Un Llais Cymru

One Voice Wales

SLCC

For Local Council Professionals

Governance and Accountability for Local Councils in Wales – A Practitioners Guide

(2019 Edition)

This Practitioners' Guide is jointly published by One Voice Wales and the Society of Local Council Clerks.

The Guide represents statutory proper accounting practices for community councils in Wales and guidance on proper governance arrangements. It does not provide an exhaustive explanation of all statutory functions and duties of community councils.

Where there is conflict between the contents of this Guide and statute, the statutory provision should be followed. Councils are advised to seek their own legal advice where required.

If you have any comments on the contents of the Guide, please raise these with One Voice Wales or SLCC.

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Part 1
Introduction

1. Introduction to the Practitioners' Guide

The purpose of the Guide

1.1. The Practitioners' Guide aims to help practitioners to understand regulatory requirements faced by town and community councils (local councils) in Wales. It provides a guide to the accountability and audit framework and 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, accountants, internal auditors and trainers. External auditors will also find it useful as a reference tool.

Application to other small local government bodies

1.2. The Guide has been written primarily from the perspective of local councils. However, other small local government bodies also use the Guide as proper practices. Application notes for these bodies are included within the Guide where specific issues need to be noted.

Format and content

1.3. This Practitioners' Guide sets out in a practical way the current requirements of legislation and proper accounting and governance practices. 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.

1.4. The Guide is broken down into five parts. Each part of the Guide consists of a series of chapters which break down the guidance into manageable pieces. Each chapter identifies relevant legal requirements and proper accounting and governance practice and uses examples to illustrate the explanations.

1.5. The chapters are set out in the following format:

- **Statutory requirements:** at the start of each chapter, any relevant statutory requirements are laid out in detail. Councils must comply with the requirements of legislation.
- **Proper practices:** Proper accounting and governance practices are stated in a simple and brief format. Councils must comply with the requirements of the proper practices.
- **Guidance:** Further guidance is provided to assist councils to comply with the statutory and proper practices requirements relevant to each chapter

Part 1: Introduction

1.6. The Guide uses the following terminology:

- **Must**: Councils are required to comply with these requirements by statute or proper accounting practices;
- **Should**: Councils should follow these requirements as best practice. Failure to meet these requirements may lead to a failure to comply with a statutory requirement or proper accounting practices; and
- **May**: Compliance with these requirements represents good but not essential practice.

1.7. A glossary at the end of the Guide explains other key words and phrases commonly used.

Publishing the Guide

1.8. 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 and www.onevoicewales.org.uk. Alternatively, councils may purchase paper copies from both organisations for a small charge.

1.9. 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.

Application date

1.10. The edition of the Practitioners' Guide must be applied for financial years commencing on or after 1 April 2019 i.e. from the 2019-20 financial year onwards. Early adoption for previous years is allowed.

Additional information

1.11. 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.

1.12. The publishers will make arrangements to update references to legislation as and when required. However, no responsibility is accepted for errors or omissions in quoted legislation.

1.13. 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). Appendix 1 identifies where users will find further relevant guidance.

2. Status of the Practitioners' Guide

Statutory requirements

Local Government Act 2003

21 Accounting practices

(1) The Secretary of State may by regulations make provision about the accounting practices to be followed by a local authority, in particular with respect to the charging of expenditure to a revenue account.

(2) In any enactment to which this subsection applies, reference to proper practices, in relation to accounts of a local authority, is to those accounting practices—

(a) which the authority is required to follow by virtue of any enactment, or

(b) which are contained in a code of practice or other document which is identified for the purposes of this provision by regulations made by the Secretary of State.

Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003

Regulation 25 Proper practices

(1) For the purposes of section 21(2) (accounting practices)—…

(b) in relation to community councils and minor joint committees, the accounting practices contained in the "Governance and accountability for Local Councils: A Practitioners Guide 2008 (Wales)" as may be amended or reissued from time to time (whether under the same title or not) issued jointly by One Voice Wales and the Society for Local Council Clerks are proper practices.

(2) In this regulation "minor joint committee" means a joint committee of two or more local authorities in Wales whose gross income or expenditure (whichever is the higher) for the year is, and each of the two immediately preceding years was, less than [£2,500,000].]

Accounts and Audit (Wales) Regulations 2014

Regulation 4 Proper practices

For the purposes of section 21(2) of the 2003 Act (accounting practices)—

(b) in relation to port health authorities which are not county councils or county borough councils, the accounting practices contained in the "Governance and accountability for Local Councils in Wales: A Practitioners' Guide 2011 (Wales)" as may be amended or reissued from time to time (whether under the same title or not) issued jointly by One Voice Wales and the Society for Local Council Clerks are proper practices..

Regulation 5 Responsibility for internal control and financial management

(4) Following the review, the body or committee must approve a statement on internal control prepared in accordance with proper practices.

Part 1: Introduction

Proper practices

There are no proper accounting or governance practices relevant to this chapter.

Guidance

Proper accounting practices

2.1. This Practitioners' Guide replaces all previous editions of Governance and accountability for Local Councils: A Practitioners Guide 2008 (Wales).

2.2. Regulation 25 of the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003, therefore identifies this Guide as proper accounting practices for all community councils and minor joint committees in Wales.

2.3. Regulation 4 of the Accounts and Audit (Wales) Regulations 2014 identifies this Guide as proper accounting practices for port health authorities that are not county or county borough authorities.

2.4. All community councils, minor joint committees and port health authorities that are not county or county borough authorities must therefore follow the proper accounting practices set out in this Practitioners' Guide when preparing their annual accounting statements.

Proper governance practices

2.5. The Accounts and Audit (Wales) Regulations 2014 require councils to approve and publish a statement on internal control. The Welsh Government accepts that relevant bodies will prepare an annual governance statement in place of the statement on internal control. It states that the Annual Return prepared each year for audit by the Auditor general for Wales is considered by the Welsh Government to best represent proper practices in relation to the statement of internal control which includes the provision of an annual governance statement.

2.6. All community councils, minor joint committees and port health authorities that are not county or county borough authorities must therefore follow the proper accounting practices set out in this Practitioners' Guide when preparing their annual accounting statements.

2.7. The Welsh Government guidance can be found at https://gov.wales/topics/localgovernment/finandfunding/publications/accounts-audit-guidance/?lang=en.

3. The Governance and Accountability framework

Statutory requirements

There are no specific legislative requirements relevant to this chapter.

Proper practices

There are no proper accounting or governance practices relevant to this chapter.

Guidance

What is the governance and accountability framework for councils in Wales?

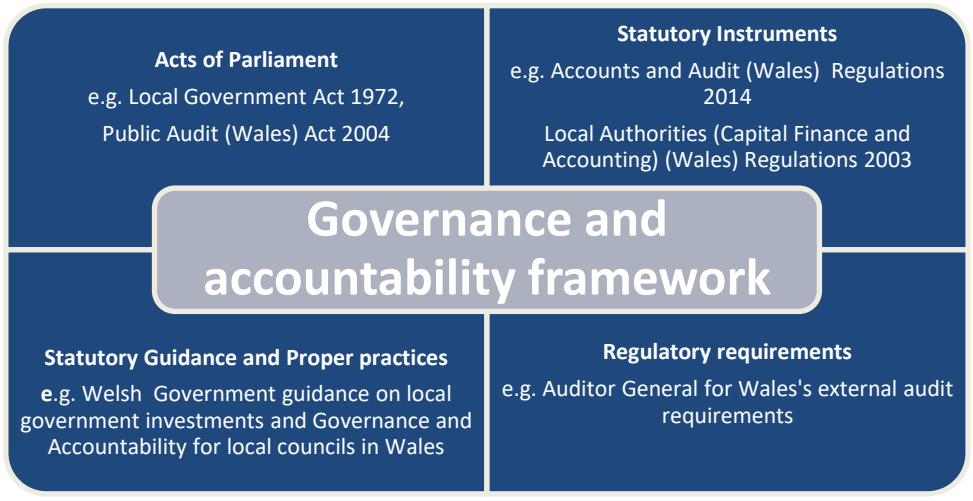
3.1. Good governance, accountability and transparency are essential to local councils and are a cornerstone of the Welsh government's approach to improving public services.

3.2. 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 also need to ensure they safeguard, properly account for and use economically, efficiently and effectively, the council's public money.

3.3. 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 report on these arrangements in a published Annual Governance Statement.

3.4. The key elements of the framework are shown in Exhibit 1 below:

Exhibit 1: The governance and accountability framework in Wales



3.5. Local councils must act within the law relevant to councils. This law is set out in either:

- Primary legislation – e.g. Local Government Act 1972 and Public Audit (Wales) Act 2004; or
- Secondary legislation – statutory regulations such as the Accounts and Audit (Wales) Regulations 2014 or directions and orders issued by the Welsh Government such as the General Disposal Consent (Wales) 2003.

3.6. Additional statutory and non-statutory guidance is issued on specific aspects of local council finance e.g. guidance on investments. Councils must have regard to statutory guidance when making decisions.

3.7. In order to inform council taxpayers, the accountability framework set out by the Public Audit (Wales) Act 2004 requires local councils to prepare a report on their activities for the year. This takes the form of an annual return incorporating accounting statements and an annual governance statement. The report is published for examination by the electorate following an independent external audit by the Auditor General for Wales.

4. Roles and responsibilities

Statutory requirements

Local Government Act 1972

Section 151 Financial administration

Without prejudice to section 111 [of the Local Government Act 1972]…, every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.

Proper practices

There are no proper accounting or governance practices relevant to this chapter.

Guidance

Who is involved in local council governance and accountability?

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

Exhibit 2: Individuals involved in governance and accountability at community and town councils

Part 1: Introduction

Local councillors or members

4.2. Local councillors or members are elected every five 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.

4.3. 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.

4.4. 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.

The local council clerk

4.5. 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.

4.6. 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.

4.7. The council must be confident that the clerk is at all times independent, objective and professional.

The Responsible Financial Officer

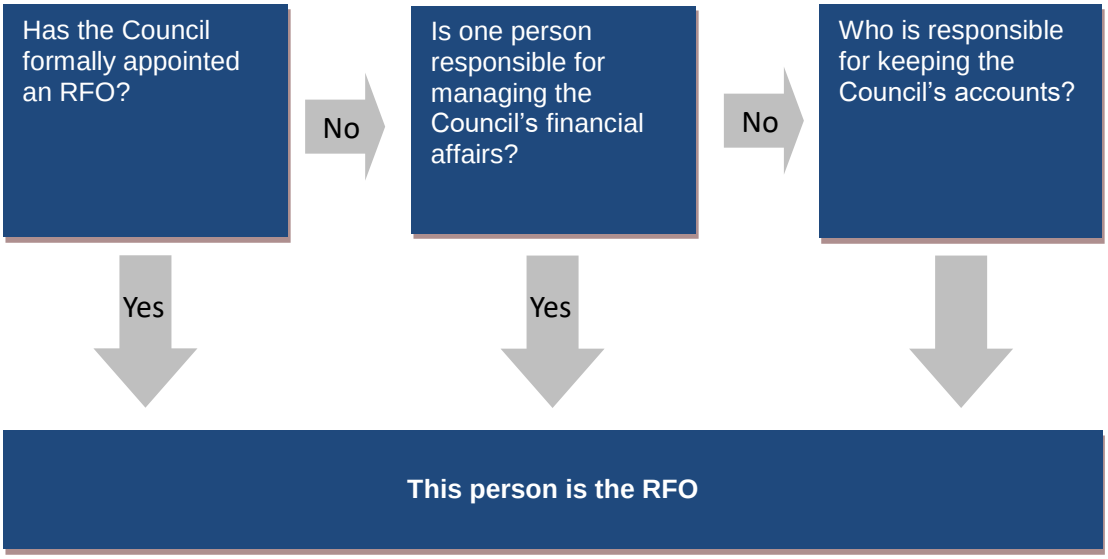
4.8. Section 151 of the Local Government Act 1972 requires all councils to appoint an officer responsible for the financial administration of the council. This Responsible Financial Officer (RFO) will usually be the clerk to the council. However, this is not automatically the case.

4.9. 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.

4.10. 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.

4.11. Even where the Council does not formally appoint an RFO, an individual is deemed to be the RFO in the circumstances set out below.

Exhibit 3: Identifying the Responsible Financial Officer (RFO)



4.12. 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.

4.13. 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:

Exhibit 4: The RFO's responsibilities

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	• 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; • 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; • 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.
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	• 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; • 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; • the proper practices specified by the Regulations are represented by the contents of this guidance; and • 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

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	• 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. • 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 annual return (see below).
The accounting records in particular contain: • 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; • A record of the assets and liabilities of the body; • A record of income and expenditure of the body in relation to claims made by them for contribution, grant or subsidy from the government.	• The RFO will maintain a financial record of transactions. This day to day record may take the form of a manuscript cashbook, an electronic cashbook e.g. in the form of a spreadsheet, or a financial ledger using accounting software. • assets and liabilities register • a register of grants received

The accounting control systems include: • 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 • Identification of the duties of officers dealing with financial transactions and divisions of responsibilities of those officers in relation to significant transactions • Procedures to ensure that uncollectible amounts, including bad debts, are not written off except with the approval of the RFO	• 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; • review systems at least annually or more frequently if required following any significant change of procedure or key personnel; • add new systems if there is a business need to do so; and • report annually to the council prior to their completion of the annual return

The internal auditor

4.14. 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.

4.15. 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.

4.16. The council itself appoints the internal auditor. Internal audit may be provided by an employee of the council or by someone outside the council. Internal audit reports to the council and its work is to a certain extent capable of constraint and direction by the council.

4.17. Chapter 11 provides further guidance on internal audit.

The external auditor

4.18. All local government bodies in Wales are subject to external audit by the Auditor General for Wales. The Auditor General's responsibilities in relation to the audit are set out in section 17 of the Public Audit (Wales) Act 2004.

4.19. The primary responsibilities of the Auditor General are to provide an opinion on the annual statement of accounts prepared by the council and to satisfy himself that the body has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

4.20. The Auditor general reports his opinion to the council. However, the Auditor General determines the scope of the work required to discharge his statutory responsibilities. Auditors acting on behalf of the Auditor General follow guidance issued by the Auditor General.

Part 2

Governance and financial management

5. The Annual Governance Statement

Statutory requirements

Accounts and Audit (Wales) Regulations 2014

Regulation 5 Responsibility for internal control and financial management

(1) The relevant body must ensure 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 relevant body must conduct a review at least once in a year of the effectiveness of its system of internal control.

(3) The findings of the review referred to in paragraph (2) must be considered—

(a) in the case of a larger relevant body, by the members of the body meeting as a whole or by a committee, and

(b) in the case of a smaller relevant body, by the members of the body meeting as a whole.

(4) Following the review, the body or committee must approve a statement on internal control prepared in accordance with proper practices.

(5) The relevant body must ensure that the statement referred to in paragraph (4) accompanies—

(a) any statement of accounts which it is obliged to prepare in accordance with regulation 8; or

(b) any accounting statement which it is obliged to prepared in accordance with regulation 14.

Proper governance practices

1. To meet the requirement to prepare a statement on internal control, local councils **must** prepare an Annual Governance Statement.
2. Local councils with annual income and expenditure less than £2.5 million **must** prepare an Annual Governance Statement as set out in the form of an Annual Return required by this Practitioners' Guide.
3. Local councils with annual income and expenditure exceeding £2.5 million **must** either:
    - prepare an Annual Governance Statement on the same basis as that set out as in an Annual Return required by this Practitioners' Guide; or
    - prepare an Annual Governance Statement following guidance issued by CIPFA/SOLACE in Delivering Good Governance in Local Government: Framework and subsequent publications.

Part 2: Governance and financial management

Guidance

What is the Annual Governance Statement?

5.1. 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.

5.2. Small councils will prepare their Annual Governance Statement by completing the relevant section of the Annual Return. Larger councils will need to replicate this statement as their Annual Governance Statement. Councils should follow the guidance set out in this Practitioners' Guide to support the preparation of the Annual Governance Statement.

5.3. Where councils elect to prepare the Annual Governance Statement in accordance with Delivering Good Governance in Local Government: a Framework (and subsequent publications), it should refer to those documents and supporting guidance when preparing its Annual Governance Statement.

Annual Governance Statement assertions

5.4. 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.

5.5. The core areas covered by the Annual Governance Statement 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.

5.6. Further assertions may be included in a second part of the Annual Governance Statement to deal with specific areas of concern.

5.7. The Annual Governance Statement is completed by the council answering 'Yes' or 'No' to each assertion. The council will need to have appropriate evidence to support a 'Yes' answer to each assertion. For example, this evidence may take the form of a specific document or a reference in the council's minutes.

5.8. If the council is not able to respond 'Yes' to any assertion, it should provide an explanation as to how it intends to address the weaknesses identified.

Part 2: Governance and financial management

What does the Annual Governance Statement say?

5.9. The core of the Annual Governance Statement is a series of nine assertions. Councils should be able to provide a positive response to these assertions if they follow the guidance contained in this practitioners Guide.

