments made comply in all respects with the arrangements approved by the council?</li> </ul>
Petty cash procedures	<ul style="list-style-type: none"> <li>• Is all petty cash spent recorded and supported by VAT invoices/receipts?</li> <li>• Is petty cash expenditure reported to each council meeting?</li> <li>• Is petty cash reimbursement carried out regularly?</li> </ul>
Payroll Controls	<ul style="list-style-type: none"> <li>• Do all employees have contracts of employment with clear terms and conditions?</li> <li>• Do salaries paid agree with those approved by the council?</li> <li>• Are other payments to employees reasonable and approved by the council?</li> <li>• Have PAYE/NIC been properly operated by the council as an employer?</li> </ul>
Assets controls	<ul style="list-style-type: none"> <li>• Does the council maintain a register of all material assets owned or in its care?</li> <li>• Are the assets and Investments registers up to date?</li> <li>• Do asset insurance valuations agree with those in the asset register?</li> </ul>
Bank Reconciliation	<ul style="list-style-type: none"> <li>• Is a bank reconciliation prepared for each account?</li> <li>• Is the bank reconciliation carried out regularly and in a timely fashion?</li> <li>• Are there any unexplained balancing entries in any reconciliation?</li> <li>• Is the value of investments held summarised on the reconciliation?</li> </ul>
Year-end procedures	<ul style="list-style-type: none"> <li>• Are year end accounts prepared on the correct accounting basis (Receipts and Payments or Income and Expenditure)?</li> <li>• Do accounts agree with the cashbook?</li> <li>• Is there an audit trail from underlying financial records to the accounts?</li> <li>• Where appropriate, have debtors and creditors been properly recorded?</li> </ul>

## Appendix 5: Annual internal audit review

### Checklist 1 – meeting the standards

Expected standard	Evidence of achievement	Yes/No	Areas for development
1. Scope of Internal audit	<p>Terms of reference for internal audit were (re)approved by full council on [date]</p> <p>Internal audit work takes into account both the council's risk assessment and wider internal control arrangements</p> <p>Internal audit work covers the council's anti-fraud and corruption arrangements.</p>		
2. Scope of Internal audit	<p>Internal audit has direct access to those charged with governance (see Financial Regulations).</p> <p>Reports are made in own name to management.</p> <p>Internal audit does not have any other role within the council/board.</p>		
3. Competence	<p>There is no evidence of a failure to carry out internal audit work ethically, with integrity and objectivity.</p>		
4. Relationships	<p>The Clerk and Responsible Financial Officer (RFO) are consulted on the internal audit plan. (Evidence is on audit files).</p> <p>Respective responsibilities for officers and internal audit are defined in relation to internal control, risk management and fraud and corruption matters (job descriptions and engagement letter).</p> <p>The responsibilities of council members are understood; training of members is carried out as necessary. (See Member training plan).</p>		
5. Planning and reporting	<p>The annual internal audit plan properly takes account of all the risks facing the council and has been approved by the council [date].</p> <p>Internal audit has reported in accordance with the plan on [date]</p>		

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### Checklist 2 – Characteristics of effectiveness

Expected standard	Evidence of achievement	Yes/No	Areas for development
Internal audit work is planned	Planned internal audit work is based on risk assessment and designed to meet the council's needs.		
Understanding the whole organisation its needs and objectives	The annual audit plan demonstrates how audit work will provide assurance for the council's Annual Governance Statement		
Be seen as a catalyst for change	Internal audit supports the council's work in delivering improved services to the community		
Add value and assist the organisation in achieving its objectives	The council makes positive responses to internal audit's recommendations and follows up with action where this is called for.		
Be forward looking	In formulating the annual audit plan, national agenda changes are considered.  Internal audit maintains awareness of new developments in the services, risk management and corporate governance.		
Be challenging	Internal audit focuses on the risks facing the council.  Internal audit encourages managers/members to develop their own responses to risks, rather than relying solely on audit recommendations.		
Ensure the right resources are available	Adequate resource is made available for internal audit to complete its work.  Internal audit understands the council and the legal and corporate framework in which it operates.		

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## Appendix 6: Welsh Assembly Government guidance on local government investments

### Welsh Assembly Government

#### GUIDANCE ON LOCAL GOVERNMENT INVESTMENTS

PART 1 of this document provides an informal commentary on Part 2.

PART 2 contains the statutory guidance to which authorities must have regard.

#### PART 1

##### INFORMAL COMMENTARY ON THE INVESTMENTS GUIDANCE

[References to paragraphs in the formal guidance are in square brackets]

##### POWER UNDER WHICH THE GUIDANCE IS ISSUED [1.1]

1. Section 15(1) & 24 of the Local Government Act 2003 requires a local authority "...to have regard (a) to such guidance as Welsh Ministers may issue, and (b) to such other guidance as Welsh Ministers may by regulations specify...".

2. The formal guidance on investments in Part 2 of this document is issued under section 15(1)(a) in the 2003 Act.

3. The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 [SI 3239] (made under the Local Government Act 2003) contain a regulation [regulation 19] relying on the power in section 15(1)(b). It requires authorities to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (CIPFA TM Code). The CIPFA Code includes guidance on investment practice which complements the Welsh Assembly guidance.

4. Local authorities are therefore required to "have regard" to both the Welsh Assembly Government guidance on local government investments and the CIPFA TM Code.

##### APPLICATION [3.1 - 3.3]

5. This guidance applies with effect from 1 April 2010 – i.e to the financial year 2010-11 and subsequent years. It completely supersedes the former guidance issued in March 2004. The guidance applies only in Wales. It applies to all local authorities. It may also apply to Community Councils (and charter trustees), but importantly the usually lower level of their investments will normally lead to a modified approach to their activities [3.3 – 3.4]. The guidance does not apply to pension and trust funds which are covered by a completely separate regulatory regime.

