



# Governance and accountability for Local Councils

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**A Practitioners Guide 2008 (Wales)**

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# Acknowledgements

The first edition of the Practitioners' Guide for local councils in England and Wales was published in 2002 and was the result of work overseen by a project group with membership drawn from key stakeholders. It was always recognised that the Practitioners' Guide would need to be kept up to date with developments relevant to the local council sector.

Since 2005, community councils in Wales operate within a separate, albeit very similar, legal framework to that of parish councils in England. The responsibility for issuing guidance for Wales has now transferred to Wales. This edition of the guide is the first prepared specifically for local councils in Wales and approved by the Local Councils Audit Liaison Group.

The Local Council Audit Liaison Group was established in September 2007 with members drawn from key stakeholders. One of its objectives is to help ensure that the guidance remains relevant to the needs of local councils in Wales and is updated as appropriate.

The current members of the Local Councils Liaison Group are:

Simon Edge	Wales Audit Office (Chair)
Deryck Evans	Wales Audit Office (Secretary)
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And representing audit suppliers:

Emma Prince	BDO Stoy Hayward
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The contributions of the members of the group, and of those individuals who have contributed from time to time to the development of the guide are gratefully acknowledged.

In particular, this first edition of the local council guide for Wales draws on the Practitioners' Guide for local councils in England that is approved by the Joint Practitioners Advisory Group (JPAG). Established as a standing group in April 2002, JPAG's members are drawn from key stakeholders from small bodies in England which are required to prepare an annual return. JPAG's purpose is to develop guidance for small bodies in England.

We are grateful to JPAG for allowing this and for its continuing support.

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## Part 3

# Accounting guidance for local councils

This part provides guidance on how local councils can meet their statutory responsibilities most effectively, particularly in relation to the preparation of the statement of accounts (in the form of Section 1 of the Wales Audit Office annual return). It is structured as follows:

- Introduction;
- Routine financial procedures;
- Procedures for prompt and accurate recording of transactions;
- The budgeting process;
- The cash book;
- Preparing the Wales Audit Office annual return; and
- Audit notices and the presentation of the annual return.

## Introduction

- 3.1 The Accounts and Audit (Wales) Regulations (the Regulations) provide a comprehensive framework for the accounts of a local council. The Regulations take a wider definition of what constitutes the accounts as:
- 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 statement of accounts (i.e. section 1 of the Wales Audit Office's annual return).
- 3.2 Manually kept books of account or an effective computerised accounting system provide the basis for the statement of accounts in that the statement of accounts is compiled from the information recorded in the books. But 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 its funds are secured from loss by internal checks and controls.

3.3 These objectives are sensible in themselves, but so as to ensure that all councils achieve a minimum standard of accounting, the Regulations specify what councils must do to achieve them. Local councils must ensure that:

- the body's accounting system and the form of their accounts and supporting accounting records are determined by the RFO;
- 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;
- 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 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, any grant or subsidy from the Government; and
- 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;
    - to enable the prevention and detection of inaccuracies and fraud; and
    - to enable the council 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 for uncollectible amounts, including bad debts, not to be written off except with the approval of members, or under delegated authority, the RFO, and for the approval to be shown in the accounting records.

## **Routine Financial Procedures**

3.4 This section of the guidance summarises the requirements of the Regulations for the accounting framework that should be maintained by local councils.

3.5 All councils have a statutory duty under section 151 of the Local Government Act 1972 to appoint an officer to be responsible for the financial administration of the council. The RFO will usually be the clerk to the council but this is not automatically the case. The council must formally determine in who the responsibility is to vest, recognising that 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 and consideration 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.