5.10. The following table explains how this Practitioners' Guide supports councils to give positive responses in the Annual Governance Statement

Assertion	Practitioners' Guide chapter	Chapter
1. We have put in place arrangements for: • effective financial management during the year; and • the preparation and approval of the accounting statements.	Budget setting and monitoring Accounting records and supporting documents Bank reconciliations Managing assets and investments	6 13 – 14 15 7 & 10
2. We have maintained an adequate system of internal control, including measures designed to prevent and detect fraud and corruption, and reviewed its effectiveness.	Internal controls Arrangements to safeguard money and assets (including Managing assets and investments)	7 7 & 10
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/Board/ Committee to conduct its business or on its finances	Compliance with laws, regulations Proper accounting practices and guidance	8 17 – 23 or 24 – 26
4. We have provided proper opportunity for the exercise of electors' rights in accordance with the requirements of the Accounts and Audit (Wales) Regulations 2014.	Electors' rights and the Auditor General's responsibilities	27
5. We have carried out an assessment of the risks facing the Council/Board/Committee and taken appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required.	Risk assessment and management	9
6. We have maintained an adequate and effective system of internal audit of the	Internal audit	11

accounting records and control systems throughout the year and have received a report from the internal auditor.		
7. 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/Board/Committee and, where appropriate, have included them on the accounting statements.	Significant events	23
8. We have taken appropriate action on all matters raised in previous reports from internal and external audit.	Responding to internal and external audit	12
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.	Trust funds	

6. Budget setting and monitoring

Statutory requirements

Local Government Finance Act 1992

39 Precepting and precepted authorities

(2) Each of the following is a local precepting authority for the purposes of this Part, namely—

(c) a parish or community council;

(3) A precept may only be issued to an appropriate billing authority.

41 Issue of precepts by local precepting authorities

(1) For each financial year a local precepting authority may issue a precept in accordance with this section.

(2) A precept issued to a billing authority under this section must state, as the amount payable by that authority for the year, the amount which has been calculated (or last calculated)[—

(b) in the case of a precepting authority in Wales, by that authority under section 50 below as its budget requirement for the year].

50 Calculation of budget requirement [by authorities in Wales]

(1) In relation to each financial year a local precepting authority [in Wales] shall make the calculations required by this section.

(2) The authority must calculate the aggregate of—

(a) the expenditure the authority estimates it will incur in the year in performing its functions and will charge to a revenue account for the year;

(b) such allowance as the authority estimates will be appropriate for contingencies in relation to expenditure to be charged to a revenue account for the year;

(c) the financial reserves which the authority estimates it will be appropriate to raise in the year for meeting its estimated future expenditure; and

(d) such financial reserves as are sufficient to meet so much of the amount estimated by the authority to be a revenue account deficit for any earlier financial year as has not already been provided for.

(3) The authority must calculate the aggregate of—

(a) the sums which it estimates will be payable to it for the year and in respect of which amounts will be credited to a revenue account for the year, other than sums which it estimates will be so payable in respect of any precept issued by it; and

(b) the amount of the financial reserves which the authority estimates that it will use in order to provide for the items mentioned in paragraphs (a) and (b) of subsection (2) above.

(4) If the aggregate calculated under subsection (2) above exceeds that calculated under subsection (3) above, the authority must calculate the amount equal to the difference; and the amount so calculated shall be its budget requirement for the year.

(5) For the purposes of subsection (2)(c) above an authority's estimated future expenditure is—

(a) that which the authority estimates it will incur in the financial year following the year in question, will charge to a revenue account for the year and will have to defray in the year before the following sums are sufficiently available, namely, sums—

(i) which will be payable to it for the year; and

(ii) in respect of which amounts will be credited to a revenue account for the year; and

(b) that which the authority estimates it will incur in the financial year referred to in paragraph (a) above or any subsequent financial year in performing its functions and which will be charged to a revenue account for that or any other year.

Proper governance practices

1. The Council **must** approve a budget prepared in accordance with the Local Government Finance Act 1992.
2. Following approval, the council **must** ensure that the precept issued to the billing authority is for the net budget requirement determined as part of the budget approval.
3. The Council **must** ensure that it monitors its financial position against the approved budget periodically through the financial year. Such consideration **should** not be less than quarterly.

Guidance

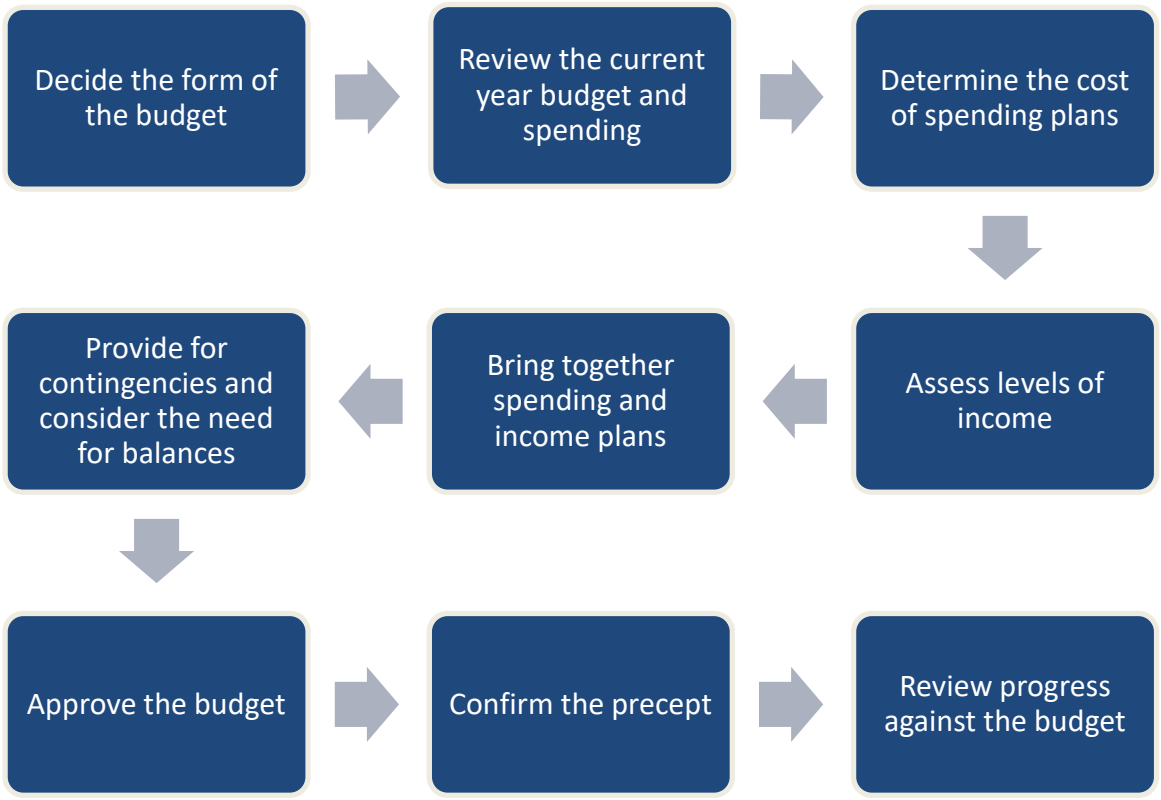
The budgeting process

6.1. One of the key statutory tasks a local council undertakes, irrespective of its size, is to set its budget for the forthcoming financial year. The budget is important because:

- it results in the council setting the precept for the year;
- subject to the council's financial regulations, it gives 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.

Exhibit 5: Budget setting and monitoring

6.2. 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.

Deciding the form of the budget

6.3. 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.

6.4. The amount of detail required in a council’s budget will depend upon the size of the council and the complexity of its services. In many cases a simple spreadsheet will

suffice, showing estimates of individual items of income and expenditure. An example of a budget is shown below:

Exhibit 6: Example budget

Expenditure	
Employees Costs Clerk Other staff	Include salary, Employer National Insurance and pension costs
Premises Costs Rent, Rates etc Utilities Insurance Repairs and Maintenance	Include all costs associated with the Council's premises analysed by property if required
Office Services Telephone, internet, website Printing and postage Office materials Equipment costs	Include all costs associated with running the Council's office including costs of printing, communications and items of equipment
Member Costs Expenses Training Chair's Allowance	Include Chair's allowance, member's expenses and allowances estimated costs of providing training for members and any incidental expenses e.g. travel
Services and subscriptions Audit fees Legal fees One Voice Wales subscription Other	Include costs of all professional services including internal and external audit.
Grants and Donations Grants	Include an allowance for the award of grants including expenditure under s137 of Local Government Act 1972 and the Power of Well-Being.

Expenditure (cont)	
Community Services and Maintenance Toilets Plants, planters & Baskets Christmas parade Street furniture	Include costs of organising and maintaining community services and facilities
Capital Expenditure Toilets upgrade Playground equipment Hall roof	Include costs for the Council's capital programme. Note that these costs can be funded from capital receipts reserves
VAT on expenditure	VAT included in both income and expenditure
Total expenditure	A
Income	
Income from fees and charges Village Hall fees Sports pavilion hire fees	Include fees raised from the use of community facilities
Other income Grants Capital receipts Bank Interest VAT reclaimed	Include estimates of grant income to be received during the year and other sources of income including receipts from disposal of assets and VAT to be reclaimed
Total Income	B
Use of Reserves and balances	
Earmarked funds added this year **Earmarked funds used this year** **Capital receipts received in year** **Capital receipts used in year**	Include planned use of brought forward reserve balances and use of capital funds to finance this year's capital programme.
Total movement on reserves and balances	C
Budget requirement (Precept) for the year	**A-B+C**

6.5. Councils should note that this example is not prescriptive and each council should prepare its budget in a format suitable for its own needs.

Review the current year budget and spending

6.6. 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).

6.7. 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

6.8. 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

6.9. 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

6.10. 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).

6.11. 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

6.12. 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.

6.13. 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 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.

6.14. 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.

6.15. 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.

6.16. 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 Welsh Government's approval is required. The Welsh Government may also impose conditions in accordance with which the borrowing shall be carried out.

6.17. The Welsh Government publishes guidance on applying for borrowing approvals. The guidance may be found at: http://wales.gov.uk/dsjlg/publications/localgov/borrow1213/lgborrow1213?skip=1&lang=en

6.18. Councils must always take advice before commencing any contractual borrowing arrangements. One Voice Wales or SLCC can provide useful guidance to assist councils in 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

6.19. 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.

6.20. 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. In the case of member training, the Council might usefully approve an annual training budget with the Clerk/RFO having the authority to make training bookings without further recourse to the Council subject to the budget sum not being exceeded.

6.21. 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

6.22. 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 to receive precepts by an earlier date to assist their setting and administration of the council tax. Assistance will normally be provided 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

6.23. 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.

6.24. 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.

6.25. 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.

6.26. 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.

6.27. 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.

6.28. 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.

6.29. 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.

6.30. 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.

6.31. 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.

6.32. An example of a budget monitoring report is shown below.

Exhibit 7: Budget monitoring report

Expenditure to XX-XXX-XXXX	Budget for year	Spend to date	Variance	Comments
Employees Clerk Other staff				
Premises Costs Rent, Rates etc Utilities Insurance Repairs and Maintenance				
Office Services Telephone, internet, website Printing and postage Office materials Equipment costs				
Member Costs Expenses Training Allowances				
Services and subscriptions				

Audit fees Legal fees One Voice Wales subscription Other				
Grants and Donations Grants				
Expenditure (cont)				
Community Services and Maintenance Toilets Plants, planters & Baskets Christmas parade Street furniture				
Capital Expenditure Toilets upgrade Playground equipment Hall roof				
VAT on expenditure				
Total expenditure				
Income to XX-XXX-XXXX				
Income from fees and charges Village Hall fees Sports pavilion hire fees				
Other income Grants Capital receipts Bank Interest VAT reclaimed				
Total Income				
Use of Reserves and balances Contributions to/from reserves as per budget				
Surplus/deficit for year to date				
Cash and bank balances at XX-XXX-XXXX				

6.33. This example is not prescriptive and each council should prepare its budget monitoring report in a format suitable for its needs.

Capital budgeting

6.34. 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.

6.35. 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.

6.36. 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.

7. Internal controls or checks and balances

Statutory requirements

Accounts and Audit (Wales) Regulations 2014 (as amended)

5 Responsibility for internal control and financial management

(1) The relevant body must ensure that there is a sound system of internal control which facilitates the effective exercise of that body's functions and which includes—

(b) adequate and effective financial management.

6 Accounting records and control systems

(1) The responsible financial officer of a relevant body must 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 that officer must ensure that the accounting control systems determined by that officer 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.

(3) The accounting control systems determined in accordance with paragraph (1)(b) must 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

Proper governance practices

1. Councils should undertake a review of its system of internal control not less than annually.

Part 2: Governance and financial management

Guidance

What are internal controls?

7.1. Local councils must have in place safe and efficient arrangements for managing money to the highest standard of honesty and integrity. '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;
- 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.

7.2. 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.

7.3. Internal controls are essential checks and procedures that help council members:

- meet their responsibilities to safeguard the council's money and 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.

7.4. 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.

7.5. 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.

7.6. Although the risks are not completely removed, internal controls should also help members to detect problems sooner and take any necessary action.

7.7. 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.

7.8. 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?

7.9. Regulation 5 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.

7.10. 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.

7.11. 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.

7.12. Regulation 6 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.

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

7.14. 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.

What is the review of the system of internal control?

7.15. Regulation 5 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.

7.16. 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.

7.17. 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.

7.18. 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.

High level internal controls

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

Exhibit 8: High level controls

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 review. 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.
Budgetary control	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. More detail on budgets is set out in chapter 6.
Internal audit	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. More detail on internal audit is included in chapter 11.
Payments	The use of cheque payments is diminishing with the use of electronic payment methods. It is essential that the council has robust controls in place over payments made. These should be set out in the council's financial regulations/procedures

Internal controls over activities and transactions

7.20. 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.

Exhibit 9: Example internal controls

Control area	Control objective	Example controls
Standing orders and financial	These establish the general rules applicable to council	Model standing orders and financial regulations are available from One Voice Wales or Society of Local

regulations/ procedures	meetings and in carrying out the council's business.	Council Clerks. Councils should base their documentation on these two models. Standing orders must include provisions for securing competition and regulating the way in which the council's contract with suppliers. They should include specified thresholds for obtaining estimates, quotes and tenders. Councils must set thresholds that are most appropriate to their circumstances. Standing orders and financial regulations should require: • As far as is possible, a fully priced official order should be sent to suppliers in advance of delivery of goods. • On receipt of invoices, confirmation should be obtained that the goods or services have been received in good order, that the arithmetic is correct and discounts have been received if appropriate. • For capital projects, payments should only be made against certified completions under a planned and approved programme of works that is subject to a formal contract approved by the council.
Income received	The controls in place should provide assurance that the income received is secure, accurately recorded and banked as quickly as possible.	All cash and cheques received should be recorded and banked intact as soon as possible. The following controls should be in place: • Where possible, at least two people are involved in handling and recording monies received; • Cash collected is banked as soon as possible without deduction of expenses; • Records are kept of each source of funds or fundraising event in enough detail to identify gross receipts or takings and costs incurred; • Pre-numbered, carbon copy receipts are issued for all payments received.
Trading income and fees	Trading includes all goods and services provided for a fee. Controls should ensure that all income due to the council is received and recorded.	Controls will depend on the type of activity carried out by the council. Controls should generally include: • Establishing a pricing policy for goods and services supplied including regular review of price structures; • Invoicing procedures for all goods and services provided; • Review of outstanding debts and collection procedures;

		• Procedures to reconcile goods and services provided to amounts invoiced and cash received to outstanding balances.
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: • Records of cash and cheques received agree with bank paying in slips; • Paying in slips agree with bank statements both in terms of amount banked and date of credit; and • Transfers or other direct payments into the bank are verified against supporting paperwork. 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: • Establishing authority levels for placing orders and approving payments which are clear and documented; and • Ensuring invoices received are checked against orders to confirm prices and the receipt of the goods or services ordered. Payments whether by cheque or other means should only be released once confirmation has been received that sufficient funds are available. All payments made should be reported to a council meeting and should be issued immediately after approval. Members must never sign blank cheques or authorise funds transfers which are presented for approval in advance of supply or where unsupported by appropriate documentation. Councils must develop specific control procedures for payments by electronic means, taking into account the ease and speed of these transactions.
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 failing to correctly deduct tax and national insurance. Internal controls should be established to should ensure that: • PAYE records are maintained for all employees;

		• Statutory deductions are paid to HMRC and pension contributions paid to pension providers promptly; • Deadlines for yearend returns to HMRC are met e.g. P35, P11D and P60; • Minimum wage legislation is adhered to; • Only authorised or required deductions are made from pay; • All employees have a proper contract of employment and individuals are not incorrectly classified as self-employed; • Personnel records are checked against pay records periodically to prevent payments to former employees; • Changes to pay, hours, overtime or non-standard hours are authorised promptly; and • No individual has the authority to set his or her own pay.
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.	Internal controls may include: • Maintaining an asset register; • Regular inspection of fixed assets to ensure they exist, remain in good repair and are being used appropriately; • Appropriate authorisation for the disposal or scrapping of fixed assets; and • Maintaining secure boundaries of any land and buildings held by the council and holding all title deeds securely.
Investments	Internal controls should ensure that the council's investments are safeguarded	Controls should include: • Setting an investment policy; • Maintaining records of all investments held; and • Accounting controls to ensure that all dividends, rent or interest payments due are received.
Bank accounts	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	Controls should include: • Monthly preparation of bank reconciliations for all accounts. A second person should review the reconciliations and resolve any discrepancies. • Keeping a list of all bank accounts and reviewing it for dormant accounts, which should be closed. To maintain the security of bank accounts, the following controls should be in place: • Formal council approval should be required to set up or close bank accounts • From time to time banks and other institutions holding the council's funds should be asked 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. • Segregation of duties to prevent any single person being able to control the council's resources; • Proper approval for movements between and payments from bank accounts. • After each electronic banking transaction, a print out should be taken showing transaction details and stored as part of the accounting record; • Keeping all PCs with access to online banking facilities secure; • Ensuring all PCs are up to date with anti-virus, spy ware and firewall software; • Adequate training for those using the electronic banking facility • Changing access passwords periodically and following changes in authorised employees and members • Councils should limit the use of corporate credit cards as they may present unacceptable and unnecessary risks to public funds. Where used, 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.
Employees	Employees must ensure that they adhere to the council's control arrangements	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.