##### INVESTMENT STRATEGY [4.1 - 4.7]

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6. The preparation each year of an investment Strategy is central to the guidance [4.1]. It encourages the formulation of policies for the prudent investment of the surplus funds that authorities hold on behalf of their communities. In addition, the need for the Strategy to be approved by the full council (see below) ensures that these policies are subject to the scrutiny of elected Members: this is particularly important as since 2004 central Government no longer closely regulates local government investment.

7. The guidance defines a prudent investment policy as one achieving first of all security (protecting the capital sum from loss) and then liquidity (keeping the money readily available for expenditure when needed) [4.2]. The generation of investment income is distinct from these prudential objectives and is accordingly not a matter for the guidance. However, that does not mean that authorities are recommended to ignore such potential revenues. Once proper levels of security and liquidity are determined, it may then be reasonable to consider what yield can be obtained consistent with those priorities. This widely-recognised investment policy is sometimes more informally and memorably expressed as follows:

**Security - Liquidity -Yield ...in that order!**

8. The Strategy should be approved by the full council (or at equivalent level in authorities without a council) [4.4]. It is seen as best practice to ensure that approval of the strategy and revisions to it remain with the full Council and is not remitted to the executive.

9. The guidance as before recommends that an investment Strategy should be prepared and approved before the start of each financial year [4.5]. However, the revised guidance makes even clearer that this need not be a once-a-year event, but that the initial Strategy may be replaced by a revised Strategy, at any time during the year, on one or more occasions, subject to full council approval [4.6]. The initial Strategy may specify a firm timetable for the production of in-year Strategies, or may identify contingencies in the event of which a revised Strategy is to be prepared (for example, significant changes in the risk assessment of a significant proportion of the authority's investments). However, a revised Strategy may be prepared even if it was not foreshadowed in that way. Generally, if there are investment issues which the full council might wish to have brought to their attention, submission of a revised Strategy should always be considered. The CIPFA TM Code contains guidance on reporting requirements.

10. It should however be possible to incorporate in the Strategy sufficient flexibilities and delegations to avoid the need for a formal submission to the full council being triggered by purely technical circumstances. It is also open to authorities to arrange for in-depth scrutinies of Strategies to be undertaken outside full council meetings, with a view to informing and expediting the formal consideration by full council. Where external investment managers are used, they should be contractually required to comply with the Strategy.

11. As noted above, authorities will also need to have regard to the CIPFA TM Code, which requires the preparation of an annual treasury management strategy and plan in advance of the year and an annual report after the year end. There is no intention to require authorities to duplicate any of the tasks specified in the CIPFA TM Code. It may be convenient to produce a single strategy document, covering both the requirements of the CIPFA TM code and the Welsh Assembly Government's



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guidance. However, in that case the document should state explicitly where it relates to the guidance by Welsh Ministers.

12. Publication of Strategies is now formally recommended [4.7]. Publication on the authority's website is satisfactory. This does not mean that commercially confidential information such as detailed counterparty lists should be published.

### **INVESTMENT SECURITY [5.1 - 5.3]**

13. The idea of specified investments [5.1] is to identify options with relatively high security and high liquidity, to which authorities need make only minimal reference in their Strategies. All such investments must be in sterling and with a maturity of no more than a year. Such investments with the UK Government, a local authority or Community council will count as specified investments, as will those with bodies or in investment schemes of "high credit quality". The meaning given by the authority to the latter term is to be stated in the Strategy [5.2] and it is expected that authorities will adopt rigorous standards of definition. If the criteria here refer to credit ratings, the recommendations in paragraph [6.1] of the guidance should be followed.

14. The Strategy should deal in more detail with non-specified investments [5.3], given the different levels of potential risk. There is no intention of discouraging authorities from pursuing these options, but the aim is to ensure that proper procedures are in place for assessing and mitigating risk. Therefore the Strategy should identify the types of such investments that may be used during the course of the year and should set a limit to the amounts that may be held in such investments at any time in the year. The limit may be a sum of money or a percentage of total investments. The Strategy should also lay down guidelines for making decisions on such investments, for example, on the circumstances in which professional advice is to be sought. Again, if the criteria mentioned refer to credit ratings, the recommendations in paragraph [6.1] of the guidance should be followed.

### **INVESTMENT RISK [6.1 - 6.4]**

15. A report completed by the Community and Local Government Select Committee<sup>1</sup> has particular relevance in Wales. The Wales and England Investment frameworks are broadly similar therefore recommendations made by this committee have a direct read across. This largely new section addresses some of specific concerns raised by the CLG Select Committee.

#### **Risk assessment [6.1]**

16. Underlying these recommendations is a concern that credit ratings should not be seen as the only means of assessing creditworthiness. The Strategy is therefore to indicate the extent to which the authority's assessment of credit risk depends upon the use of credit ratings. Where they are used, the Strategy is to say how frequently ratings are monitored and what action is to be taken when they change. The Strategy is also to say what other sources of information on credit risk are used; that is particularly important if a favoured investment option has a low credit rating or is not rated at all. It is not appropriate for the Welsh Assembly Government to offer guidance on such alternative means of assessing credit risk.

#### **Treasury management advisors [6.2]**

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17. Sources of information on credit risk may include private-sector treasury management advisors. The Strategy is to make clear how the authority uses such advisors and what measures are in place to maintain an appropriate quality of service. The ultimate aim here is to encourage a constructive and transparent partnership between these contractors and their local authority clients.

### **Investment training [6.3]**

18. The Strategy is to report on the procedures for reviewing and addressing the needs of the authority's treasury management staff for training in investment management. Even where significant reliance is placed upon external advisers, in-house expertise will still be needed to develop the proper kind of working relationship with them. The Government also hopes that elected Members involved in the scrutiny of treasury management issues will avail themselves of relevant training wherever possible. Further guidance on training issues is given in the CIPFA Treasury Management Code.