- 3.6 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.
- 3.7 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, but the RFO takes on the duty of designing and implementing the accounting arrangements that will assure members that finances are being properly managed.
- 3.8 The following table summarises the duties that are placed on the RFO and suggests the arrangements that might be put in place to ensure that these duties are met:

## Duties of the RFO

Statutory duty	Possible arrangements
<p>1. The RFO determines, on behalf of the council, the council's accounting system and the form of their accounts and supporting accounting records.</p>	<ul style="list-style-type: none"> <li>• the council should make it a formal duty of the RFO to keep accounting systems under continual review to ensure their adequacy for the council's purposes;</li> <li>• the council must facilitate this duty by ensuring that the RFO is competent to meet their responsibilities (either by requiring certain qualifications on appointment or by training) and providing sufficient resources for the running of the systems;</li> <li>• the accounting systems that are used will be particular to each individual council. The smallest may require nothing more than an account book and a file in which to store bills. Larger councils might need an integrated computer package, with facilities for payroll, debtors, creditors and VAT.</li> </ul>
<p>2. The RFO ensures that the accounting systems are observed and that the accounts and supporting records of the body are maintained in accordance with proper practices and kept up to date.</p>	<ul style="list-style-type: none"> <li>• measures for ensuring accounting systems are observed include making available a written record of procedures, training staff to operate the systems properly and regular audits to confirm effective operation;</li> <li>• certain procedures are designed to confirm that accounting systems have been observed, the most notable being the preparation of the bank reconciliation (see below). Good practice would be to report to each council meeting that the latest bank reconciliation has been prepared successfully;</li> <li>• the proper practices specified by the Regulations are represented by the contents of this guidance; and</li> <li>• the requirement to be up-to-date means that transactions should be entered in the records as soon as possible after they take place. Backlogs should not be allowed to develop, and, where other officers are responsible for spending money and collecting income, then procedures will need to be in place to inform the RFO of their dealings for entry in the accounts. Timeliness is made easier if the council has arrangements for the latest financial position to be reported at each council meeting.</li> </ul>

Statutory duty	Possible arrangements
<p>3. The accounting records are sufficient to show the body's transactions and to enable the RFO to ensure that the statement of accounts complies with the Regulations</p>	<ul style="list-style-type: none"> <li>• the RFO must ensure that the accounting systems are sufficiently detailed to record each individual transaction that is entered into. For instance, where the council charges for village hall bookings, the books should record each individual booking rather than a total for the value of all bookings made in any week.</li> <li>• accounting records will be sufficient to ensure that the statement of accounts complies with the Accounts and Audit Regulations, if they allow the analysis of transactions in accordance with Section 1 of the Wales Audit Office annual return (see below).</li> </ul>
<p>4. The accounting records in particular contain:</p> <ul style="list-style-type: none"> <li>- Entries from day to day of all sums of money received and expended by the body and the matters to which the income and expenditure or receipts and payments account relate;</li> <li>- A record of the assets and liabilities of the body;</li> <li>- A record of income and expenditure of the body in relation to claims made by them for contribution, grant or subsidy from the government.</li> </ul>	<ul style="list-style-type: none"> <li>• day to day records (Example 1)</li> <li>• assets and liabilities register (Example 2)</li> <li>• grants (Example 3)</li> </ul> <p><i>Note – examples may be found at the end of Part 3.</i></p>

Statutory duty	Possible arrangements
<p>5. The accounting control systems include:</p> <ul style="list-style-type: none"> <li>- Measures to ensure that the financial transactions of the body are recorded as soon as reasonably practicable and as accurately as reasonably possible, measures to enable the prevention and detection of inaccuracies and fraud, and the ability to reconstitute any lost records</li> <li>- Identification of the duties of officers dealing with financial transactions and divisions of responsibilities of those officers in relation to significant transactions</li> <li>- Procedures for uncollectible amounts, including bad debts, not to be written off except with the approval of the RFO and for the approval to be shown in the accounting records.</li> </ul>	<ul style="list-style-type: none"> <li>• document and adopt control systems to clarify everyone’s duties and responsibilities and to encourage a culture that does not tolerate bending or breaking the rules;</li> <li>• review systems at least annually or more frequently if required following any significant change of procedure or key personnel;</li> <li>• add new systems if there is a business need to do so; and</li> <li>• report annually to the council prior to their completion of the annual return</li> </ul>

## **Procedures for prompt and accurate recording of transactions and the prevention and detection of inaccuracies and fraud**

- 3.9 The guidance in the following paragraphs should be taken into consideration by councils when determining their procedures for prompt and accurate recording of transactions and the prevention and detection of inaccuracies and fraud.