8. Ensuring legality

Statutory requirements

There are no specific statutory requirements relevant to this chapter.

Proper governance practices

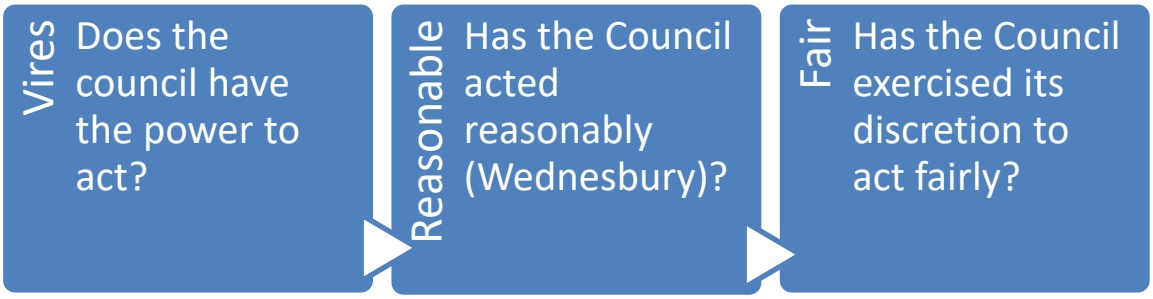
1. Councils **must** ensure that they consider the statutory powers they rely on when making decisions.

Guidance

What do we mean by legality?

8.1. As public bodies, all councils are expected to conduct their activities lawfully. There are three aspects councils will need to consider to ensure they act in a lawful manner. These are shown in Exhibit 10.

Exhibit 10: Aspects of legality



Vires

8.2. As statutory corporations, all councils must act within the powers granted to them by law. The powers relied on must either be expressly conferred by statute or derived by reasonable implication from the legislation's provisions. Where councils do not have such statutory authority, they act ultra-vires i.e. outside of their powers.

8.3. Local councils have a wide range of specific powers conferred by Acts of Parliament/National Assembly or statutory instruments. Councils also have incidental powers to do things which facilitate the exercise of their specific powers.

8.4. Councils should ensure they are aware of, and have regard to, the legal power they exercise when deciding on any action, including decisions to spend public money.

8.5. In most cases, councils will act within their powers (intra-vires) in their day to day operations. However, when considering undertaking any new or innovative functions, councils will need to ensure that they have fully considered the statutory power that

would allow them to undertake that function. In order to do this, councils should ensure that any reports or documentation provided for decision making purposes, clearly set out the statutory power that the council intends to rely on.

8.6. Where there is uncertainty over the vires available or where the decisions made will result in significant sums of money being spent or where there is some controversy over the proposed activities, councils should seek legal advice before making decisions.

8.7. The clerk is the council's proper officer and should be the primary source of legal advice as the council makes decisions on the exercise of its legal powers. However, for more complex issues, it may be appropriate to obtain external advice.

Acting reasonably and fairly

8.8. When conducting business and making decisions, councils must act reasonably and fairly. Failure to do so may render decisions to be unlawful.

8.9. In order to ensure it acts reasonably, a council should ensure that it:

- Does not take into account any matters that ought not to be considered?
- Does not disregard matters that ought to be taken into account?
- Considers if it has come to a decision so unreasonable that no reasonable authority could ever have come to it?

8.10. Councils must also ensure that its decisions do not fetter its discretion to exercise its powers in future and it does not exercise its powers for improper purposes e.g. to circumvent a prohibition imposed by another statute.

8.11. When making decisions councils should ensure that they act fairly. This means that they should follow proper process and where making decisions that affect individuals, they act proportionately.

Compliance with regulations and codes of practice

8.12. Councils are subject to a range of primary legislation, regulations and codes of practice that are relevant to its financial management and governance. The regulations and codes of practice can change more frequently than primary legislation. It is therefore important that the council ensures it is aware of new regulations that may be issued from time to time as well as amendments to existing regulations. One Voice Wales and SLCC provide updates and training on developments in this area.

8.13. The key regulations in relation to financial practices and procedures are the Accounts and Audit (Wales) Regulations. These Regulations specify the form of accounts that the council must keep and set out the procedures councils must follow for publishing the accounts and for the exercise of public rights of inspection.

8.14. Councils will also need to consider the requirements of the Local Government (Democracy) (Wales) Act 2013. This Act makes provisions regarding community council websites and specifies information that councils must publish electronically.

9. Risk assessment

Statutory requirements

Accounts and Audit (Wales) Regulations 2014 (as amended)

5 Responsibility for internal control and financial management

(1) The relevant body must ensure 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.

6 Accounting records and control systems

(1) The responsible financial officer of a relevant body must 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 that officer must ensure that the accounting control systems determined by that officer 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.

(3) The accounting control systems determined in accordance with paragraph (1)(b) must include—

(d) measures to ensure that risk is appropriately managed.

Proper governance practices

1. The council **should** maintain a risk register.
2. The council **should** review its risk register not less than annually.

Guidance

What are risks and risk assessment?

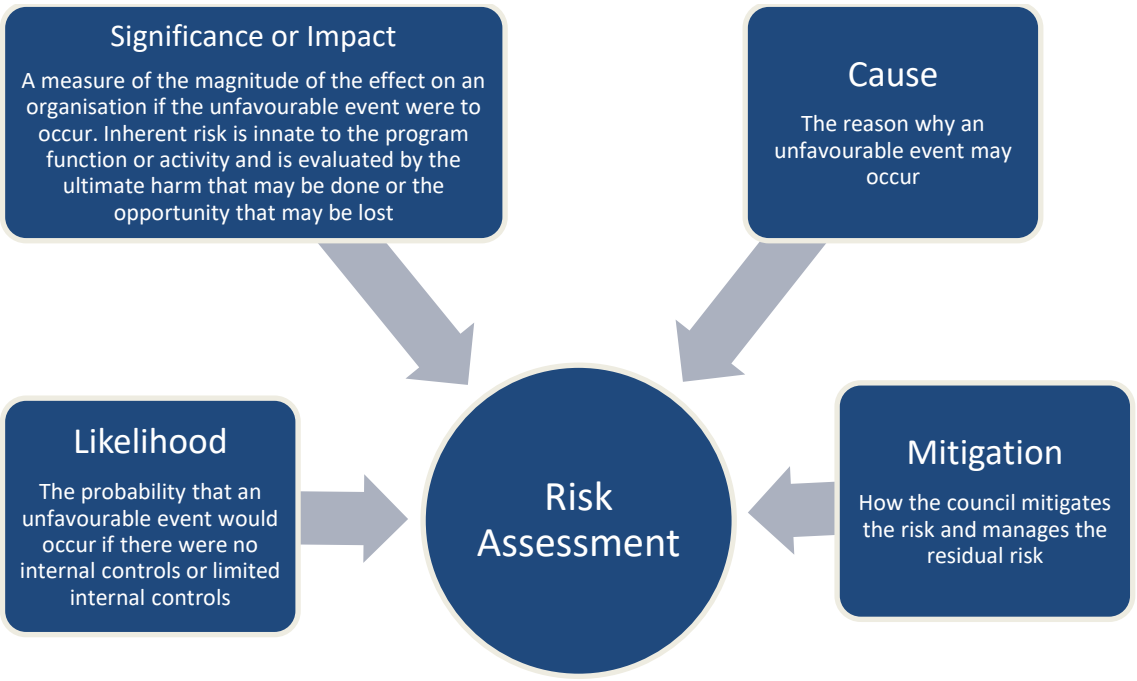
9.1. In all types of public body, there is the potential for events and consequences that may either be opportunities for benefit or threats to success. Local councils are no different. Risk management is recognised as being central to their strategic management.

9.2. 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:

- Cause of potential unfavourable events

- Significance or impact if an unfavourable event were to occur
- Likelihood of the risk materialising
- Potential mitigating actions the council could take.

Exhibit 11: aspects of risk assessment



What is risk management?

9.3. 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.

9.4. 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.

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

9.6. 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.

9.7. 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.

9.8. The council should receive a formal report on the risk assessment review. The council's minutes should record that the council conducted the review.

9.9. 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.

9.10. 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.

9.11. 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.

9.12. 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.

9.13. 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.

9.14. 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.

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

9.16. 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?

9.17. Risk can be managed through a combination of effective internal controls and specific actions to address the risks identified. Internal audit can provide assurance on the effectiveness of the arrangements in place. For ease of reference, 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 can be divided into three groups. These are:

- take out insurance;
- work with a third party to manage the risk; or
- self-manage the risk.

9.18. 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.

Exhibit 12: Managing risk through insurance

Areas where there may be scope to use insurance to help manage risk
Insurance cover 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

Exhibit 13: Managing risk with third parties

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 reconciliations, 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

Exhibit 14: Self management of risk

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

Insurance

9.19. 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.

9.20. Adequate insurance against third party risks is vital especially if a local council owns property such as bus shelters, swimming pools and playground equipment.

9.21. 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.

10. Managing investments

Statutory requirements

Local Government Act 2003

Section 12 Power to invest
A local authority may invest—
(a) for any purpose relevant to its functions under any enactment, or
(b) for the purposes of the prudent management of its financial affairs.

Proper governance practices

1. The council **must** prepare an investment policy and an annual investment strategy in accordance with Welsh Government guidance.

Guidance

Managing long-term investments

10.1. These investments must be managed within the asset register and in accordance with the Welsh 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.

10.2. 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.

10.3. 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.

10.4. 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.

10.5. 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 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.

10.6. When a council receives shares following a de-mutualisation of a Building Society or similar institution this also creates a long-term asset.

10.7. Chapter 20 provides guidance on how councils account for and report short-term and long-term investments in the annual return.

11. Internal audit

Statutory requirements

Accounts and Audit (Wales) Regulations 2014 (as amended)

7 Internal audit

(1) A relevant body must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control.

(2) Any officer or member of that body must, 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.

(3) A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.

(4) The findings of the review referred to in paragraph (3) must be considered, as part of the consideration of the system of internal control referred to in regulation 5(3), by the committee or body referred to in that paragraph.

Proper governance practices

1. The appointment of the internal auditor and agreement of the terms of reference **must** be approved by the council.
2. All councils **should** review the effectiveness of internal audit at least once in each year and consider the findings of this review as part of the consideration of the system of internal control.

Guidance

How does the council ensure that internal audit is adequate and effective?

11.1. In its annual governance statement, the council will state whether or not it has an adequate and effective system of internal audit in place. In order to provide this assertion, the council will need to ensure:

- It approves the appointment of the internal auditor;
- It is satisfied that the internal auditor has:
  - Adequate terms of reference;

- Completed the expected level of audit work to provide the agreed level of assurance; and
- Has provided the council with an appropriate report summarising the internal auditor's work, findings and recommendations

Appointment of the internal auditor

11.2. 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.

11.3. 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.

11.4. 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.

11.5. 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.

11.6. 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.

11.7. 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.

11.8. 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.

Exhibit 15: sources of internal audit

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 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.

11.9. 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.

Terms of reference

11.10. 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.

What is the purpose of internal audit?

11.11. The purpose of internal audit is to review whether the systems of financial and other control are effective.

11.12. 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.

11.13. It is important for councils to consider whether the internal audit is proportionate to the needs, the size and the circumstances of the council.

11.14. 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.

11.15. 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 sets 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.

Internal audit work programme

11.16. 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, 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.

11.17. Councils should ensure that they understand what work the internal auditor will undertake.

Internal audit reports

11.18. 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.

11.19. The council should receive reports on all work undertaken by the internal auditor. 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.

Annual review of internal audit

11.20. Regulation 7 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.

11.21. 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.

11.22. 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?

11.23. 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:

Exhibit 16: Internal audit standards for local councils in Wales:

Standard	Consider
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

11.24. 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.

11.25. 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.

11.26. Appendix 2 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?

11.27. 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.

11.28. 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.

11.29. 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.

11.30. 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?

11.31. 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?

11.32. 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.

11.33. 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?

11.34. 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.

11.35. 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.

Further guidance

11.36. One Voice Wales is currently developing a detailed guide for internal audit. Practitioners and auditors should refer to this guidance when available.

12. Responding to internal and external audit reports

Statutory requirements

Public Audit (Wales) Act 2004

24 Consideration of reports in public interest

(1) This section applies if [the Auditor General for Wales] makes a report under section 22 on a matter which comes to his notice in the course of the audit of the accounts of a body.

(2) The body must take the report into consideration—

(b) in accordance with section 25, in any other case.

25 Procedure for consideration of reports and recommendations

(1) This section applies if a body is required under section 24(2)(b) to take a report into consideration in accordance with this section.

(2) This section also applies if [the Auditor General for Wales, in auditing] any accounts of a local government body in Wales—

(a) sends to the body a written recommendation, and

(b) states in the document containing the recommendation that in his opinion the recommendation should be considered in accordance with this section.

(4) If this section applies, the body must consider the report or recommendation at a meeting held by it before the end of the period of one month starting with the day on which [the Auditor General for Wales] sends the report or recommendation to it.

(5) At the meeting the body must decide—

(a) if a report under section 22 is considered at the meeting, whether the report requires it to take any action;

(b) if a recommendation within subsection (2) is considered at the meeting, whether the recommendation is to be accepted;

(c) what action (if any) to take in response to the report or recommendation.

Proper governance practice

1. Councils **must** consider all reports from internal and external audit and determine what action is required in response to the reports and any recommendations made.

Part 2: Governance and financial management

Guidance

Consideration of internal and external audit reports

12.1. On completion of their audit work, both internal and external auditors may issue to the council a report summarising the findings from their audit and recommendations to enhance the council's internal controls and financial management. The report may be referred to as a management letter or similar.

12.2. Audit findings are really about improvement, not judgment. A finding isn't a report card that details councils' deficiencies and they are not a statement that says the councillors, the clerk and other officers are failing at their job. Findings and reports are, in fact, essential by-products of the audit process. They reveal helpful information councils can use to protect itself from risk and tighten controls.

12.3. Accepting responsibility and outlining a corrective action plan help to build a collaborative relationship with auditors and to earn public trust. Therefore, it is essential that the council receives all audit reports and considers what action, if any, is necessary to address issues and recommendations made by auditors. This consideration should be clearly recorded in the council's minutes.

12.4. Councils will also need to consider how they will monitor the implementation of any agreed actions in response to recommendations. An action plan should be prepared in response to each report which sets out the action to be taken, the person responsible for completing the action and a completion date for full implementation. When considering completion dates more time can be allowed to thoroughly resolve complex findings, but it's best to pledge an earlier completion date for simple issues.

12.5. The action plan should identify how the changes will prevent reoccurrence in the future and what remedial controls will be implemented in the interim. Overall, the council's response should provide enough detail to satisfy anyone reading it that its plan is sound and specific.

12.6. Auditors will conduct follow-up procedures in the next audit period. Therefore, it will be helpful for the council to document any corrective actions and steps taken during the year.

Dealing with the Auditor General's reports in the public interest and statutory recommendation

12.7. In addition to the general principles set out above, when the Auditor General considers it necessary to exercise his statutory powers and issue a public interest report or written recommendations under section 25 of the Public Audit (Wales) Act 2004, special rules apply to the process under which the council must consider the report/ recommendations.

12.8. These rules are set out in sections 24 and 25 of the 2004 Act. The Auditor General will also explain the detailed requirements when issuing the report or recommendations. It is important that councils follow the statutory requirements for consideration of these reports.