### **Investment of money borrowed in advance of need [6.4]**

19. Section 12 of the 2003 Act gives a local authority power to invest for "any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs". The Welsh Assembly Government's view, whilst not offering an authoritative interpretation of the law, takes an informal view that, while the speculative procedure of borrowing purely to invest at a profit is clearly unlawful, there appears to be no legal obstacle to the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future. CIPFA's Prudential Code for Capital Finance in Local Authorities (2nd edition 2009) makes recommendations about this procedure in the context of prudent borrowing practice. To complement that, the Welsh Assembly guidance recommends that the Strategy reports the authority's policies relating to the investment of any sums borrowed in advance. The Government considers that elected Members should have an opportunity to scrutinise this aspect of their authorities' investment practices, given that it may expose more money than is strictly necessary to investment risk.

### **INVESTMENT LIQUIDITY [7.1]**

20. The Strategy should set out procedures for determining the maximum periods for which funds may prudently be committed. This is to ensure that the authority has properly assessed the risk of not having immediate access to some of its funds. An investment should be regarded as commencing on the date the commitment to invest is entered into, rather than the date on which the funds are paid over to the counterparty.

#### **Community Councils and Charter Trustees [3.3]**

21. The statutory guidance also sets out its application to community councils and charter trustees. This requires that all community councils and charter trustees follow the key criteria of liquidity and security. Community councils and charter trustees will need to produce an Annual Investment Strategy once a year. However, Community Council's might find it convenient to include this document within their budget setting processes. Community Councils may also find it useful to refer to the CIPFA Treasury Management guide for best practice in this area.

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22. Where community councils and charter trustees exceed the thresholds (in paragraphs 3.4) in the statutory guidance they will need to apply its provisions in full.

## **PART 2**

### **Welsh Assembly Government**

#### **GUIDANCE ON LOCAL GOVERNMENT INVESTMENTS**

**Issued under section 15(1)(a) of the Local Government Act 2003 and effective from 1 April 2010**

#### **(1) POWER UNDER WHICH THE GUIDANCE IS ISSUED**

1.1 The following guidance is issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003.

#### **(2) DEFINITIONS OF TERMS**

2.1. In this guidance, 2003 Act means the Local Government Act 2003.

2.2. Local authority (except in paragraph 5.1(d) below) has the meaning given in section 23 of the 2003 Act (and in regulations made under that section). To the extent that this guidance applies to Community councils and charter trustees (see paragraph 3.3), a reference to a "local authority" includes those councils and trustees.

2.3. An investment is a transaction which relies upon the power in section 12 of the 2003 Act and is recorded in the balance sheet under the heading of investments within current assets or long-term investments. The term does not include pension fund and trust fund investments, which are subject to separate regulatory regimes and are therefore not covered by this guidance.

2.4. A long-term investment is any investment other than (a) one which is due to be repaid within 12 months of the date on which the investment was made or (b) one which the local authority may require to be repaid within that period.

2.5. A credit rating agency is one of the following three companies: Standard and Poor's; Moody's Investors Service Ltd; Fitch Ratings Ltd.

#### **(3) APPLICATION**

##### **Effective date**

3.1 This guidance applies with effect from 1 April 2010 and supersedes the guidance issued on 12 March 2004.

##### **Local authorities**

3.2 This guidance applies to all local authorities in Wales.

##### **Town and Community councils and charter trustees**

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3.3 All community councils and charter trustees shall have due regard to this guidance and give priority to liquidity and security rather than to yield for any investments they undertake. In most cases the level of detail and specific requirements outlined in the guidance will not apply. All Town and Community councils or Charter Trusts should:

- (a) agree its Annual Investment Strategy before the start of the financial year as a minimum, this can be undertaken as a part of the budget setting process;
- (b) agree appropriate limits for each category of investments it plans to carry out;
- (c) agree a process that effectively monitors the strategy in year, and;
- (d) ensure that all investments are in Sterling;

3.4. Paragraphs 4-7 of this guidance are applicable to Community Councils and Charter Trustees with average annual or total investments equal to and above £500,000.

### **(4) INVESTMENT STRATEGY**

#### **Preparation**

4.1 Welsh Ministers recommend that for each financial year a local authority should prepare at least one investment Strategy (“the Strategy”) in accordance with the timetable in paragraphs 4.5 and 4.6.

4.2 The Strategy should set out the authority's policies for the prudent management of its investments and for giving priority, firstly, to the security of those investments and, secondly, to their liquidity. It should therefore identify the procedures for monitoring, assessing and mitigating the risk of loss of invested sums and for ensuring that such sums are readily accessible for expenditure whenever needed.

4.3 The detailed contents of Strategy should be in accordance with paragraphs 5.1 to 7.1, but may include other matters considered relevant.

#### **Approval**

4.4 The Strategy should be approved by the full council. For authorities without a full council, the Strategy should be approved at the closest equivalent level.

#### **Timing**

4.5 Welsh Ministers recommend that for any financial year an investment Strategy (“the initial Strategy”) should be prepared and approved before the start of that year.

4.6 The initial Strategy may be replaced by another Strategy (“the revised Strategy”) at any time during the year, on one or more occasions, subject to the same process of approval. The initial Strategy should specify circumstances in which a revised Strategy is to be prepared, but a revised Strategy may be prepared in other circumstances, if at any time it is considered appropriate.

#### **Publication**

## Appendices

4.7 Welsh Ministers recommend that the initial Strategy and any revised Strategy should, when approved, be made available to the public free of charge, in print or online.