### **Accounts for payment**

- 3.10 Section 135 of the Local Government Act 1972 requires councils to 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.
- 3.11 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.
- 3.12 On receipt of invoices, verification that the relevant goods or services have been received should be obtained and invoices checked to ensure that the arithmetic is correct, agreed discounts have been deducted and everything is acceptable regarding reclaiming the VAT. Practitioners should keep up to date with VAT Guidance issued by HM Revenue & Customs (HMRC) and, from time to time, by OVW, NALC and SLCC.
- 3.13 The payment process should always be carried out in accordance with the council's own Financial Regulations. Once the invoices have been approved, section 150 (5) of the Local Government Act 1972 requires that every cheque or other order for the payment of money by a community council shall be signed by two members of the council. In addition to the members signing, the clerk or RFO may also be required to sign cheques or other similar bank instructions. Cheques should only be released once confirmation has been obtained that adequate funds are available. In any event, all payments made since the last meeting should be reported to the next council meeting. Members should never sign blank cheques, funds transfers or similar bank instructions which are presented unsupported by the appropriate documentation.

- 3.14 Where councils make payments by bank transfer, or other electronic means, they should develop adequate and effective control procedures for such payments. Such procedures should take into account:
- the risks brought about by the ease and speed of these transactions;
  - the difficulties faced in unravelling them should they go wrong; and
  - the legal requirements regarding official signatures as set out in section 150(5) of the Local Government Act 1972.
- 3.15 If there is any doubt as to how much the council owes to one of its regular suppliers, the supplier should be asked 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

- 3.16 Cash and cheques should be entered into the cash book on the date of receipt and 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. These are published by HMRC and accompanied by guidance for practitioners.
- 3.17 Where any person, such as a swimming pool manager or cemetery superintendent or any other employee or member carrying out the usual activities of the council receive money on behalf of the council, it should be made 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 and be provided with the appropriate duplicate receipting and recording documents. With such an arrangement the responsible person in receipt of the money would need to maintain a record showing, in strict date order, the money and cheques received and bankings or deposits made. This collection and deposit record needs to be examined from time to time to ensure that bankings are made regularly and that the cumulative totals match to the cash book and banks' statements.

## Cash balances

- 3.18 Where a council builds up balances this needs to be safeguarded by investing the amount in an appropriate account. Investment of balances by local councils is governed by the Local Government Act 2003 and statutory guidance issued by the Assembly Government (see Appendix 8).

- 3.19 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, which may well specify the amount, location and minimum security arrangements required regarding the handling of cash or bank balances.
- 3.20 The number of petty cash floats should be kept to a minimum and 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. Adequate records of the receipts and payments should be maintained for each float and regular reconciliation performed, usually with such regularity that successful reconciliation can be reported at each council meeting

### **Debts due to the council**

- 3.21 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 after full consideration of the possibilities for and the likely costs of pursuing the debt.
- 3.22 Debt monitoring arrangements should be in place covering all activities of the council which 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.
- 3.23 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**

- 3.24 The remuneration payable to all staff must be approved in advance by the council. Guidance on this issue is issued jointly by the National Association of Local Councils (on behalf of One Voice Wales) and the Society of Local Council Clerks and should be referred to.
- 3.25 Local councils with **any** employees are, by definition, employers and are, therefore, required to operate under Pay as You Earn (PAYE) rules from HMRC. PAYE and National Insurance should be deducted in every instance unless authority to the contrary has been received from HMRC in writing. Such deductions should be passed on to the Collector of Taxes on or before the date prescribed. In addition the general requirements of the Employment Acts will apply (written statements, holiday and similar which are not within the remit of this guidance).

- 3.26 Local councils should pay particular attention to situations 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. It is unlikely that the function of clerk to a local council in Wales can ever be self-employed.
- 3.27 As part of risk management, written confirmation should always be sought from HMRC to ensure that payments for services are being correctly treated; otherwise councils may find themselves with unexpected and significant liabilities to pay income tax and employers National Insurance contributions. Care must be also taken when making any payments of expenses or allowances to non-employees e.g. members, which should also be considered as falling within the scope of PAYE.

## **Insurance**

- 3.28 All local council employers are required by law to take out employers' liability and fidelity guarantee insurance and all cover should be kept under constant review making sure it adequately reflects changes in circumstances.
- 3.29 Adequate insurance against third party risks is vital especially if a local council owns property such as bus shelters, swimming pools and playground equipment.
- 3.30 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.