13. Routine financial procedures

Statutory requirements

Accounts and Audit (Wales) Regulations 2014 (as amended)

Regulation 6 Accounting records and control systems

(1) The responsible financial officer of a relevant body must 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 that officer must ensure that the accounting control systems determined by that officer 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 in accordance with paragraph (1)(a) must—

(a) be sufficient to show and explain a relevant body's transactions and to enable the responsible financial officer to ensure that any statement of accounts or accounting statement which is prepared under these Regulations complies with these Regulations; and

(b) contain—

(i) 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;

(ii) a record of the assets and liabilities of the body; and

(iii) a record of income and expenditure of the body in relation to claims made, or to be made, by it 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.

Proper accounting practices

There are no specific proper accounting practices related to routine financial procedures.

Part 2: Governance and financial management

Guidance

What financial records and procedures must the council have?

13.1. 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.

13.2. 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.

13.3. 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

13.4. 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.

13.5. 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.

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

Accounts for payment

13.7. 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.

13.8. 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.

13.9. 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.

13.10. The payment process should always be in accordance with the council's own financial regulations. 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.

13.11. 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

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

13.13. 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

13.14. Where a council builds up balances, it should safeguard the money by investment in an appropriate account. The Local Government Act 2003 and the Welsh Government's guidance govern the investment of balances by local councils.

13.15. 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.

13.16. 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

13.17. 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.

13.18. 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.

13.19. 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

13.20. 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.

13.21. 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 prior written 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).

13.22. 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.

13.23. 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.

13.24. 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.

14. Keeping the cashbook

Statutory requirements

Accounts and Audit (Wales) Regulations 2014 (as amended)

Regulation 6 Accounting records and control systems

(2) The accounting records determined in accordance with paragraph (1)(a) must—

(a) be sufficient to show and explain a relevant body's transactions and to enable the responsible financial officer to ensure that any statement of accounts or accounting statement which is prepared under these Regulations complies with these Regulations; and

(b) contain—

(i) 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;

(ii) a record of the assets and liabilities of the body; and

(iii) a record of income and expenditure of the body in relation to claims made, or to be made, by it 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.

Proper accounting practices

There are no specific proper accounting practices related to routine financial procedures.

Guidance

What is the cashbook?

14.1. 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.

14.2. The cashbook may be kept as a manuscript cashbook, a spreadsheet or by using accounting software.

14.3. 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.

14.4. 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.

14.5. 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.

14.6. The following example shows a typical layout for a manuscript or spreadsheet cashbook.

14.7. 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.

Part 2: Governance and financial management

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	HMRC Repay-ment	To Deposit A/c
20xx	Balance brought forward		1,008.75													
1 April	Clerk's 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.

Managing the cashbook

14.8. 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	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). 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. All transactions should be individually dated.
Details of the transaction should be entered, as well as a reference to supporting documentation	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. 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.

14.9. The cash book should be updated on a day to day basis as monies are received or spent. Practitioners should note that it is never good practice to write up the cash book by copying the transactions recorded in the council's bank statements.

14.10. 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
- 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.

14.11. 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 20 per cent VAT) and for reclaimable input VAT of £7.45.

Transfers between current and deposit accounts

14.12. 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.

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

Exhibit 17: accounting for transfers between bank accounts

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

14.14. 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

14.15. 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.

14.16. 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 a negative entry in the appropriate payments 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.

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

Balancing the cashbook

14.18. 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 15); and
- balancing the cashbook at the end of the financial year.

14.19. 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.

14.20. The purpose of balancing the cashbook is explained as follows (and demonstrated in the example cashbook on page XX):

Exhibit 18: Balancing the cashbook

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	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.

15. The bank reconciliation

Statutory requirements

Accounts and Audit (Wales) Regulations 2014 (as amended)

Regulation 6 Accounting records and control systems

(1) The responsible financial officer of a relevant body must 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 that officer must ensure that the accounting control systems determined by that officer 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.

(3) The accounting control systems determined in accordance with paragraph (1)(b) must 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;

Proper accounting practices

There are no specific proper accounting practices related to the bank reconciliation.

Guidance

What is the bank reconciliation and why is it important?

15.1. 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.

15.2. 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.

15.3. 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 Cell 9).

When should a bank reconciliation be completed?

15.4. 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.

15.5. 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 council's internal control objectives.

What should a bank reconciliation look like?

15.6. A standard layout for the financial year-end bank reconciliation is set out in Exhibit 19 below. Councils can however, apply this model for reconciliations carried out at any time of year.

Exhibit 19: Example bank reconciliation

Bank reconciliation as at 31 March XX		
	£	£
Balance per bank statements as at 31 March XX		
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
Total Cash and bank balances 31 March 20XX		**13,980.00**
Cashbook		
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**

Prepared by:	[insert name]	[insert date]
Checked by:	[insert name]	[insert date]

How do I prepare a bank reconciliation?

15.7. 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 14/15) 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

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

Difference	Explanation
Unpresented cheques	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. The council therefore deducts the value of unpresented cheques from the bank balance in the reconciliation.
Cash in transit (uncleared deposits)	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. Payments into the bank but not recorded on the bank statement are added to the bank balance in the reconciliation.
Unrecorded transactions	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. 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.

15.9. 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.

15.10. RFO's should note that transfers between the council's various bank accounts are neither receipts nor payments. The transfers should be recorded in a separate column in the cashbook and the total transfers into and out of accounts will net off to zero.

15.11. Transfers are excluded from the totals reported in Cells 3 and 6 of the Annual Return.

What if the bank reconciliation doesn't balance?

15.12. If the bank reconciliation does not balance, you need to find the error or errors. Although the discrepancy may be small in value, it might be made up of several larger errors that offset each other. Therefore, it is important to ensure that the bank reconciliation is properly balanced. It is never acceptable to simply write off the difference or to include a 'balancing' item. Doing so undermines the purpose of the reconciliation which is to prove the completeness and accuracy of the cashbook.

15.13. 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.

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

Exhibit 20: resolving discrepancies on the bank reconciliation

Errors on the bank reconciliation	
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 & 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.
Items recorded in the cashbook but not on the bank statement (timing differences)	
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.
Items recorded on the bank statement but not in the cash book	
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 an order 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.
Cashbook 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.

15.15. 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.

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. Good practice requires that a bank reconciliation is prepared each time the council receives a bank statement.

16. Trust funds

Statutory requirements

There are no specific statutory requirements related to trust funds

Proper accounting practices

1. Where councils act as trustee to local charitable trusts the accounting transactions and balances of the trusts **should** be excluded from the Council's annual accounting statements.

Guidance

Accounting for trust funds

16.1. Certain local councils have powers to be appointed as trustee of local, usually charitable, trusts and fulfil this role as either custodian or managing trustee.

16.2. Charitable trusts in Wales are regulated by the Charity Commission which sets out minimum standards of accounting and audit requirements where these are not covered by the Trust Deed. The Charity Commission also requires annual reporting by registered charities.

16.3. Larger councils meet this requirement via disclosure in the notes to the accounts which are covered by an audit opinion. For smaller bodies preparing an Annual Return there are no provisions for notes and so the required disclosure is achieved through a simple disclosure in the Annual Return.

16.4. If the council has disclosed that it is a sole managing trustee, it must also complete the associated assertion in the annual governance statement. In this way, councils meet the legal requirement to disclose each 'account of the body'. Auditors plan work around these disclosures as required.

16.5. Councils should ensure that a separate bank account operates to receive income for each trust to which it is a managing trustee. If, exceptionally, the council's bank account is used to receive monies intended for the trust or to pay for any expenditure on behalf of a trust (prior to recovery from the trust account), then these transactions, including any VAT, must be included in the Annual Governance and Accountability Return of the council as being its own expenditure and income during the year and to the extent that they are yet to be recovered or paid over reconciled as debtor and creditor amounts. However, to simplify accounting and ensure separation, a separate bank account should be established for any trust as soon as possible and funds should never or only exceptionally mixed. The reserves of the council should not include those belonging to any trust.

16.6. Meetings of the council when it is acting as charity trustee must take place separately from those of the council acting as the council. Separate minutes must be kept. In order to avoid confusion, trust business should always be minuted separately from council business. Separate notices and agendas for meetings should be issued.

16.7. The clerk should take responsibility for guiding the council regarding the capacity, either as the council or as trustees for a charity, in which members are meeting. The chairman should make clear to the meeting, at the outset and throughout, the capacity in which it is meeting, particularly if council and trust meetings are held one after the other or where confusion around capacity is possible.

16.8. The value of trust property must not be shown in the council's books of account and on the Annual Governance and Accountability Return as council property. Trust assets held by the council as custodian or managing trustee should, however, be recorded in the council's asset register and identified there as 'charity assets held by the council as trustee' with their value excluded from the total.

Part 3

Accounting practices – income and expenditure below £2.5 million

Part 3: Accounting for councils with income and expenditure below £2.5 million

17. Basis of accounts

Statutory requirements

Public Audit (Wales) Act 2004

Section 13 Audit of accounts of local government bodies in Wales

(1) A local government body in Wales—

(a) must make up its accounts each year to 31 March or such other date as the Welsh Ministers may generally or in any special case direct;

Accounts and Audit (Wales) Regulations 2014 (as amended)

Regulation 14 Accounting statements

14. A smaller relevant body must prepare for each year accounting statements in accordance with these Regulations and proper practices.

Proper accounting practices

1. The accounting statements for councils with annual income and expenditure less than £2.5 million, **must** be prepared in accordance with, and in the form specified in, any annual return required by these proper practices in relation to accounts.
2. The accounting statements **must** be presented in the form of a summary income and expenditure account and a statement of balances. Where a council meets the qualifying condition, the statement **may** take the form of a summary receipts and payments account and statement of balances. The qualifying condition is that a council's annual gross receipts and payments are not more than £200,000 for that year, or for either of the two immediately preceding financial years. A summary receipts and payments account **may** also be prepared if annual receipts and payments are less than £200,000 for the first two financial years following the council's establishment.
3. The accounting statements **must** include comparative amounts for the previous financial year, compiled on the same basis as for the current year of account.
4. If a council changes the basis of its accounting statements from a summary income and expenditure account and statement of balances to a receipts and payments account or vice versa, the comparative amounts **must** be amended to the new basis of accounts and this change **must** be reported by inserting the word "Restated" above the comparative figures on the accounting statements.
5. The basis of accounts **must** be disclosed in the accounting statements.

Part 3: Accounting for councils with income and expenditure below £2.5 million

Guidance

Identifying the appropriate basis of accounts

17.1. Councils must prepare their accounting statements on an income and expenditure basis unless they meet the qualifying condition for the preparation of receipts and payments accounts as set out in the proper practices section of this chapter.

17.2. The qualifying condition does not apply when annual receipts and payments exceed £200,000 for three consecutive years. Where councils meet the qualifying condition, councils may choose to prepare accounts on a receipts and payments basis.

17.3. Exhibit 21 below illustrates how councils can determine the appropriate basis of accounts.

Exhibit 21: Deciding if the council can prepare accounts on a receipts and payments basis

Smallville Community Council was established on 1 April 20aa. For the next 6 years, it had variable receipts and payments each year.

	20aa-ab	20ab-ac	20ac-ad	20ad-ae	20ae-af	20af-ag
Higher of receipts and payments	£185,000	£195,000	£205,000	£210,000	£208,000	£205,000
Basis of accounts	Receipts & Payments	Receipts & Payments	Receipts & Payments	Receipts & Payments	Income & expenditure	Income & expenditure

Receipts and payments accounts vs. income and expenditure accounts

17.4. Most councils will maintain current accounting records on a receipts and payments basis and convert these to income and expenditure at the year end, if necessary.

17.5. 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.

17.6. 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 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.

Part 3: Accounting for councils with income and expenditure below £2.5 million

Exhibit 22: Comparing receipts and payments vs income and expenditure

Example	Receipts and payments	Income and expenditure
The council lets the village hall for a fee of £100 on 1 March 20ab. It receives £75 as part payment on 30 March 20ab. The remaining £25 is received on 30 April 20ab.	The monies are recorded as they are received. In this case, the council will show a receipt in 20aa/ab £75 and a receipt in 20ab/ac of £25.	Income is recognised when the council earns the £100 by letting the hall. The full £100 will be shown in the 20aa/ab accounts.
Payments: The council pays £1,500 for three months rent in advance for its offices on 28 February 20ab.	The full payment of £1,500 is recorded in the accounts for 20aa/ab.	Expenditure is recognised in the years the payment relates to. Although three months rent was paid, only one month (£500) relates to 20aa/ab. The remaining two months (£1,000) relates to 20ab/ac. Therefore, the 20aa/ab accounts show expenditure of £500 and the 20ab/ac accounts show expenditure of £1,000.

17.7. Most councils will maintain a receipts and payments book (cashbook). This will be adjusted at the year-end to prepare income and expenditure accounts.

Changing the basis of accounts

17.8. When councils change the basis of their accounts, they must present the comparative amounts in the current year's accounting statements on the same basis as the current year's amounts. In other words, both the current and prior year must be on an income and expenditure basis or a receipts and payments basis. One year cannot be presented on an income and expenditure basis and the other year on a receipts and payments basis.

17.9. Councils must declare the basis upon which the accounts have been prepared. Usually, this declaration will be included in the RFO's certificate in the Certification and Approval section of the annual return. Councils will however need to ensure that readers of the accounts understand that the basis of the accounts has changed. They indicate this by adding the word "Restated" in the prior year column of the annual return as shown below.

Part 3: Accounting for councils with income and expenditure below £2.5 million

Exhibit 23: Highlighting that the comparative amounts have been restated

In its 20ae-af annual return, Smallville Community Council has restated the 20ad-ae amounts and indicates this by adding the word “Restated” in the prior year accounts column of the Accounting Statements page of the annual return.

Accounting statements 2018-19 for:

Name of body: Smallville Community Council

	Year ending		Notes and guidance for compilers
	RESTATED 31 March 20ae (£)	**31 March 20af (£)**	**Please round all figures to nearest £. Do not leave any boxes blank and report £0 or nil balances. All figures must agree to the underlying financial records for the relevant year.**
Statement of income and expenditure/receipts and payments			
1. Balances brought forward	52,195	54,676	Total balances and reserves at the beginning of the year as recorded in the financial records. Must agree to line 7 of the previous year.
2. (+) Income from local taxation/levy	178,000	183,000	Total amount of income received/receivable in the year from local taxation (precept) or levy/contribution from principal bodies.
3. (+) Total other receipts	32,000	25,000	Total income or receipts recorded in the cashbook minus amounts included in line 2. Includes support, discretionary and revenue grants.

Part 3: Accounting for councils with income and expenditure below £2.5 million

18. Format of accounts

Statutory requirements

Accounts and Audit (Wales) Regulations 2014 (as amended)

Regulation 14 Accounting statements

14. A smaller relevant body must prepare for each year accounting statements in accordance with these Regulations and proper practices.

Proper accounting practices

1. The accounting statements **must** be prepared in accordance with, and in the form specified in, any annual return required by these proper practices in relation to accounts.
2. The annual return includes the following items of account:
    1. Balances brought forward: This cell shows the opening figure for the annual accounts. The amount in the current year cell in Line 1 **must** be the same figure as the 'balances carried forward' figure in the prior year column at Line 7.
    2. Income from local taxation/levy: This cell **must** contain only the value of precepts or rates and levies received or receivable in the year. Any other receipts, including grants, are to be included in Line 3.
    3. Total other income: This cell **must** equal the council's total income or receipts for the year, less the precept or rates and levies figure shown in Line 2. It includes any repaid investments, any monies borrowed to finance projects, proceeds from the sale of fixed assets, fees, charges, and grants.
    4. Staff costs: This cell **must** record the council's costs directly incurred in the employment of staff. It includes gross wages and salaries and taxable benefits plus associated employer costs such as employer national insurance and pension contributions.
    5. Loan interest/capital repayments: This cell **must** record the total of capital and interest payments made by the authority in the year. It includes repayment of loan principal, whether as part of a scheduled repayment plan or as a special payment, and interest arising from any borrowing including bank overdrafts and credit cards
    6. Total other expenditure: This cell **must** equal the council's total expenditure or payments made in the year, less the total of the specific expenditure amounts shown in Lines 4 and 5.
    7. Balances carried forward: This cell shows the closing figure for the balances of the authority after all of its financial transactions have been accounted for. Cell 7 **must** equal the entry in cell 11.

8. Debtors: This cell shows the amounts owed to the council at the year-end that are related to the year of account.
9. Total cash and investments: This cell shows the actual value of the authority's cash and short-term investments in the form of cash held, current and deposit accounts plus any short-term investments. For councils preparing accounts on a receipts and payments basis, the figure in Cell 9 **must** be the same that shown at Cell 7.
10. Creditors: This cell shows the amounts owed by the council at the year-end that are related to the year of account excluding borrowing.
11. Balances carried forward: This cell shows the closing figure for the balances of the authority. It **must** be calculated as the sum of cells 8, 9 and 10 and **must** equal the total in cell 7.
12. Total fixed assets and long-term assets: This cell records the value of all the long-term assets the authority owns. It is made up of its fixed assets and long-term investments. Cell 12 **must** equal the total value of long term assets recorded in the asset and investment register.
13. Total borrowing: This cell **must** equal the outstanding capital balance of all borrowings from third parties at the end of the year, including all loans but excluding bank overdrafts.