### **(5) INVESTMENT SECURITY**

#### **Specified investments**

5.1 An investment is a specified investment if all of the following apply:

(a) the investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;

(b) the investment is not a long-term investment (as defined in paragraph 2.4);

(c) the making of the investment is not defined as capital expenditure by virtue of regulation 20(1)(d) of the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 [SI 3239 as amended];

(d) the investment is made with a body or in an investment scheme of high credit quality (see paragraph 5.2); or with one of the following public-sector bodies:

(i) the United Kingdom Government

(ii) a local authority in England or Wales (as defined in section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland

(iii) a parish or community council.

5.2 For the purposes of paragraph 5.1(d), Welsh ministers recommend that the Strategy should define high credit quality (and where this definition refers to credit ratings, paragraph 6.1 is relevant)

#### **Non-specified investments**

5.3 With regard to non-specified investments (i.e those not meeting the definition in paragraph 5.1), Welsh Ministers recommend that the Strategy should:

(a) set out procedures for determining which categories of such investments may prudently be used (and where these procedures involves the use of credit ratings, paragraph 6.1 is relevant);

(b) identify which categories of such investments have so far been identified as prudent for use during the financial year; and

(c) state the upper limits for the amounts which, at any time during the financial year, may be held in each identified category and for the overall amount which may be held in non-specified investments (the limits being defined by reference to a sum of money or a percentage of the local authority's overall investments or both).

### **(6) INVESTMENT RISK**

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## **Risk assessment**

6.1 Welsh Ministers recommend that the Strategy should set out the authority's approach to assessing the risk of loss of investments, making clear in particular:

- (a) to what extent, if any, risk assessment is based upon credit ratings issued by one or more credit rating agencies;
- (b) where credit ratings are used, how frequently credit ratings are monitored and what action is to be taken when ratings change; and
- (c) what other sources of information on credit risk are used, additional to or instead of credit ratings.

## **Treasury management advisors**

6.2 Welsh Ministers recommend that the Strategy should state what:

- (a) whether and, if so, how the authority uses external advisers offering information, advice or assistance relating to investment; and
- (b) how the authority monitors and maintains the quality of any such service.

## **Investment training**

6.3 Welsh Ministers recommend that the Strategy should state what process is adopted for reviewing and addressing the needs of the authority's treasury management staff for training in investment management.

## **Investment of money borrowed in advance of need**

6.4 Welsh Ministers recommend that the Strategy should state the authority's policies on investing money borrowed in advance of spending needs. This statement should identify any measures to manage the amount of such investments, including any limits on (a) amounts borrowed and (b) periods between borrowing and expenditure. The statement should also comment on the management of the risks involved, including balancing the risk of investment loss against the risk of higher interest rates if borrowing is deferred.

## **(7) INVESTMENT LIQUIDITY**

7.1 Welsh Ministers recommend that the Strategy should set out procedures for determining the maximum periods for which funds may prudently be committed.

## **Welsh Assembly Government April 2010**

## **Appendix 7: The audit of local councils**

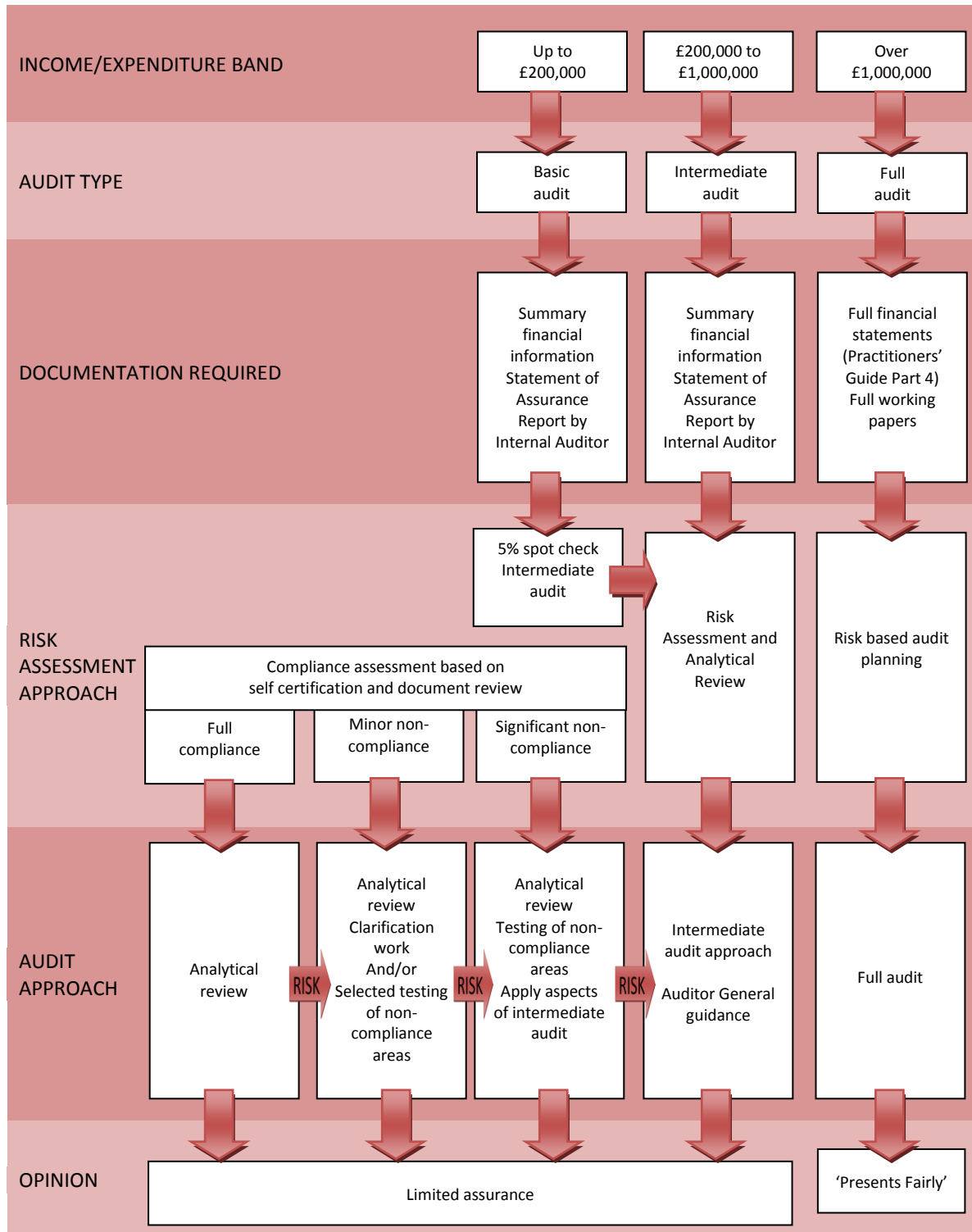
The local council audit approach distinguishes between three types of local council:

- councils with annual income or expenditure of £1 million or more (Group A);
- councils with neither annual income or expenditure in excess of £1 million (Group B); and
- councils with neither annual income nor expenditure exceeding £200,000 (Group C).

The exhibit below describes the new audit approach to each of the three groups.

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## Exhibit: Local council audit model of delivery





# Appendices

## Appendix 8: Executive checklist for financial year end

This checklist is provided for use by the Chair as a final check for completeness of the council's annual accounting and reporting cycle.

Answering 'Yes' to the questions below should provide assurance that the necessary steps have been taken during the year and that the process is now complete and may be signed off. Any 'no' answers indicate that further work may need to be carried out.

References to relevant sections of the Practitioners' Guide (PG) are included.

Governance		Yes	No
1	During the year, has the council reviewed its system of internal control, including internal audit, risk management and measures designed to prevent fraud and corruption, and assessed it as adequate and effective? [See Practitioners' Guide (PG) paragraphs 116 - 119, 173 - 188]		
2	Has the council only done what it has the legal powers to do and in doing so acted in accordance with the codes of conduct and practice it has agreed to abide by? [PG paragraphs 120 - 121]		
3	Has the council appointed a Responsible Financial Officer who has ensured that the council's accounting system has been observed and that the accounts and supporting records have been maintained in accordance with proper practices and kept up to date? [PG paragraphs 75 to 80 and 231 to 234]		
4	Has the council arranged for internal audit to be carried out and reported upon? [PG paragraphs 127 to 129 and 152 to 188]		
5	Has the council reviewed its income and spending against the approved budget during the year and as at 31st March? [PG paragraphs 266 to 295]		
The accounts			
6	Has the cashbook been balanced? (Bank balance at end of previous year plus total receipts less total payments equals bank balance at end of current year after adjusting for unrepresented cheques and credits). [PG paragraphs 335 to 337]		
7	Have the bank balances in the Accounts been reconciled with the bank statements at 31 March? [PG paragraphs 338 to 351]		

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8	Have the Accounts been prepared on the proper basis (income and expenditure over £200,000) and is this consistent with last year? [PG paragraph 371 and 375]		
9	Have all debtors, stocks, creditors, receipts in advance, payments in advance and accruals been identified? (income and expenditure only) [PG paragraphs 375 to 387]		
10	Are the accounts in balance and has all the necessary information been included in any supporting notes? [PG paragraphs 498 and 506]		
11	If the council's income or expenditure is approaching a threshold (£200,000 or £1,000,000) have the implications of this been considered and acted upon? [PG paragraphs 3750 to 387, 399]		
<b>The annual return</b>			
12	Has Section 1 of the Annual Return been completed, and page 1 signed by the Responsible Financial Officer? Has the Council approved the Annual Return and has the Chair signed page 1, including the minute reference and date? [PG paragraph 533]		
13	Has a copy of the bank reconciliation at 31 March been included with the Annual Return? [PG paragraph 534]		
14	Has a written and full explanation of any significant variances between last year's and this year's figures, or any unusual or unexpected amounts shown in the statement of accounts on Section 1? [PG paragraph 535 to 541]		
15	Do the figures in Section 1 of the annual return balance? (Balance b/fwd plus all receipts/income less all payments/expenditure equals balance c/fwd.) [PG paragraphs 371 to 387]		
16	Has the Annual governance statement (Section 2) been completed and approved by the Council? Has the Chair signed and dated page 1 of the annual return and the minute reference recorded? [PG paragraphs 110 to 134]		
17	Has internal audit work been completed and the Certificate signed (Section 4 of the Annual Return)? [PG paragraphs 152 to 172]		
18	Has the Council considered and acted on any items appearing on the internal audit report for the financial year just ended? [PG paragraphs 116 to 119 and 127 to 131]		

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19	Has the Council considered and acted on any items appearing on the external auditor's report for the previous year? [PG paragraph 130 to 131]		
20	If the answer to any of the questions above is 'No':  Does the clerk of the council/RFO need further advice or help in finalising the annual return? (contact SLCC/One Voice Wales audit help)		

Review carried out by:		Date:	
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# Appendices

## Appendix 9: Limited assurance audit fees

<b>Council's annual income/expenditure</b> <small>(fees are payable on whichever is the higher each year)</small>	<b>Type of audit</b>	<b>Total fee charged to the local council</b>
£Nil - £1,000	Basic	No fee payable
£1,001 - £5,000	Basic	£50
£5,001 - £10,000	Basic	£120
£10,001 – £30,000	Basic	£135
£30,001 - £60,000	Basic	£285
£60,001 - £100,000	Basic	£400
£100,001 - £200,000	Basic	£550
£200,001 - £300,000	Intermediate	£875
£300,001 - £400,000	Intermediate	£1,050
£400,001 - £500,000	Intermediate	£1,450
£500,001 - £750,000	Intermediate	£1,950
£750,001 - £1,000,000	Intermediate	£2,500

### Appendix 10: HMRC guidance on tax treatment of clerks



# Parish Council and Community Council Clerks PAYE Implementation

Please note that all references to Parish Councils also refer to Community Councils in Wales.

## HM Revenue & Customs' previous guidance

Previous HM Revenue & Customs' (HMRC) guidance (EIM67320) on the tax treatment of payments made by Parish Councils to their Clerks indicated that it was acceptable for tax purposes for these payments to be made outside of a PAYE Scheme. This guidance was based on the premise that payments to Clerks fell below the PAYE tax threshold. HMRC is now aware that many Clerks earn in excess of the PAYE and National Insurance contributions thresholds. HMRC has therefore decided to issue new guidance on the tax treatment of parish clerks (see below). Guidance EIM67320 has been removed and should no longer be followed.

## The correct Tax and NIC treatment of Parish Clerks

A Parish Clerk is an Office holder. All office holders are subject to PAYE. This means that Parish Clerks:

- can never be considered self employed for tax or NIC purposes.
- must not be paid "gross"; and
- must be taxed under PAYE.

Parish Councils must register as an employer with HMRC and operate PAYE on the income the Clerk earns. This is the same position as for any office or employment; there is no other acceptable tax treatment applicable to Parish Clerks. Any previous agreements with HMRC or the former Inland Revenue under which the Clerk was paid gross or was treated as self employed are void, as are any 'inherited arrangements' under which a Clerk's income is not subjected to PAYE.

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Where the Clerk has income from other sources (for example a pension or other employment) it is important to inform HMRC of this so that the correct tax code can be issued. For new employees you can do this by ticking the appropriate box on form P46. If you have any questions around this issue please contact the New Employer Helpline on 0845 60 70 143.

Please note that HMRC guidance EIM67320 only covered tax, not National Insurance contributions (NIC). NIC must be paid by councils under PAYE where payments to clerks have exceeded the PAYE NIC Lower Earnings Limit.

### Responsible Financial Officer

In many councils, the clerk will undertake the duties of the Responsible Financial Officer (RFO). However, in some councils, the RFO is a separate appointment. As an office holder, the RFO will be subject to the same tax and NIC rules as the clerk, so Councils should operate PAYE for tax and NIC purposes.

### Moving forward

All Parish Councils must operate PAYE for both tax and NIC purposes on income they pay their Clerks (and RFOs). Checks will be made by HMRC to ascertain whether councils are operating PAYE on clerks (and RFOs) as required. These checks will be undertaken in the tax year commencing 6 April 2011.

### What help can HMRC give Parish Councils with operating PAYE?

Information on registering for PAYE, including thresholds, can be found on HMRC's website: [www.hmrc.gov.uk/pay/intro/register.htm](http://www.hmrc.gov.uk/pay/intro/register.htm)

You can also call our New Employer Helpline on 0845 60 70 143

Guidance regarding Clerks' expenses can be found in HMRC's online guidance at EIM67310 and EIM67315.

Details of what records need to be kept for PAYE can be found at [www.hmrc.gov.uk/pay/payroll/day-to-day/records.htm](http://www.hmrc.gov.uk/pay/payroll/day-to-day/records.htm)

## Glossary

Term	Definition
<b>Accounting records</b>	A council's accounting records are its cash book/receipts and payments book or its computerised accounts and all supporting invoices and other financial records.
<b>Accounting statements</b>	<p>The accounting statements summarise the council's income and expenditure, statement of balances or record of receipts and payments. Councils must:</p> <ul style="list-style-type: none"> <li>• make their accounting statements available for inspection by the public;</li> <li>• have the accounting statements audited; and</li> <li>• publish their audited accounting statements.</li> </ul> <p>Most councils publish their accounting statements in the annual return. The annual return is prepared by the Auditor General for Wales. The external auditor sends the annual return to the council for the council to complete the form. Guidance for preparing the accounting statements is found in the Practitioners' Guide.</p>
<b>Accounts and Audit regulations</b>	<p>The Accounts and Audit (Wales) Regulations are secondary legislation issued by the Welsh Assembly Government under the Public Audit Wales Act 2004. The regulations provide a detailed framework for the responsibilities of the councils and the auditors regarding the preparation and audit of accounts.</p> <p>The Welsh Assembly Government published guidance for community on the regulations.</p> <p>The regulations were updated in 2007. The amended regulations can be found in Appendix 2.</p>
<b>Annual Governance Statement</b>	<p>Councils must provide an annual governance statement in their annual return. This statement confirms that the council had in place proper governance arrangements for their stewardship of their money and assets.</p> <p>Before they complete the statement, councils must review their arrangements fully.</p>
<b>Annual return</b>	<p>The annual return is published by the Auditor General for Wales. It has several purposes:</p> <ul style="list-style-type: none"> <li>• to report the annual accounting statements;</li> <li>• to certify that the council has discharged its statutory duties in relation to its financial affairs;</li> <li>• to record the external auditor's opinion on the annual return and confirms that the auditors has fulfilled his/her statutory responsibility; and</li> <li>• to inform the local tax payer and elector what and how their local community council has been doing in the last year.</li> </ul>