Guidance

Cell 1: Balances brought forward

18.1. The balances brought forward are the starting point for the current year's accounts. The amount in the current year cell in Line 1 must be the same figure as the 'balances carried forward' figure in the prior year column at Line 7.

Cell 2: Income from local taxation/levy

18.2. For councils, this cell shows the total precept received or receivable in the year. For other bodies this cell shows the total of rates and/or levies received or receivable in the year.

18.3. The amount reported here should be the gross amount of the precept/levy demanded from the paying authority. Where deductions have been made by the paying authority at source, those deductions must be recorded as expenditure and not netted off against the precept/levy.

18.4. Any other receipts, including grants from the precept/levy paying authority, are to be included in cell 3.

Cell 3: Total other income

18.5. This cell shows the council's total income or receipts for the year, less the precept or rates and levies figure shown in Cell 2. It will therefore include any repaid investments,

any monies borrowed to finance projects, proceeds from the sale of fixed assets, fees, charges, and grants.

18.6. Practitioners must exclude from the figure shown in Cell 3 the value of any transactions recorded in the council's accounting records arising from daily cash management activities i.e. internal transfers between accounts held by the council.

18.7. These transactions include transfers between bank current and deposit accounts and other short-term deposits.

18.8. The accounting records will correctly record such transactions in the cash book for control and reconciliation purposes. However, they are excluded from the accounting statements because these transfers do not represent either receipts or payments, or income or expenditure for the council.

Cell 4: Staff costs

18.9. Cell 4 includes the direct costs of employing staff. This includes all wages and salaries and includes taxable benefits e.g. home office and other fixed sum allowances. Where the council makes deductions for PAYE and National Insurance, and pays employer's contributions for NI and pensions, then staff costs must include payments to HM Revenue and Customs and any pension contributions.

18.10. It does not include employment expenses incurred on council business e.g. mileage and travel expenses) and reimbursement of office expenses incurred by staff e.g. reimbursement of purchase of office stationery.

18.11. Cell 4 only includes costs for staff directly employed by the council. The costs of engaging agency staff or consultants are recorded in cell 6 total other expenditure.

Cell 5: Loan interest/capital repayments

18.12. Cell 5 Loan interest/capital repayments includes repayment of loan principal, whether as part of a scheduled repayment plan or as a special payment, and interest arising from any borrowing including bank overdrafts and credit cards.

18.13. Councils preparing income and expenditure accounts need to make a provision in their accounts for any accrued interest payable at the year-end in accordance with the terms of any loan. The accrued value of unpaid interest due would be shown in this cell.

Cell 6: Total other expenditure

18.14. This cell shows the authority's total expenditure or payments made in the year, less the total of the specific expenditure amounts shown in Cells 4 and 5. It will include the costs of purchasing fixed assets, undertaking capital projects and acquiring long term investments as well as the costs of providing day to day services.

18.15. Payments made in respect of investments must be included, but not entries that result from daily cash management activities, such as transfers between bank current and deposit accounts or the making of short-term investments – see 2.14 above.

Part 3: Accounting for councils with income and expenditure below £2.5 million

Cell 7: Balances carried forward

18.16. Cell 7 shows the closing figure for the balances of the authority after all of its financial transactions have been accounted for as above.

18.17. The cell value is calculated by adding the amounts in Cells 2 and 3 to the balances brought forward in Cell 1 and then deducting the sum of the amounts in Cells 4, 5 and 6.

Cell 8: Debtors

18.18. Cell 8 records the total sums owed to the council at the year end. These 'accruals' are identified as part of the conversion of receipts and payments accounting records to income and expenditure accounting statements. Further guidance on these accruals is set out in Chapter 23.

18.19. Councils presenting their accounts on a receipts and payments basis will report a Nil value for cell 8.

18.20. Reconciling items recorded on the year end bank reconciliation must not be reported in cell 8.

Cell 9: Total cash and short-term investments

18.21. This cell shows the actual value of the council's cash and short-term investments in the form of cash held, current and deposit accounts plus any short-term investments. The figure should be equal to the corresponding figure in the authority's cash book.

18.22. The total of cash and short-term investments balance should be reconciled to bank statements at 31 March each year.

18.23. Councils will note that where reconciling items are recorded on the council's year end bank reconciliation, cell 9 will not be equal to the total balances recorded on the bank statements as at 31 March.

18.24. Further guidance on completing a bank reconciliation is provided in Chapter 15.

Cell 10: Creditors

18.25. Cell 10 records the total sums owed by the council at the year end. These 'accruals' are identified as part of the conversion of receipts and payments accounting records to income and expenditure accounting statements. Further guidance on these accruals is set out in Chapter 23.

18.26. Reconciling items recorded on the year end bank reconciliation must not be reported in cell 10.

18.27. Councils presenting their accounts on a receipts and payments basis will report a Nil value for cell 10.

Cell 11: Balances carried forward

18.28. Cell 11's value is calculated by adding together the council's debtors (cell 8) and total cash and short-term investments (cell 9) and deducting its creditors (cell 10).

18.29. The value of Cell 11 must equal that recorded in Cell 7.

Cell 12: Fixed assets and long-term investments

18.30. This cell shows the value of all the long-term assets the authority owns. It is made up of its fixed assets and long-term investments.

18.31. Guidance on valuing fixed assets is included in Chapter 19.

18.32. Guidance on valuing long term investments is included in Chapter 20.

Cell 13: Total borrowing

18.33. This cell shows the outstanding capital balance of all borrowings from third parties at the end of the year, including all loans but excluding bank overdrafts, which are reported as included in Cell 9.

Comparative amounts

18.34. As set out in Chapter 5, the accounting statements must include comparative amounts for the previous financial year, compiled on the same basis as for the current year of account. In exceptional circumstances, errors in the prior year accounts may be identified when compiling the current year accounts.

18.35. In such cases, the prior year comparative amounts should be amended. The council will indicate that this has occurred by disclosing that the amounts have been restated.

Part 3: Accounting for councils with income and expenditure below £2.5 million

19. Accounting for capital expenditure

Statutory requirements

Local Government Act 2003

Section 16 Capital Expenditure

(1) Subject to subsection (2), references in this Chapter to capital expenditure, in relation to a local authority, are to expenditure of the authority which falls to be capitalised in accordance with proper practices.

(2) The Secretary of State may—

(a) by regulations provide that expenditure of local authorities shall be treated for the purposes of this Chapter as being, or as not being, capital expenditure;

(b) by direction provide that expenditure of a particular local authority shall be treated for the purposes of this Chapter as being, or as not being, capital expenditure.

Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003

Regulation 20 Expenditure to be capital expenditure

(1) For the purposes of Chapter 1 of Part 1 the following expenditure of a local authority must be treated as being capital expenditure insofar as it is not capital expenditure by virtue of section 16(1)—

(a) expenditure incurred on the acquisition or preparation of a computer program, including expenditure on the acquisition of a right to use the program, if the authority acquire or prepare the program for use for a period of at least one year for any purpose relevant to its functions;

(b) the making of an advance or the giving of a grant or other financial assistance to any person, whether for use by that person or by a third party, towards expenditure which would, if incurred by the authority, be capital expenditure;

(d) subject to paragraph (5) the acquisition of share capital . . . in any body corporate;

(e) the repayment of any grant or other financial assistance given to the local authority for the purposes of expenditure which is capital expenditure;

(f) expenditure incurred on works to any land or building in which the local authority does not have an interest, which would be capital expenditure if the local authority had an interest in that land or building];

(h) expenditure incurred on the acquisition, production or construction of assets for use by, or disposal to, a person other than the local authority which would be capital expenditure if those assets were acquired, produced or constructed for use by the local authority.

(2) For the purposes of paragraph 1(b), expenditure incurred by a local authority on the making of advances, grants or other financial assistance—

(a) to an officer of the authority pursuant to the terms and conditions of that officers employment; or

(b) in connection with the appointment of a person as an officer of the authority, to that person

in so far as, apart from this regulation, it would be expenditure for capital purposes, shall not be expenditure for capital purposes.

(4) Where expenditure in accordance with paragraph (1)(b) is a loan, grant or other financial assistance given by a community council or charter trustees to any person, it shall not be treated as capital expenditure by virtue of this regulation.

(5) The expenditure referred to in paragraph (1)(d) may not be treated as being capital expenditure by virtue of this regulation if it is—

(a) an investment in a money market fund;

(b) an investment in the shares of a company to which Part 12 of the Corporation Tax Act 2010 (real estate investment trusts) applies; or

(c) the acquisition of shares in an investment scheme approved by the Treasury under section 11(1) of the Trustee Investments Act 1961 (local authority investment schemes).]

(7) In paragraphs (1)(a), (d), (e), (f) and (2) "local authority" includes a community council.

Proper accounting practices

1. Expenditure on property, plant and equipment used by the body for the provision of services or held for rental **must** be recorded as capital expenditure in the year of acquisition and the asset **must** initially be recorded in an asset register at cost as a non-current asset.
2. The accounting statements **must** record the current book value of all non-current assets held by the council.
3. Following initial recognition, non-current assets **may** subsequently be measured at cost or valuation, where such valuation can be obtained at a cost commensurate with the benefits to the users of the accounting statements.
4. Valuations **may** be made by any method that is appropriate and relevant to ensure that the valuations remain current.
5. Where a council changes its method of asset valuation during a financial year, it **must** restate the prior year's figure in its accounting statements.
6. Proceeds from the disposal of non-current assets **must** be recorded as income in the year of disposal.
7. Expenditure which is treated as capital expenditure under statute **must** be recorded as expenditure in the year it is incurred. If recorded in the body's asset register, it **must** be recorded in the asset register at nil value.

Part 3: Accounting for councils with income and expenditure below £2.5 million

Guidance

What are non-current assets?

19.1. Non-current assets comprise items which have a useful life of more than one year. They include:

- Land
- Buildings
- Play equipment
- Maintenance equipment
- Office equipment and
- Vehicles.

19.2. Accounting practices for long-term investments are set out in Chapter 20.

How should non-current assets be recorded?

19.3. Non-current assets acquired in any year must be added to an asset and investment register for management purposes.

19.4. 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 Cell 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 Cell 3 of section 1 of the annual return.

19.5. Councils will first record most non-current assets in the asset and investment register at their purchase cost. For donated assets or assets acquired under asset transfer arrangements, the purchase cost may be £0.

19.6. After initial recognition, councils may wish to value its assets to reflect their current value. In some cases, the cost of an asset may not be known and a proxy valuation may be substituted. This may be an insurance value, or, where the asset is land or is not insured, the council may estimate a value based on external advice. Where assets are recognised at a valuation, the asset register must record the current value and the basis of valuation.

19.7. The value of assets recorded in the annual return should be the total asset values recorded in the asset and investment register. This may be the original purchase price or a subsequent valuation.

19.8. There is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations. However, where non-current assets are measured at valuation, the carrying amount should be reviewed with sufficient frequency to ensure the valuations remain current.

19.9. 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 on the annual return should also be changed to the same new basis and marked as RESTATED.

19.10. Commercial concepts of depreciation, impairment adjustments, etc are not appropriate for local councils. For reporting purposes therefore, the 'book' value of fixed assets may remain constant until disposal. If councils wish to recognise the diminution in value of non-current assets over time, this should be done by updating its valuation in the asset and investment register. Depreciation and impairment are not however charged to expenditure in the year as the full cost of acquisition is charged in the year of acquisition.

Managing non-current assets through the asset and investment register

19.11. 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.

19.12. 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.

19.13. An asset and investment 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.

19.14. 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;
- basis of recorded book value i.e. cost or valuation (including the basis of valuation)
- date of last valuation;
- 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.

Disposal of fixed assets

19.15. On disposal, non-current assets must be written out of the asset register.

19.16. Disposal proceeds are recorded as a receipt in the year in which they are received. Councils will need to consider if the disposal proceeds should be treated as capital receipts. For guidance on capital receipts please refer to Chapter 22.

Reporting fixed assets

19.17. The recorded asset and investment register value of non-current assets is reported in the total of annual return Cell 12 – Total fixed assets and long-term assets.

20. Accounting for investments

Statutory requirements

There are no statutory accounting requirements related to investments.

Proper accounting practices

1. Short term investment assets **must** be recorded in the accounting statements as part of cash and short-term investments.
2. The accounting statements **must** record the current book value of all long-term investment assets held by the council.
3. The cost of acquisition of long-term investment assets **must** be recorded as expenditure in the year of acquisition.
4. Proceeds from the disposal of long-term investment assets **must** be recorded as income in the year of disposal.
5. Income from investments **must** be reported as income in the year in which the income is received.

Guidance

Identifying long and short-term investments

20.1. 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 Cell 9 of the accounting statements.

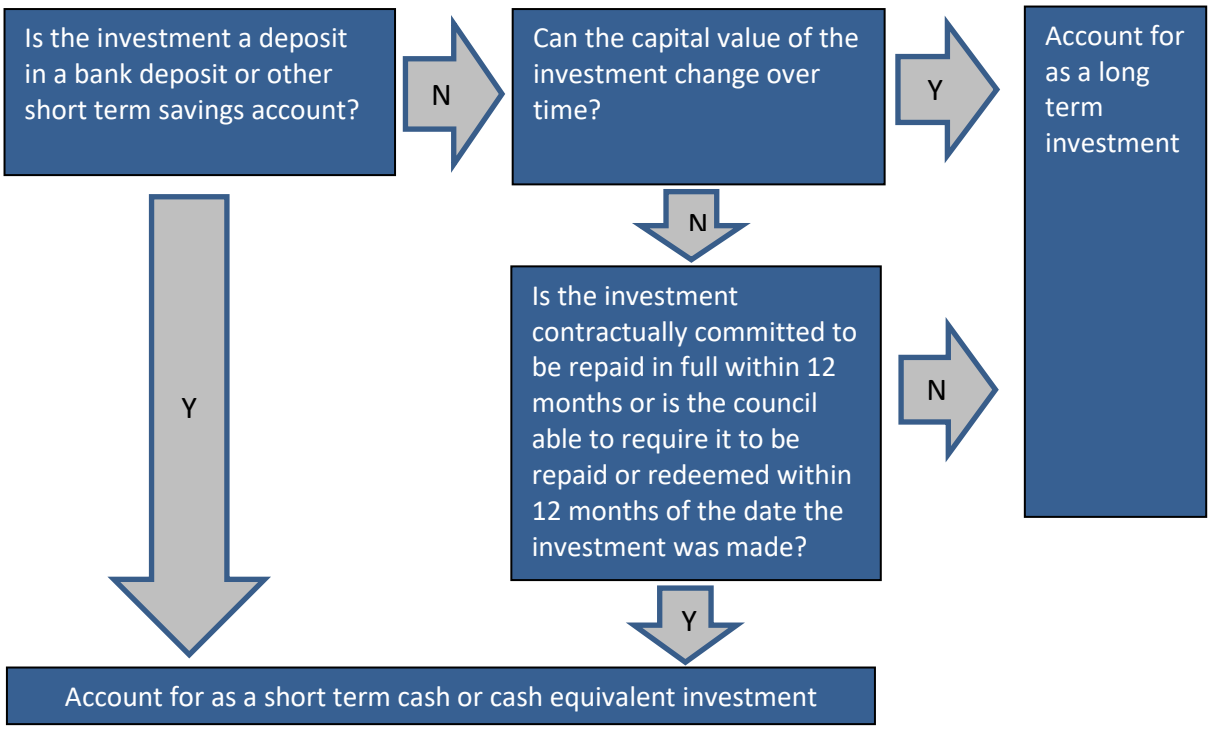
20.2. From time to time circumstances may require councils to make decisions to hold long-term investments e.g. while deciding how to apply the proceeds of a donation or a capital receipt arising from an asset sale.

Classification of investments

20.3. It is important that councils classify investments appropriately. Exhibit 24 will help councils to determine how they should account for their investments.

Part 3: Accounting for councils with income and expenditure below £2.5 million

Exhibit 24: Classification as short or long term investments



Short term investments

20.4. 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.

20.5. Where a council holds short-term investments such as deposit or savings accounts, 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. These are then reflected in the council's usable balances as stated in line 7 and 10 of the accounting statements.

20.6. The cost of acquisition and the proceeds of disposal of short-term investments is recorded in the cashbook but not included in the accounting statements.

Long term investments

20.7. A long-term investment is any investment other than one that:

- Is repayable without risk of diminution of capital: and
- is contractually committed to be repaid 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.

20.8. On acquisition, the cashbook should record long-term investments as expenditure. The payments will therefore appear as part of the annual return Cell 6 - Total other payments. The cash value of the investment will be recorded in Cell 12.

20.9. On disposal, the cashbook will record the cash value of the receipt. This will be reported in Cell 3 of the annual return.

Common investments

20.10. In recent years, a number of councils have placed deposits/investments in the Public Sector Deposit Fund (PSDF) and/or the Local Authorities Property Fund (LAPF). Both funds are managed by CCLA, a body that manages investments for charities, religious organisations and the public sector.

20.11. Queries have been raised as to how these funds should be accounted for. Local councils across England and Wales have adopted different practices when accounting for these funds. Some treat them in the same way as short-term bank deposits and others as long-term investments.

20.12. The following guidance will assist council in Wales to apply the most appropriate accounting treatment for these investments.

Public Sector Deposit Fund (PSDF)

20.13. CCLA describes the PSDF as a UK domiciled, FCA regulated money market fund and as a ‘cash management solution’. CCLA describe the fund as a pooling of public sector deposits that take advantage of scale and diversification, while spreading and sharing management costs. Councils buy shares in the fund, the price of which is variable. Withdrawals can be made on a daily basis.

20.14. The PDSF prospectus notes the following risks:

Exhibit 25: Public Sector Deposit Fund Risk analysis

Risk area	Risk
Qualifying Money Market Fund (QMMF)	An investment in a QMMF is not the same as making a deposit with a bank or other deposit taking body and the value of Shares in such a fund is not insured or guaranteed. Although it is intended to maintain a stable Net Asset Value per Share for Shares in a Sub-Fund which is a QMMF, there can be no assurance that a stable Net Asset Value per Share will be maintained
Fixed interest securities	Fixed interest securities are particularly affected by changes in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital. The value of a fixed interest investment may fall in the event of the default or reduced credit rating of the issuer. Generally, the higher the rate of interest, the higher the perceived credit risk of the issuer. High yield bonds with lower credit ratings (also known as sub-investment grade bonds) are potentially more risky (higher credit risk) than investment grade bonds. The Public Sector Deposit Fund will only invest in securities that are of short duration and at the time of purchase will have the highest short-term rating awarded by a competent credit rating agency or an equivalent and correspondingly strong long-term rating.

Local Authorities Property Fund (LAPF)

20.15. The LAPF is an open-ended, unregulated collective investment scheme established under a Scheme. The Fund is an Alternative Investment Fund and is managed in accordance with the FCA Rules and the AIFMD Legislation. The Fund is invested in commercial and industrial properties in the United Kingdom. It aims to provide, over the long term, a satisfactory total capital and income return on the Units of the Fund.

20.16. The CCLA website states that the LAPFF's unit value will reflect fluctuations in unit prices and currency exchange rates. The units in the Fund are intended only for long-term investment and are not suitable for money liable to be needed in the near future. They are realisable only on each monthly valuation point.

Loans made by the council

20.17. 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 and investment register.

20.18. 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 Cell 3 – Total other income. This receipt will also be reflected as an increase in annual return Cell 7 - Balances carried forward. Any repayments of loan principal must also be

applied to reduce the amount of the loan outstanding on the asset and investment register.

20.19. The council reports the outstanding amount of any loans made at 31 March each year, excluding interest, in Cell 12 – *Total long-term assets*, in the annual return.

Income from investments

20.20. The council must record any dividend or interest payments received during the year as income reported in Cell 3 Total other receipts in the annual return.

Part 3: Accounting for councils with income and expenditure below £2.5 million

21. Accounting for interests in joint committees

Statutory requirements

There are no specific requirements related to accounting for interests in joint committees.

Proper accounting practices

1. Accounting statements of a local council participating in a joint committee **must** reflect the cost of services to the council.
2. A council **may** either:
    - record its share of the joint committee's income, expenditure and balances in its accounting statements; or
    - record in its accounting statements, the its contribution to the running costs of the joint committee and disclose that its share of the joint committee's income, expenditure and balances has not been consolidated.

Guidance

Expenses of joint committees

21.1. Section 102 of the Local Government Act 1972 allows two or more local councils to appoint a joint committee to discharge functions of the councils. Section 103 of the Act states that the expenses incurred by a joint committee of two or more councils shall be defrayed by those councils in such proportions as they may agree or in case of disagreement as may be determined by the unitary authority.

21.2. Although a joint committee is required to prepare accounting statements, because it is discharging the functions of the councils, the councils' accounts should reflect the cost of the discharge of those functions.

21.3. Normally, the joint committee will require a contribution from each participating council and may refer to this as a contribution, a precept or a levy. The participating councils will record the transfer of this contribution as a payment in their cashbooks. However, these contributions do not reflect the councils' relative shares of the income, expenditure and balances of the joint committee and therefore the cost of providing the services delegated to the joint committee.

Considering the accounting options

21.4. Under the proper accounting practices noted above, councils have two options for accounting for their interests in joint committees. Councils will need to consider the significance of their share of the joint committee's income, expenditure and balances

in order to determine the most appropriate method of accounting for the interest in the joint committee.

21.5. Councils will need to consider the following:

- How significant is the council's share of the joint committee's income, expenditure and balances to the council's reported income, expenditure and balances?

  The larger the joint committee is when compared to the council, the more appropriate that the council consolidates the joint committee accounts into its own accounting statements.

- How significant is the difference between the council's contribution to the joint committee and the council's share of the joint committee's net expenditure (excluding the levy from the member councils)?

  Where there is little difference between the council's contribution and the council's share of net expenditure (excluding the levy from the member councils), it may be appropriate for the council to simply record, in its accounting statements, its contribution to the joint committee. The council however, needs to consider the balances held by the joint committee as these may be significant if the joint committee has sources of income other than levies on the member councils.

21.6. Where the joint committee's income, expenditure and balances do not represent a significant proportion of the council's income, expenditure and balances AND there is not a significant difference between the council's contribution to the joint committee and the council's share of the net expenditure (excluding the levy from member councils), member councils may adopt a simplified approach and record in the council's accounts, its contribution to the joint committee.

21.7. Where the joint committee's income, expenditure and balances are significant to the member councils, OR where there is a significant difference between the member council's contribution and the joint committee's net expenditure, member councils should consolidate the joint committee's accounts into their own accounts. This process is explained below.

Consolidation accounting adjustments – worked example

21.8. Council A has established a joint committee with Council B. Council A contributes funding for 60% of the expenses of the joint committee. In the year of audit, Council A made a payment of £19,800 in contribution to the expenses of the joint committee.

21.9. In order to reflect Council A's share of the joint committee's income, expenditure and balances, it is necessary to remove from Council A's accounts, its contribution to the joint committee and replace this with 60% of the joint committee's income, expenditure and balances excluding the levy.

Part 3: Accounting for councils with income and expenditure below £2.5 million

Exhibit 26: Incorporating joint committees into the annual accounts

	Joint Committee	Council A (based on cashbook)	Remove Council A contribution to joint committee	Add in 60% share of I&E and balances	Council A reported accounts
1 Balances brought forward	30,310	24,150		18,186	42,336
2 Income from local taxation/levy	33,000	80,000		0	80,000
3 Total other income	21,900	17,250		13,140	30,390
4 Staff costs	19,200	24,000		11,520	35,520
5 Loan interest/capital repayments	0	0		0	0
6 Total other expenditure	28,270	75,285	-19,800	16,962	72,447
7 Balances carried forward	37,740	22,115		22,644	44,759
8 Debtors	0	0		0	0
9 Total cash and investments	37,740	22,115		22,644	44,759
10 Creditors	0	0		0	0
11 Balances carried forward	37,740	22,115		22,644	44,759
12 Total fixed and long-term assets	120,000	245,000		72,000	317,000
13 Total borrowing	0	0		0	0

21.10. Adjusting Council A's accounts for its share of the joint committee income and expenditure provides a fuller picture of the total cost of the services provided by the council and of the resources it is responsible for.

22. Capital receipts and reserves

Statutory requirements

Local Government Act 2003

Section 9 Capital receipt

(1) Subject to subsection (3), references… to a capital receipt, in relation to a local authority, are to a sum received by the authority in respect of the disposal by it of an interest in a capital asset.

(2) An asset is a capital asset for the purposes of subsection (1) if, at the time of the disposal, expenditure on the acquisition of the asset would be capital expenditure.

Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003

Regulation 9 Capital receipts not exceeding £10,000

(1) A sum received by a local authority which, apart from this regulation, would be a capital receipt by virtue of section 9(1) must not be treated for the purposes of Chapter 1 of Part 1 as a capital receipt if the aggregate of all sums received or to be received by the authority in respect of the disposal of an interest in a capital asset, for which the sum is paid, does not exceed £10,000.

(3) A sum received by a local authority which, apart from this regulation, would be treated as a capital receipt by virtue of regulation 7, must not be treated for the purposes of Chapter 1 of Part 1 as a capital receipt if the aggregate of all sums received or to be received by the authority in respect of the disposal of the authority's rights and obligations, for which the sum is paid, does not exceed £10,000.

Regulation 18 Use of capital receipts

(1) This regulation applies to—

(a) a capital receipt other than a capital receipt to which regulation 10 applies; …

(2) Subject to [paragraphs (3) and (6)] a capital receipt, or the balance of a capital receipt, to which this regulation applies may only be used for one or more of the following purposes—

(a) to meet capital expenditure;

(b) to repay the principal of any amount borrowed; or

(c) to meet any liability in respect of credit arrangements, other than any liability which, in accordance with proper practices, must be charged to a revenue account [or;

(d) to pay a premium charged in relation to any amount borrowed][; or

(e) where receipts are received on or after 1 April 2013, to make a back payment (within the meaning of regulation 24A(2) in respect of unequal pay where the liability arises in the circumstances specified in regulation 24A(3)]…

Part 3: Accounting for councils with income and expenditure below £2.5 million

Proper accounting practices

1. The total value of all reserves held by the council **must** be reported in the accounting statements in Cell 7 Balances carried forward.
2. Where the council holds capital receipts, these balances **must** be recorded separately in the accounting records.
3. Receipts arising from the disposal of fixed assets **must** be reported in Cell 3 of the annual return.

Guidance

What are reserves?

22.1. Local councils hold reserves and balances for a variety of reasons. These include financing unforeseen expenditure and 'saving' for future projects. These reserves are represented by the closing figure for the balances of the council after all of its transactions have been accounted for and is shown in Cell 7 in the accounting statements.

22.2. Local councils have no statutory powers to hold revenue reserves other than for reasonable working capital needs or for specifically earmarked purposes. Councils should therefore maintain records of its general and earmarked reserves

22.3. Earmarked reserves may be established to hold funds for specified purposes. Councils should maintain separate records of each earmarked reserve. Examples of such reserves include:

- Funds set aside to fund specific future projects;
- Monies drawn down from loans that has yet to be spent on the related project; and
- Capital receipts.

22.4. Where funds are held for non-specified purposes, councils should maintain separate records of each reserve to demonstrate where the money comes from and how it has been applied.

Capital receipts reserves

22.5. Proceeds arising from the sale of fixed assets (property, plant and equipment) are subject to statutory controls. If the total value of the proceeds exceed £10,000, the total proceeds arising from the sale must be treated as a capital receipt. Capital receipts are recorded in Cell 3 Total other receipts, when they are received.

22.6. Capital receipts must not be used to support revenue expenditure. Receipts can only be used for capital purposes as set out in Regulation 18(2) of the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003.

22.7. Councils will need to maintain separate records in order to demonstrate compliance with the statutory rules on use of capital receipts. When capital receipts are applied to finance eligible expenditure, the expenditure itself is recorded in Cell 6 Total other

payments and the council will record the payment against the accumulated capital receipts in its memorandum records.

22.8. The capital receipts reserve is included in the total reserves and balances of the council in Cells 7 and 11 in the annual accounts.

Part 3: Accounting for councils with income and expenditure below £2.5 million

23. Preparing the accounting statements

Statutory requirements

Public Audit (Wales) Act 2004 (as amended)

Section 13 Audit of accounts of local government bodies in Wales]

(1) A local government body in Wales—

(a) must make up its accounts each year to 31 March or such other date as the Welsh Ministers may generally or in any special case direct;

Proper accounting practices

1. The accounting statements for councils with annual income and expenditure less than £2.5 million, **must** be prepared in accordance with, and in the form specified in, any annual return required by these proper practices in relation to accounts.

Guidance

The annual return

23.1. Section 1 of the 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)

23.2. For councils with gross income or expenditure (whichever is the higher) in any year of less than £200,000 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 the guidance below.

23.3. The receipts and payments basis requires councils to only 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.

23.4. For example, if the council whose cash book is shown in the example had no further transactions for the year, then its annual return would be compiled as shown in Exhibit 27 below.

23.5. Exhibit 27 also explains some of the difficulties that councils may encounter in preparing the accounting statements.

Part 3: Accounting for councils with income and expenditure below £2.5 million

Exhibit 27: Preparing the cashbook and difficulties arising

Row	Description	£	Notes on compilation from the example 1 cash book	Potential difficulties
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 Cell 7 of the Return	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. 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.

2	(+) Annual Precept	600	The total in the Precept column in the cashbook	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. In some cases, the paying authority may deduct at source, sums owed to it by the community council. In such cases, the community council needs to separate the two elements of the transaction and account for them separately. The precept is recorded here gross and the payment recorded in Cell 6.
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)	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 Cell. 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. 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. 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 Cell 3.
4	(-) Staff costs	(200)	The total in the Clerk's Salary column	This figure comprises all payments made in relation to the employment of staff. It includes salaries, employer NI and pension contributions and taxable benefits in kind, 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. 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.
5	(-) Loan interest/capital repayments	Nil	No entries required	Most councils will not have any borrowings and will not then have interest or capital repayment transactions. 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 Total other payments in Cell 6.

Part 3: Accounting for councils with income and expenditure below £2.5 million

6	(-) Total other payments	(585)	The total in the Payments column (£784.99) less staff costs (£200) and loan interest/capital repayments	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 Cells. 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. Some adjustments may be necessary where the council has more than one bank account and transfers have been made between them – see Total other receipts above. 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 Cell 3.
7	(=) Balance carried forward	1,334	The sum of the above entries	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.
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	

Part 3: Accounting for councils with income and expenditure below £2.5 million

11	Balances carried forward	1334	Totals of Cell 8 + 9 – 10 must equal Cell 7	
12	Total fixed assets	Nil	-	
13	Total borrowings	Nil	-	

Part 3: Accounting for councils with income and expenditure below £2.5 million

Income and expenditure accounts (councils between £200,000 and £2.5m)

23.6. Councils with gross income or expenditure (whichever is the higher) in any year between £200,000 and £2,500,000, 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).

23.7. 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.

23.8. 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.

23.9. 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.

23.10. 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.

23.11. 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.

23.12. 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.

Part 3: Accounting for councils with income and expenditure below £2.5 million

23.13. The adjustments required will comprise:

Exhibit 28: Adjustments for income and expenditure accounts

Transaction	Adjustment required
Debtors: 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: deduct the amount of debtors brought into the calculation of income for the previous year add the amount of debtors outstanding at the end of this year Include the year end debtors balance in Cell 8
Receipts in advance: 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: add the amount of receipts in advance excluded from the calculation of income for the previous year deduct the amount of receipts in advance held at the end of this year Include the year end receipts in advance balance in Cell 10
Transaction	Adjustment required
Creditors: 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	To convert "payments" into "expenditure" take the cash book totals for payments and: deduct the amount of creditors brought into the calculation of expenditure for the previous year add the amount of creditors outstanding at the end of this year Include the year end creditors balance in Cell 10
Prepayments: situations where the council has paid cash before the year end, but has not yet received the relevant goods or services by 31 March	To convert "payments" into "expenditure" take the cash book totals for payments and: add the amount of prepayments excluded from the calculation of expenditure for the previous year deduct the amount of prepayments made at the end of this year Include the year end prepayments balance in Cell 8

Provisions: 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.)	To adjust for provisions in expenditure take the cash book totals for payments and: add the value of any provision that needs to be made for events taking place in this year 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. Insert the year-end provisions balance in Cell 10.

23.14. 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;
- 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;
- 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

23.15. 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:

Part 3: Accounting for councils with income and expenditure below £2.5 million

Exhibit 29: Debtor and creditor adjustments

Transaction	Details
Debtors	• 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 • 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
Receipts in advance	• 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 • 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
Creditors	• the payment of £45 for the repair of a window made on 22 April 20xx 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 • 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
Prepayments	• 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 • 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
Provisions	• 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 • 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

Part 3: Accounting for councils with income and expenditure below £2.5 million

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

Exhibit 30: Converting receipts and payments to income and expenditure

Cell	Description	R & P	Last year adjust-ments	Current year adjust-ments	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 Cell 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 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

23.17. As a check that the income and expenditure figures have been properly prepared, councils should agree the balance carried forward in Cell 7 back to the assets and liabilities held at 31 March that have been taken into account in the conversion. Cells

Part 3: Accounting for councils with income and expenditure below £2.5 million

8 to 10 in section 1 of the annual return show the balance sheet totals on an income and expenditure basis.

Exhibit 31: Preparing the statement of balances under income and expenditure accounts

Cell	Description
8 Debtors	This should be the total value of the current year debtor and prepayment adjustments These figures will have been calculated as shown above.
9 Total cash and short-term investments	For most councils, this Cell 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 Cell.
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 Cell provides a proof in total check for the accounts. The total of Cells 8 plus 9 minus 10 should be entered here and must equal Cell 7.