## Glossary

<b>Appointed auditor</b>	The external auditor appointed by the Auditor General for Wales. See external auditor.
<b>Assets</b>	<p>Community councils hold two types of assets.</p> <p>Current assets are assets such as cash, bank balances, stocks and debts owed to the council. Councils hold these assets and use them in the short term.</p> <p>Fixed Assets are assets such as land, buildings, machines, office equipment etc. Councils hold these assets and use them for a longer period. Almost all councils have some fixed assets.</p> <p>The Asset Register is an important record of the council's assets and supports the annual return entry for assets. It collects information on the cost or value of assets held and for insurance purposes, forms a record of assets held. It should recorded details such as:</p> <ul style="list-style-type: none"> <li>• what you own;</li> <li>• <i>what it cost</i>;</li> <li>• <i>when you bought it; and</i></li> <li>• its current value and useful life.</li> </ul>
<b>Balances</b>	See reserves.
<b>Bank reconciliation</b>	This is an important internal control. It compares the council's cash book with the bank statements. Typically bank statements are received monthly. Some smaller councils may receive quarterly statements. It is good practice for the bank reconciliation to be prepared every time a bank statement is received. In all cases, the council should arrange for the reconciliation to be checked by a nominated council member or officer.
<b>Budget</b>	The budget is the council's estimate of its annual income and expenditure. The preparation of its annual budget is key statutory task. The budget allows the council to set its precept at the right level for the year and to monitor progress through the year.
<b>Budget monitoring and control</b>	This is the way the council manages its income and expenditure. Budget monitoring compares actual income and expenditure against the council's original plans. As good practice councils should monitor their finances against their budget monthly.
<b>Cash book or receipts and payments book</b>	The cash book or receipts and payments book is a daily record of all money the council receives and spends. The totals in the cash book should be balanced regularly and reconciled to the bank statements. Many councils prepare their accounts directly from the cash book.



## Glossary

<b>Clerk</b>	The clerk's role is to manage the administration of the council in accordance with its policies. It is essential for all clerks to ensure they understand their role and responsibilities. The Society of Local Council Clerks (SLCC) provide training for clerks on various aspects of their role.
<b>Comparative figures</b>	The council's accounting statements show last year's figures to allow comparison with the current year.
<b>Contracts</b>	Councils enter into contracts with suppliers of goods and services. Councils should always seek to get the best value for money possible. Their procedures should make sure that all decisions in relation to awarding contracts are transparent and reasonable.
<b>Council meetings</b>	<p>Elected members come together to discuss and make decisions on community affairs. This will include:</p> <ul style="list-style-type: none"> <li>• setting policies and budgets;</li> <li>• making decisions about expenditure;</li> <li>• approving payments and setting charges; and</li> <li>• approval of accounts.</li> </ul> <p>Councils are legally required to keep minutes of meetings held. These minutes have to be made available to the public for inspection.</p> <p>Council meetings must be open to the public and press. They can only be excluded by a council resolution for a particular occasion. They should only be excluded if the confidential nature of the business would prejudice the public interest.</p>
<b>Councillors or members</b>	<p>A councillor or member is a person elected to serve on the council for a specified period of time which is currently four years. Collectively, the members form the political arm of the council and make the councils policies. Once elected, they represent all their constituents.</p> <p>Although members can fulfil the responsibilities of an officer, including that of clerk, they cannot hold a paid office.</p> <p>Members cannot be the internal auditor even if unpaid.</p> <p>It is essential for all councillors to ensure they understand their role and responsibilities. One Voice Wales operate a training course for councillors explaining their role. In 2006, the Welsh Assembly Government published a guide for councillors.</p>
<b>Creditor</b>	A person to whom a debt is owed.

## Glossary

<b>Debtor</b>	A person from whom a debt is owed.
<b>Declaration of interests</b>	Where councillors have an interest in any business of the council the members' code of conduct says they must declare this to the council. Declarations should be made at the start of each council meeting. They must then be recorded in the register of interests.
<b>Delegated authority</b>	<p>In certain cases the council may delegate its authority to sub committees, individual councillors or officers.</p> <p>Examples of delegated powers include power to sign cheques and powers to approve emergency payments. It is good practice to clearly define the extent of delegated powers.</p>
<b>Electors' rights</b>	<p>The Public Audit (Wales) Act 2004 gives local people the right to:</p> <ul style="list-style-type: none"> <li>• inspect a council's accounts and accounting records; and</li> <li>• ask the external auditor questions about the accounts or challenge their legality.</li> </ul> <p>The Wales Audit Office leaflet, Your rights in Wales - Councils' Accounts, explains the public rights to inspect local councils accounts.</p>
<b>External auditor</b>	<p>Councils annual accounts are audited by an auditor appointed by the Auditor General for Wales. The auditor will set a date from which the public can exercise their rights to inspect the accounts and ask the auditor questions or object to an item of account.</p> <p>He/she sends the council a notice of audit telling the council when this will happen and advising the council what they need to do for the audit.</p> <p>The council must advertise the audit and allow members of the public to exercise their rights. The council then sends the auditor the annual return and any other information requested.</p> <p>The external auditor will look to see if the accounts have been properly prepared by the council.</p> <p>After the audit is completed the auditor certifies the annual return and the council publishes that the accounts with a statement that the audit is now complete.</p>
<b>Fidelity guarantee</b>	A type of insurance against the risk of theft or defalcation by officers responsible for a council's assets, specifically cash and balances.

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<b>Financial statements</b>	The annual statement of accounts or accounting statements that larger local government bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.
<b>Financial checks and balances (internal controls)</b>	<p>The Accounts and Audit Regulations state that the council must have an adequate and effective system of internal control. These controls are the financial checks and balances that the council uses to manage its money on a day to day basis.</p> <p>The financial checks and balances make sure that:</p> <ul style="list-style-type: none"> <li>• the council properly uses and monitors its money and assets; and</li> <li>• properly records this use.</li> </ul>
<b>Financial regulation</b>	Financial regulations provide a framework setting out the council's approved financial systems to secure the proper administration of its finances. They may contain regulations that must be followed and more general guidelines to achieve good financial control.
<b>Fraud</b>	<p>Fraud is an intentional deception made for personal gain or to damage another individual. Good internal controls and governance arrangements are essential to minimise the risk of fraud.</p> <p>When council suffer fraud or theft it is often the case that the perpetrator has prepared false documents to disguise or to cover up the theft or fraud. In many cases the false documents include invoices and minutes.</p>
<b>Governance</b>	This is how councils ensure that they are doing the right things, in the right way for the right people in a timely, inclusive, open, honest and accountable manner.
<b>Insurance</b>	<p>Insurance is one of the ways that the councils manage the risk of losses. It is good practice to insure against loss by:</p> <ul style="list-style-type: none"> <li>• damage to buildings and equipment;</li> <li>• theft;</li> <li>• malpractice by an officer or members; and</li> <li>• third party.</li> </ul>
<b>Internal audit</b>	The law requires councils to maintain adequate and effective system of internal audit. The internal auditor checks whether the internal controls (financial checks and balances) are working and if they are effective. The internal auditor's work should be proportionate to the activities of the council. It's essential that the internal auditor is independent of the council's decision making process and internal control procedures that are being reviewed. This means that councillors and clerks cannot act as the internal auditor. It's good practice for councils to review the