Cell	Description	R & P	Last year adjust-ments	Current year adjust-ments	I & E	Notes on compilation from receipts and payments account
8	Debtors			200 40 70	310	Debtors adjustments Prepayments 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 Cells 8 to 10

Part 3: Accounting for councils with income and expenditure below £2.5 million

Long term assets and borrowing

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

Exhibit 32: Long term assets and borrowing

Cell	Description
12 Total fixed assets and long-term assets	This should be the value of all fixed assets as recorded in the schedule of assets and liabilities. 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. The recorded 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 Cell.
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 Welsh Government, should not be included here. The amount borrowed at 31 March should be easily calculated by reference to official loan schedules.

Significant events

23.19. The council needs to have considered if any events that occurred during the financial year (or after the year-end), have consequences, or potential consequences, on the council's finances. If any such events are identified, the council then needs to determine whether the financial consequences need to be reflected in the statement of accounts.

23.20. For councils accounting on a receipts and payments basis, the review of significant events should cover events that occurred during the financial year to ensure that they have been included in the accounting statements where appropriate.

23.21. For councils accounting on an income and expenditure basis, the review of significant events should also cover events that occurred after the financial year-end but before the accounting statements are approved by the council.

Part 4

Accounting practices – income and expenditure above £2.5 million

Part 4: Accounting for councils with income and expenditure above £2.5 million

24. Basis of accounts

Statutory requirements

Public Audit (Wales) Act 2004

Section 13 Audit of accounts of local government bodies in Wales

(1) A local government body in Wales—

(b) must make up its accounts each year to 31 March or such other date as the Welsh Ministers may generally or in any special case direct;

Accounts and Audit (Wales) Regulations 2014 (as amended)

Regulation 2 Interpretation

(1) In these Regulations…

"larger relevant body" means—

(f) a body which is listed in the definition of "smaller relevant body" in this regulation but which does not meet the qualifying condition;

"qualifying condition" means that the relevant body's gross income or gross expenditure (whichever is higher) is not more than £2,500,000;

8 Statement of accounts

(1) A larger relevant body must prepare for each year a statement of accounts in accordance with these Regulations and proper practices.

Proper accounting practices

1. The accounting statements for councils that are larger relevant bodies, **must** be prepared in accordance with section 1A Small Entities of FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (as may be amended or reissued from time to time whether under the same title or not), as adapted by this Practitioners' Guide.

Guidance

Applying the guidance

24.1. The guidance in this Part should be applied to all accounting periods commencing on or after 1 April 2019. Early adoption is allowed.

Part 4: Accounting for councils with income and expenditure above £2.5 million

Transition arrangements

24.2. In the first year of preparing accounts under FRS 102 Section 1A 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; and
- details of any changes in accounting policy arising in accordance with this guidance; and

Contents of the statement of accounts

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

- 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 balance sheet;
- notes to the accounts; and
- the external auditor's report.

24.4. 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 should also be disclosed. Councils should note that the Accounts and Audit (Wales) Regulations also specify remuneration disclosure requirements. These are detailed in Chapter 16.

24.5. All accounts and notes the council prepares should present both current and preceding accounting period information.

The Statement of Responsibilities for the Accounts

24.6. 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.

Part 4: Accounting for councils with income and expenditure above £2.5 million

Fixed Assets

24.7. Expenditure on non-current 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.

24.8. 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.

24.9. 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).

24.10. 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.

24.11. 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 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

24.12. 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.

24.13. 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.

Part 4: Accounting for councils with income and expenditure above £2.5 million

Depreciation

24.14. 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.

24.15. The notes to the accounts should disclose the depreciation method applied and the useful economic lives of the assets.

24.16. 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.

24.17. 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.

24.18. Depreciation should be charged to the income and expenditure account.

Impairments

24.19. Where a local council carries 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.'

24.20. Where an impairment is charged to the income and expenditure account its impact should be reversed as follows:

Debit	Capital adjustment account
Credit	General Fund
Reversal of annual depreciation charge and impairments	

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

Leasing

24.22. 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.

24.23. 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.

24.24. 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,

24.25. Operating lease rentals should be charged to revenue on a straight-line basis over the lease term whether or not this matches actual payments.

24.26. 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.

Stock and Work In Progress (WIP)

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

Short Term Investments

24.28. 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

24.29. 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.

Cash at Bank and In Hand

24.30. 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

24.31. Councils should identify trading creditors and the value of the 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.

24.32. 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

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

Part 4: Accounting for councils with income and expenditure above £2.5 million

Long Term Liabilities

24.34. 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 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

24.35. 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.

24.36. 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 notes to the accounts.

Revaluation Reserve

24.37. 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:

Debit	Revaluation reserve
Credit	Capital adjustment account
Write down of revaluation gains	

25. Adaptations to Section 1A FRS 102

Statutory requirements

Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003

21 Duty to make Minimum Revenue Provision

(2) During the financial year beginning on 1st April 2004 and every subsequent financial year, a community council or charter trustees may charge to a revenue account any amount in respect of the financing of capital expenditure incurred by the community council or the charter trustees, as the case may be, in that year.

24 Retirement benefits

(1) For a financial year beginning on or after 1st April 2004, a local authority must charge to a revenue account an amount equal to the retirement benefits contributions and payments which it makes for that financial year in accordance with the [statutory requirements mentioned in] regulation 4(2) as appropriate.

(2) For the purpose of this regulation the term local authority includes a . . . community council in Wales.

Accounts and Audit (Wales) Regulations 2014

9 Declaration of remuneration

(1) The statement of accounts required by regulation 8(1) must be accompanied by the notes referred to in paragraphs (2) to (4).

(2) The first note is a note of the relevant body's remuneration ratio information (but this requirement does not apply to a relevant body which is a joint committee).

(3) The second note is a note of (except in relation to persons to whom paragraph (4) applies) the number of employees… 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.

(4) The third note is a note of the remuneration (set out according to the categories listed in paragraph (7)) and the contribution to the person's pension by the relevant body of—

(i) senior employees, or

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

(5) The persons whose remuneration is to be noted under paragraph (4) must be listed individually and 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.

(6) The remuneration and the pension contribution noted under paragraph (4) must be noted in respect of both the year to which the accounts relate and the previous year.

(7) The categories to which paragraph (4) refers 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 relevant body,

(e) the total estimated value of any benefits received by the person otherwise than in cash which do not fall within sub-paragraphs (a) to (d) above, which are emoluments of the person, and which are received by the person in respect of their employment by the relevant body… and

(8) In this regulation—

"chief executive" ("prif weithredwr") means—

(d) in the case of any other relevant body, the highest ranking employee;

"contribution to the person's pension" ("cyfraniad at bensiwn y person") means an amount to be calculated as follows—

(a) in relation to contributions to the relevant pension scheme established under section 7 of the Superannuation Act 1972, the common rate of employer's contribution specified in a rates and adjustments certificate prepared under regulation 62 (actuarial valuations of pension funds) of the Local Government Pension Scheme Regulations 2013, being the amount appropriate for that body calculated in accordance with the certificate and regulation 67 (employer's contributions) of those Regulations, multiplied by the person's pensionable pay;

"employee" ("cyflogai") includes a member of the relevant body and a holder of an office under the relevant body, but does not include a person who is an elected councillor, and "employment" ("cyflogaeth") is to be construed accordingly;

"relevant body's remuneration ratio information" ("gwybodaeth cymhareb tâl y corff perthnasol") means—

(a) the remuneration of the body's chief executive during the year to which the accounts relate;

(b) the median remuneration of all the body's employees during the year to which the accounts relate; and

(c) the ratio of the amount in sub-paragraph (a) to the amount in sub-paragraph (b);

"remuneration" ("tâl") 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;

"senior employee" ("cyflogai hyn") means an employee whose salary is £150,000 or more per year, or an employee whose salary is £60,000 or more per year who falls within at least one of the following categories—

(b) the person who is the head of staff for any relevant body to which section 4 of the 1989 Act does not apply; or

(c) a person who has responsibility for the management of the relevant 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

(9) The sums of £60,000 and £150,000 in this regulation are to be reduced pro rata for an employee or officer who is employed or engaged on a temporary or part-time basis.

Proper accounting practices

There are no proper accounting practice requirements related to adaptations to FRS 102. Adaptations to FRS 102 arise from statutory accounting requirements.

Guidance

Calculation of Minimum Revenue Provision

25.1. Local councils must meet the requirement to charge an appropriate amount as a minimum revenue provision. This requires that where a larger local council finances capital 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.

25.2. 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.

25.3. It is recommended that the appropriate amount is calculated as the depreciation charge for the relevant assets.

25.4. If an alternative calculation of the appropriate amount is made, the effect of the statutory requirement is that the council's income and expenditure account will be debited each year with 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 double charge to the precept, councils will need to make further adjustments to the statement of accounts.

25.5. 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.

25.6. These amounts should be credited to the Income and Expenditure account and debited to a Capital Adjustment Account. The Capital Adjustment Account will show the net cumulative effect of these offsetting adjustments.

Capital Adjustment Account

25.7. The Capital Adjustment 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 and financing of assets by capital receipts.

Usable Capital Receipts Reserve

25.8. 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.

Debit	General Fund "Reversal of Gains and losses
Credit	Usable Capital Receipts Reserve
With the proceeds of sale	

Debit	Capital Adjustment Account
Credit	General Fund "Reversal of Gains and Losses"
With the carrying value of the asset disposed	

25.9. 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 adjustment account. This adjustment should be reported in the Statement of Movements in Reserves

Pensions

25.10. 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.

25.11. The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 (SI 2003/3239) (the 2003 Regulations) require 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.

25.12. FRS 102 requires employers to disclose on the balance sheet the body's share of the accumulated pension fund liability or surplus charge. The income and expenditure account is charged with movements on the surplus or deficit. Where it is not possible to identify the employer's share of the fund's assets and liabilities, an exemption is allowed for employers to account for pension obligations as if the pension scheme is a defined contribution scheme.

25.13. Local councils are subject to a statutory requirement to charge to a revenue account, an amount equal to the retirement benefits contributions and payments which it makes for that financial year. Therefore, although the Local Government Pensions Scheme (LGPS) is a defined benefits scheme, councils may account for its pension obligations as if the pension scheme is a defined contribution scheme.

25.14. 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 should be disclosed in a note to the accounts.

25.15. Where a council accounts for its pension obligations on a defined benefit basis, it must establish a pensions reserve to manage the impact of any differences between charging the income and expenditure statement account with movements on the pension surplus/liability and the statutory charge. These adjustments will include the following items:

Exhibit 33: Accounting adjustments for defined benefit pension schemes

Adjustment required
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 charges made to the income and expenditure account against the 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 FRS 102 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
Amounts included in the Income and Expenditure account in respect of the pension fund in accordance with FRS 102 (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

Revenue expenditure funded from capital under statute (REFCUS)

25.16. Section 16 of the Local Government Act 2003 provides that the Welsh 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.

25.17. 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.

25.18. 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.'

25.19. 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:

Debit	Capital Adjustment Account
Credit	General Fund: REFCUS
With the value of revenue items funded from capital	

Part 4: Accounting for councils with income and expenditure above £2.5 million

26. Example accounting statements

Statutory requirements

There are no specific statutory requirements for the contents of accounting statements

Proper accounting practices

1. Councils should prepare accounting statements in the format set out in this guidance. Accounting statements of a local council participating in a joint committee **must** record their share of the joint committee's income, expenditure and balances.

Guidance

General disclosure requirements

26.1. 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.

Statement of Accounting Policies and Estimation Techniques

26.2. The statement should include explanation the following accounting policies where applicable:

- 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;
- exceptional items, extraordinary items and prior period adjustments; and
- the accounting treatment of acquired or discontinued operations.

26.3. If other material accounting policies are adopted and applied these should also be fully disclosed here.

The Income and Expenditure Account

26.4. It is recommended that the analysis of income and expenditure should contain a summary of the main fund raising and spending areas shown in Exhibit 34.

Part 4: Accounting for councils with income and expenditure above £2.5 million

Exhibit 34: Income and expenditure account:

Income
Precept
Grants received
Rental income, interest and investment income
Charges made for services
Other income or contributions
Total income
Expenditure
Direct Service costs
• Salaries and wages
• Grant aid expenditure
• Other expenditure
Democratic, Management and Civic Costs
• Salaries and wages
• Grant aid expenditure
Exceptional items (if any)
Gains or losses on disposal of fixed assets
Net Operating Surplus or Deficit for Year
Net Surplus or Deficit for Year (to General Fund)

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: • the name of related parties; • a description of the relationship; • the amounts involved; • any other elements of the transaction necessary for an understanding of the statement of accounts; • the amounts due to or from related parties at the balance sheet date and any provisions for doubtful debts at that date; and • any amounts written off in the accounting period in respect of debts due from related parties.
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

26.5. This statement reconciles the change in reserves between accounting periods.

26.6. 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.

26.7. 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 Adjustment Account, Earmarked reserves and Usable Capital Receipts Reserve. Where the detail is elsewhere in the accounts this should be cross-referenced from the statement.

Part 4: Accounting for councils with income and expenditure above £2.5 million

The Balance Sheet

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

Exhibit 35: Balance sheet

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 Adjustment Account	Q
Earmarked revenue reserves	R
General reserves	S
Total reserves	T = O + P + Q + R + S = N

Part 4: Accounting for councils with income and expenditure above £2.5 million

Disclosure Notes to the Balance Sheet

Note	Description
1.	**Post balance sheet events:** 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.
2.	**Tangible Fixed Assets and Depreciation:** The notes to the accounts should disclose; • the cost or valuation at the beginning of the accounting period; • the effect of any revaluation made during the accounting period; • acquisitions made during the accounting period; and • disposals made during the accounting period. The accounts should also disclose: • the cumulative amount of depreciation at the beginning of the accounting period; • the amount of any depreciation during the accounting period; • the amount of any adjustments made on disposal during the accounting period; and • the amount of any other adjustments made during the accounting period. Note: Investment properties are not depreciated.
3.	**Leases:** **Finance Leases:** 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. **Operating Leases:** 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.

Part 4: Accounting for councils with income and expenditure above £2.5 million

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Part 5
The external audit

27. Public rights and the external auditor's responsibilities

Statutory requirements

Public Audit (Wales) Act 2004

30 Inspection of documents and questions at audit

(1) At an audit of accounts under this Chapter an interested person may—

(a) inspect the accounts to be audited and all books, deeds, contracts, bills, vouchers and receipts relating to them;

(b) make a copy of all or any part of the accounts and of any of the other documents mentioned in paragraph (a).

(2) At the request of a local government elector for any area to which accounts to be audited under this Chapter relate, [the Auditor General for Wales] must give the elector or any representative of his an opportunity to question [the Auditor General] about the accounts.

(3) But nothing in this section entitles a person—

(a) to inspect any accounts or other document relating to a body to the extent that the accounts contain, or the document contains, personal information;

(b) to require any personal information to be disclosed by [the Auditor General for Wales] in answer to any question.

(4) In subsection (3) "personal information" means information relating to an individual which is available to the body for reasons connected with either of these—

(a) the fact that the individual holds or has held an office or employment under the body;

(b) the fact that payments or other benefits are or have been made or provided to the individual by the body in respect of an office or employment under another person.

(5) For the purposes of subsection (4) payments made or benefits provided to an individual in respect of an office or employment include any payment made or benefit provided to an individual in respect of his ceasing to hold the office or employment.

Proper governance practices

1. Councils **must** ensure that they make appropriate arrangements to facilitate the exercise of electors' rights to inspect the accounts prior to the date appointed by the Auditor General.

Part 5: The external audit

Guidance

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

27.1. 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.

Exhibit 36: Public rights under the Public Audit (Wales) Act 2004

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: • That an item of account is unlawful; or • There is something in the accounts that the auditor should tell the public about in a public interest report.

27.2. 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.

27.3. 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:

What does the council have to do?

27.4. 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 annual return or statement of accounts and the supporting accounting records and other documents once the statement of accounts has been approved by the council; 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.

27.5. The Auditor General sets the date from which members of the public can exercise their rights under the Act from this date until the audit is closed. The auditor acting on behalf of the Auditor General 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.

27.6. At the conclusion of the audit, the council must display a public notice that it has received the auditor's certificate. This certificate closes the audit for the year. The auditor's certificate is normally included with the Auditor General's audit opinion.

Scope of the 2004 Act's requirements

27.7. 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.

27.8. 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.

27.9. Where the Council employs a part-time clerk, the Clerk may not be available for the whole of the 20 working days. If an elector, having given reasonable notice, is unable to inspect the accounts and supporting documents at a time convenient for the Clerk, then it is incumbent on the Council to make arrangements to suit the needs of the elector. This may involve a member making arrangements for the inspection. The Council cannot refuse to allow inspection where the elector has given reasonable notice.

27.10. 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 Welsh Government's guidance on the Regulations. The council should also be aware of the consequences of failing to meet those requirements.

27.11. 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.

Part 5: The external audit

The external auditor's responsibilities

27.12. The Auditor General is the statutory auditor for local government bodies in Wales including community and town councils. External auditors undertake their work for and on behalf of the Auditor General.