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	internal audit arrangements at least once a year.
<b>Internal control</b>	See Financial checks and balances.
<b>Investments</b>	Councils secure an income from surplus monies through investments. Investments must be managed in accordance with the Assembly Government's guidelines.
<b>Local Government Act 1972</b>	Community councils in Wales were created by the Local Government Act 1972. The Acts sets out most of the powers of community councils.
<b>Material/materiality</b>	In the accounting statements, information is material if its omission or misstatement could influence or mislead users of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement.
<b>Minutes</b>	A minute should be a short record of the item discussed and the decision reached. It is not necessary to record the majority by which a decision is made unless a member requires that the voting is recorded.
<b>Monitoring Officer</b>	<p>The law requires all councils to have a Monitoring Officer. The unitary authority's Monitoring Officer acts as the Monitoring Officer for community councils in the area.</p> <p>The Monitoring Officer ensures that the council and its officers maintain the highest standard in all they do. The Monitoring Officer reports on matters:</p> <ul style="list-style-type: none"> <li>• that are or likely to be illegal or amount to maladministration; and</li> <li>• relating to the conduct of officers and members.</li> </ul>
<b>One Voice Wales</b>	One Voice Wales represents and provides support for community and town councils in Wales. Councils which are members of One Voice Wales have access to a library of resources and a training programme for councillors.
<b>Opinion/Qualified opinion</b>	A statement of findings and assurance given by an auditor following the completion of an audit process. A qualified opinion means that the auditor's otherwise positive assurance has been modified in some way usually to report non-compliance or other failure or weakness in the accounts.
<b>PAYE and NIC</b>	Employees pay income tax on a Pay As You Earn basis. Employers and employees pay National Insurance Contributions on employees' wages and salaries. The council as the employer must deduct these amounts from the employees' pay before paying the employee. The council must then pay the money

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	deducted to HM Revenue and Customs (HMRC). Failure to pay HMRC can result in fines and penalty charges on the council which can be substantial.
<b>Powers</b>	As a public body a community council can only do what it has the statutory power to do. The main source of councils powers are found in the Local Government Act 1972.
<b>Precept and council tax</b>	This is a legal demand by a community council on the local unitary authority for operating funds to meet budget needs. The unitary authority recovers the precept from local taxpayers via council tax. It is normally the council's main source of income.
<b>Public Audit (Wales) Act 2004</b>	This Act sets out a framework for the council's and auditor's responsibilities for the annual accounts and statutory external audit. The Act can be found on the Office of Public Sector Information website.
<b>Recharges</b>	Sometimes councils provide services such as administration services on behalf of other public bodies. They may recharge the cost of these services to those bodies.
<b>Register of interests</b>	Councils must maintain registers of members' and officers' interests. The register seeks to identify potential conflicts such as relationships, financial etc so that risks of acting inappropriately can be avoided.
<b>Reserves and balances</b>	When councils spend less money than they receive in a year, they create a surplus. The council holds these surpluses as reserves. A council needs to hold some reserves to make sure it can pay for unexpected events and to make sure it has enough money to pay bills until it receives income. Unless it has specific plans for future spending, councils should only hold reserves to provide a reasonable balance.
<b>Responsible financial officer</b>	The responsible financial officer (RFO) administers the financial affairs for the council. Councils must by law appoint an RFO. The RFO will usually be the clerk but this is not necessarily the case. The RFO sets up financial systems to help councils live within their means. The appointment of an RFO does not mean that members do not have responsibility for the council's finances. They continue to be accountable for ensuring that the council does not live beyond its means.
<b>Risk management</b>	The arrangements which a council makes to identify key business risks, evaluate these and put in place measures to reduce the risk or manage the consequences of its occurrence.
<b>Section 137 LGA 1972</b>	This legislation enables the council to spend a total of up to

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	<p>£5.50 (inflation adjusted) multiplied by the number of electors in the community.</p> <p>This is an amount of money that councils can spend for the benefit of the community where it does not specifically have a statutory power. In most cases councils use section 137 to make grants to voluntary organisations within the community. For example, play groups.</p> <p>Before using Section 137, the council must consider whether the expenditure will bring direct benefit to the area or its inhabitants.</p>
<b>Society of Local Council Clerks (SLCC)</b>	SLCC represents local council clerks. It provides guidance, training and support for clerks regarding council administration.
<b>Standing orders</b>	<p>Standing orders are the set of rules by which the council conducts its business. Typically, it would define how a council is to be conducted which would include how many members constituting a quorum. It must also define the arrangements for entering into a contract.</p> <p>Model standing orders are obtainable from One Voice Wales.</p>
<b>Statement of variances</b>	External auditors ask councils to send them an explanation of variances with their annual return. This compares the current and previous year's figures. The auditor wants to know that councils understand the reasons for the changes. It should include a relevant analysis to support each explanation. The Practitioners Guide provides a number of examples to assist councils.
<b>Ultra vires/Intra vires</b>	As a public body a community council can only do what it has a statutory power to do. If it acts outside these powers it is said to act ultra vires. If a council acts ultra vires its actions can be declared unlawful by the courts. Councils may incur public censure and significant legal costs if they act ultra vires.