27.13. Neither the Auditor General nor auditors acting on his behalf are responsible directly for enforcing the provisions relating to public scrutiny. However, they may be unable to carry out the audit because others do not discharge their responsibilities e.g. failure to advertise the audit. In such cases, the auditor may specify a new date for the exercise of electors' rights and require that the Council starts the process again.

27.14. 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.

28. External audit arrangements

Guidance

What form does the audit take?

28.1. The auditor's responsibilities are governed by legislation and the Auditor General's Code of Audit Practice.

Exhibit 37: Audit responsibilities:

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: • The General Code – prescribes the way in which the auditor must carry out his/her functions: and • 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.
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?

28.2. 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.

28.3. When the audit is complete, the external auditor will send a report to the Council setting out what they found during the audit. This 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.

28.4. The audit opinion sets out the 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 the audit certificate.

28.5. 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.

28.6. Other matters that do not affect the auditor's opinion will be included in the audit report on completion of the audit.

External audit for councils preparing an annual return

28.7. For those councils that prepare an annual return, 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.

28.8. 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.

28.9. 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.

Part 5: The external audit

External audit for councils preparing a statement of accounts

28.10. Auditors discharge their responsibilities by undertaking detailed audit testing in accordance with defined procedures set out by the Auditor General. These procedures are designed to obtain reasonable assurance about whether the statement of accounts as a whole are free from material misstatement;

28.11. Auditors will 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);
- completing a series of detailed audit tests specified by the Auditor General; and
- 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.

Preparing for the audit

28.12. 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 2014 as amended). Following this process will help to ensure that the Council complies with the Regulations and avoid some of the most common qualification matters.

Exhibit 38: Preparing for the annual external audit

Step	Task	Comments
1	Arrange for the council to receive the documents needed to prepare the annual return	Likely tasks include: • requesting bank statements for 31 March for all bank accounts • arranging for savings account books to be made up to date for 31 March • obtaining written confirmation of other investments at 31 March, including interest for the year
2	Close, balance and reconcile the cashbook, update the schedule of assets and liabilities.	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 annual return or the accounting statements by 30 June. The RFO prepares the annual accounting statements and Annual Governance Statement (on behalf of the Council).

	Draw up accounting statements and Annual Governance Statement	
3	Internal auditor completes the Internal Audit Report by 30 June	Internal audit is a key element of the council's system of internal controls. Therefore, the council must receive the internal auditor's report 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.
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	Ensure receipt of current year annual return from the external auditor in good time. Regulation 15 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. For councils preparing a statement of accounts, the RFO will certify that the accounts give a true and fair view of the council's income and expenditure and financial position. The latest date for the RFO to certify the accounting statements is 30 June.
5	Council approval of annual return/statement of accounts	Arrange for the full council meeting to receive and approve the Annual Return or statement of accounts before making the annual return or statement of accounts available for public inspection. Approval of the accounts is evidenced by the person presiding at that meeting signing and dating the accounts. Section 3 of the annual return provides space to record the Council's resolution and the presiding member's signature.
5	Receive confirmation of the date of audit with the auditor	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. 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.
6	Display a notice of public rights under audit	In preparation for step 7, the Regulations require councils to display a notice (or notices) in a conspicuous place(s) in the council's area setting out:

		• the dates of the 20 working day period during which the accounts and other documents will be available for inspection; • the place at which, and the hours during which, they will be available; • the name and address of the auditor; • 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 • the date appointed by the auditor. The council must display the notice for at least 14 days immediately before the date in step 7. 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 is 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.
7	Make the accounting statements and other documents available for inspection	The Regulations 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.
8	The audit	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. On completing the audit work, the external auditor will send a report to the clerk setting out the findings from the audit. Unless the accounting statements require amendment, the auditor will issue the audit opinion to the council along with the report.
9	If amendments are needed, the RFO re-certifies the Annual Return and submits the Annual Return to the Council for reapproval. The external auditor's report must accompany the Annual Return.	Before submitting the Annual Return to the Council for reapproval, the RFO must certify the accounting statements once more. The certification is set out in 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. 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. After RFO certification, the accounts must be approved by a meeting of the council. Approval of the accounts is evidenced by the person presiding at that meeting signing and dating the accounts. Section 3 of the annual return provides space to record the Council's resolution and the presiding member's signature.
10	Publish the statement of accounts	As soon as reasonably possible after the completion of the audit or by 30 September in any event, the local council should publish its accounting statements and the auditor's certificate. 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. Copies should also be kept for purchase by any person on payment of a reasonable sum. A public notice in a conspicuous place stating that the accounts have been published is also required. Copies of the notices must also be posted on the council's website. 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.

Part 5: The external audit

What information is the auditor entitled to for the purposes of the audit?

28.13. Section 52 of the Public Audit (Wales) Act 2004 provides the Auditor General with the right of access at all reasonable times to every document relating to a local government body in Wales which appears to him necessary for the purposes of his audit.

28.14. The Auditor General may also require a person whom he thinks has information;

- to give him any assistance, information and explanation which the Auditor General thinks necessary for the purposes of his audit;
- to attend before him in person to—
    i. give the assistance, information or explanation, or
    ii. produce any document which is held or controlled by the person and to which the right of access to information applies.

28.15. Councils should:

- ensure that they are aware of the legislative requirements for providing access to documents and information held by the council; and
- make appropriate arrangements to ensure information is provided when first requested.

What information does the auditor need?

28.16. In order to undertake the audit, the external auditor requires the council to provide various items of documentary evidence. The requests are intended to be proportionate to the individual councils and will be detailed in the audit notice issued by the auditor.

28.17. It is very important that all councils read the audit notice so that they can identify and provide the requested information on a timely basis. If a complete set of information (or explanation as to why the required documents are not available) is not provided, councils will incur additional audit fees when auditors repeat their requests.

28.18. There are two key documents required by the external auditors each year, the bank reconciliation and an explanation of variances.

28.19. The bank reconciliation is a key document that demonstrates the completeness and accuracy of the council’s accounting records and is therefore required every year at all councils. A reconciliation should be prepared to at least the detail of the example provided above. 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.

28.20. The other supporting documentation required to accompany the annual return 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.

28.21. 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.

28.22. 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.

28.23. 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 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.

28.24. 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.

28.25. 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).

Part 5: The external audit

28.26. Since 2015-16, all councils with income and expenditure below £2.5 million, are subject to the same form of audit regardless of their annual income and expenditure. Therefore, auditors ask for evidence to support the assertions made in the annual governance statement, at all councils.

28.27. The external auditor will also need written explanations where negative answers have been given in the Annual Governance Statement and the 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.

28.28. The audit seeks to test the assertions made by the council and thereby obtain additional audit evidence through a 'show me' approach to the information provided in the Annual Governance Statement.

28.29. The Annual Governance Statement is in two parts.

28.30. The auditor may request documents to support each of the assertions, request the council to complete an additional questionnaire or undertake other audit procedures.

28.31. 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.

28.32. The Auditor General expects the evidence required by auditors 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.

28.33. The auditor will tell councils in the audit notice details of the information the council needs to provide. Councils should not decline to provide the information requested on the basis that it has not been asked for previously.

28.34. Appendix 3 provides a checklist for councils to use to ensure that the annual accounts and reporting tasks have been completed.

What will the cost of the audit be?

28.35. The audit fees are charged by the Wales Audit Office in accordance with information provided by the auditors acting on behalf of the Auditor General. The fee scheme is updated and published annually on the Wales Audit Office website at http://www.audit.wales/publication/fee-scheme-2019-20.

Part 5: The external audit

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Appendices

PM Ratio
0.2
Gross Profit on sales
0.82
Basic Earning
0.28
Revenue
ANALYSIS REPORT
SUMMARY
Summary sale

Appendix 1: Further information

Legislation

Accounts and Audit (Wales) Regulations 2014

The Accounts and Audit (Wales) Regulations set out the detailed framework for local councils' accounts. The Regulations were made in 2014 and amended in 2018.

The original Regulations can be found at:

http://www.legislation.gov.uk/wsi/2014/3362/contents/made

The 2018 amendments can be found at:

http://www.legislation.gov.uk/wsi/2018/91/made

Welsh Government guidance

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

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

https://gov.wales/accounts-and-audit-regulations-2014-guidance

Guidance on Local Government Investments

This document contains the statutory guidance to which authorities must have regard. It can be found at:
https://gov.wales/local-government-investments-guidance

Payments to elected members

The Independent Remuneration Panel for Wales is responsible for determining the payments to elected members of community and town councils in Wales.

The panel produces annual reports which set out the type and levels of payments that authorities may or must make available to their members and co-opted members.

A summary of the requirements is set out at:
https://gov.wales/payments-elected-members/community-and-town-councils

Wales Audit Office resources

Publications

Councils' Accounts: Your Rights

This leaflet explains the publics rights to inspect the accounts of local councils.

http://www.audit.wales/access-councils-accounts

The Code of Audit Practice of the Auditor General for Wales

This Code of Practice prescribes how the auditors appointed by the Auditor General for Wales will carry out their audit functions.
http://www.audit.wales/publication/code-of-audit-practice

National reports

Each year, the Auditor General publishes a summary report setting out his findings from the audit of community and town councils across Wales. The reports highlight common issues reported by auditors and how individual councils can learn from these issues to develop their financial management and governance arrangements.

http://www.audit.wales/publication/financial-management-and-governance-town-and-community-councils-2017-18

http://www.audit.wales/publication/financial-management-and-governance-local-councils-201617

http://www.audit.wales/publication/financial-management-and-governance-community-councils-201516

http://www.audit.wales/publication/financial-management-and-governance-local-councils-2014-15

In 2018, the Auditor General undertook a national study into internal audit arrangements at community and town councils. A national report was published in January 2019.

http://www.audit.wales/publication/internal-audit-arrangements-town-and-community-councils-wales

Local reports

In some cases, the Auditor General considers that matters identified during the audit of individual councils are significant enough to be brought to the attention of the public and issues a report in the public interest. Copies of the reports can be found on the Wales Audit Office website under the publications section, using the search term 'public interest report'.

http://www.audit.wales/publications

Sharing good practice

Financial Management and Governance (webinar)

Building on the 2016 financial management and Governance report, this webinar shares examples of learning and good practice, in particular focusing on budgeting and internal audit.

http://www.audit.wales/good-practice/financial-management-and-governance-community-councils

Internal audit in community and town councils (webinar)

Following the publication of the internal audit national report, this webinar expanded on the issues raised in the report and highlighted how councils can improve internal audit.

http://www.audit.wales/events/internal-audit-arrangements-town-and-community-councils

Appendix 2: Annual internal audit review

Checklist 1 – meeting the standards

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

5. Planning and reporting	The annual internal audit plan properly takes account of all the risks facing the council and has been approved by the council [date]. Internal audit has reported in accordance with the plan on [date]		

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.		

Appendix 3: 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?		
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?		
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?		
4	Has the council arranged for internal audit to be carried out and reported upon?		
5	Has the council reviewed its income and spending against the approved budget during the year and as at 31st March?		
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 unpresented cheques and credits).		
7	Have the bank balances in the Accounts been reconciled with the bank statements at 31 March?		
8	Have the Accounts been prepared on the proper basis (income and expenditure over £200,000) and is this consistent with last year		
9	Have all debtors, stocks, creditors, receipts in advance, payments in advance and accruals been identified? (income and expenditure only)		

10	Are the accounts in balance and has all the necessary information been included in any supporting notes?		
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?		
The annual return			
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?		
13	Has a copy of the bank reconciliation at 31 March been included with the Annual Return?		
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?		
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.)		
16	Has the Annual Governance Statement (Section 2) been completed and approved by the Council, signed and dated by the Chairman and Clerk and the minute reference recorded?		
17	Has internal audit work been completed and the Certificate signed (Section 4 of the Annual Return)?		
18	Has the Council considered and acted on any items appearing on the internal audit report for the financial year just ended?		
19	Has the Council considered and acted on any items appearing on the external auditor's report for the previous year?		
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)		

Term	Definition
Accounting records	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.
Accounting statements	The accounting statements summarise the council's income and expenditure, statement of balances or record of receipts and payments. Councils must: • make their accounting statements available for inspection by the public; • have the accounting statements audited; and • publish their audited accounting statements. 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.
Accounts and Audit regulations	The Accounts and Audit (Wales) Regulations are secondary legislation issued by the Welsh 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. The Welsh Government published guidance for community on the regulations. The current regulations are the Accounts and Audit (Wales) Regulations 2014. The regulations were updated in 2018.
Annual Governance Statement	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. Before they complete the statement, councils must review their arrangements fully.
Annual return	The annual return is published by the Auditor General for Wales. It has several purposes: • to report the annual accounting statements; • to certify that the council has discharged its statutory duties in relation to its financial affairs; • to record the external auditor's opinion on the annual return and confirms that the auditor has fulfilled his/her statutory responsibility; and

	• to inform the local tax payer and elector what and how their local community council has been doing in the last year.
Auditor General	The Auditor General for Wales is the statutory auditor for all community and town councils. The audit work is undertaken by local auditors for and on behalf of the Auditor General.
Assets	Community councils hold two types of assets. 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. 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. 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: • what you own; • *what it cost;* • *when you bought it; and* • its current value and useful life.
Balances	See reserves.
Bank reconciliation	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.
Budget	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.
Budget monitoring and control	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.
Cash book or receipts and payments book	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.
Clerk	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) provides training for clerks on various aspects of their role.
Comparative figures	The council's accounting statements show last year's figures to allow comparison with the current year.
Contracts	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.
Council meetings	Elected members come together to discuss and make decisions on community affairs. This will include: • setting policies and budgets; • making decisions about expenditure; • approving payments and setting charges; and • approval of accounts. Councils are legally required to keep minutes of meetings held. These minutes have to be made available to the public for inspection. 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.
Councillors or members	A councillor or member is a person elected to serve on the council for a specified period of time which is currently five years. Collectively, the members form the political arm of the council and make the council's policies. Once elected, they represent all their constituents.

	Although members can fulfil the responsibilities of an officer, including that of clerk, they cannot hold a paid office. Members cannot be the internal auditor even if unpaid. 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 2017, the Welsh Government updated its guide for councillors.
Creditor	A person to whom a debt is owed.
Debtor	A person from whom a debt is owed.
Declaration of interests	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.
Delegated authority	In certain cases the council may delegate its authority to committees, sub committees, or officers. 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.
Electors' rights	The Public Audit (Wales) Act 2004 gives local people the right to: • inspect a council's accounts and accounting records; and • ask the external auditor questions about the accounts or challenge their legality. The Wales Audit Office leaflet, Your rights in Wales - Councils' Accounts, explains the public rights to inspect local councils accounts.
External auditor	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. 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. 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. The external auditor will look to see if the accounts have been properly prepared by the council. 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.
Fidelity guarantee	A type of insurance against the risk of theft or defalcation by officers responsible for a council's assets, specifically cash and balances.
Financial statements	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.
Financial checks and balances (internal controls)	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. The financial checks and balances make sure that: • the council properly uses and monitors its money and assets; and • properly records this use.
Financial regulations	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.
Fraud	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. When a council suffers 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.
Governance	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.
Insurance	Insurance is one of the ways that the councils manage the risk of losses. It is good practice to insure against loss by: • damage to buildings and equipment; • theft; • malpractice by an officer or members; and • third party.
Internal audit	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 internal audit arrangements at least once a year.
Internal control	See Financial checks and balances.
Investments	Councils secure an income from surplus monies through investments. Investments must be managed in accordance with the Welsh Government's guidelines.
Local Government Act 1972	Community councils in Wales were created by the Local Government Act 1972. The Act sets out most of the powers of community councils.
Material/materiality	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.

Minutes	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.
Monitoring Officer	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. The Monitoring Officer ensures that the council and its officers maintain the highest standard in all they do. The Monitoring Officer reports on matters: • that are or likely to be illegal or amount to maladministration; and • relating to the conduct of officers and members.
One Voice Wales	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.
Opinion/Qualified opinion	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.
PAYE and NIC	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 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.
Powers	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.
Precept and council tax	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.
Public Audit (Wales) Act 2004	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.
Recharges	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.
Register of interests	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.
Reserves and balances	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.
Responsible financial officer	The responsible financial officer (RFO) administers the financial affairs for the council. Councils must by law appoint and 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.
Risk management	The arrangements which a council makes to identify key business risks, evaluate these and put in place to measures to reduce the risk or manage the consequences of its occurrence.
Section 137 LGA 1972	This legislation enables the council to spend up to a fixed sum multiplied by the number of electors in the community.

	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. Before using Section 137, the council must consider whether the expenditure will bring direct benefit to the area or its inhabitants. Also well-being subject to same limit?
Society of Local Council Clerks (SLCC)	SLCC represents local council clerks. It provides guidance, training and support for clerks regarding council administration.
Standing orders	Standing orders are the set of rules by which the council conducts its business. Typically, it would define how a council meeting is to be conducted which would include how many members constitute a quorum. It must also define the arrangements for entering into a contract. Model standing orders are obtainable from One Voice Wales.
Statement of variances	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.
Ultra vires/Intra vires	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.