## **The budgeting process**

- 3.31 The preparation of an annual budget is one of the key statutory tasks to be undertaken by a local council, irrespective of its size. The budget has three main purposes:
- it results in the council setting the precept for the year;
  - subject to the council's financial regulations, it may give the clerk and other officers overall authority to spend money, in accordance with the plans approved by members; and
  - it provides a basis for monitoring progress during the year by comparing actual spending against planned spending.

- 3.32 The importance of the budget should not be underestimated and it is essential that council members 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 being 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 help in deciding what action to take.
- 3.33 The following table sets out the process for preparing and making use of the annual budget:

## The budget process

1 Deciding the form of the budget	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.
2 Review the current year budget and spending	<p>In making estimates most councils will start by looking at current year figures with three main purposes:</p> <ul style="list-style-type: none"> <li>• 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)</li> <li>• to identify 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)</li> <li>• to identify 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)</li> </ul> <p>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.</p>
3 Determine the cost of spending plans	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.
4 Assess levels of income	Careful consideration should be given to budgeted levels of income for the forthcoming year. Many councils may have no other income but the precept, but for others the budget setting process will usually be the time when decisions are taken about what level fees and charges should be set for the next twelve months.

<p>5 Bring together spending and income plans</p>	<p>For many activities, spending and income decisions will be linked directly e.g. if the council decides to extend the opening hours of the community hall, then it will spend more on heat and light but also generate more income from charges.</p> <p>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 it is usual practice to be 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 more pessimistic about income levels (i.e. to assume that the council might not be able to generate all the income it hopes to).</p> <p>Affordability will usually be judged by the impact the overall plans will 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: deciding first what a reasonable increase would be for the precept and then working out what the extra funds generated can be spent on.</p>
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<p>6 Provide for contingencies and consider the need for balances</p>	<p>Some councils may have absolute certainty in their spending plans for the forthcoming year. For instance, if the only significant outgoing is the clerk's remuneration and this is agreed before the start of the year, then 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. Before committing itself to its spending plans, the council should review the need for amounts to cover contingencies, for example, in case inflation is higher than expected or works are more costly than was first thought. The amounts added to the budget should not be excessive. Councils might work to the principle that it is better to raise cash from a higher precept and not use it than to set the precept too low, and so run out of cash and run the risk of incurring an unlawful overdraft.</p> <p>A well-managed council will also look forward beyond the end of the year for which the budget is being set and think about whether there are any substantial commitments that it would be prudent to set aside funds for. 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.</p> <p>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</p> <p>See paragraph 2.26 for guidance on the level of un-earmarked general revenue reserves.</p>
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<p>6 Provide for contingencies and consider the need for balances (continued)</p>	<p>It is possible that the council's spending plans, particularly capital expenditure, may require a level of external borrowing. Borrowing by local councils is subject to government controls and, with certain limited exceptions, the Assembly Government's approval is required. The Assembly Government may also impose conditions in accordance with which the borrowing shall be carried out.</p> <p>The Assembly Government publishes guidance on applying for borrowing approvals. The guidance may be found at <a href="http://new.wales.gov.uk/topics/localgovernment/publications/borrowingapprovals0809/?lang=en">http://new.wales.gov.uk/topics/localgovernment/publications/borrowingapprovals0809/?lang=en</a></p> <p>Councils must always take advice before commencing any contractual borrowing arrangements. OVV 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.</p> <p>Councils should also be aware of and have internal controls in place to avoid the possibility of 'accidental' borrowing which can occur, for example, if regular payments are made at a low point in the council's cash flow cycle, i.e. at year-end, and just before the precept payment is received.</p>
<p>7 Approve the budget</p>	<p>Having determined the planned levels of spending, anticipated income and the balances needed to be carried forward for contingencies and future spending plans, the budget needs to be approved. Much of the work preceding this stage may be delegated to the RFO, but the council must approve the finalised budget. Sufficient information needs to be provided with the budget papers so that members can make a reasonable and informed decision about the desirability and affordability of the plans for the coming year.</p> <p>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: authorisation might then be given to the RFO to pay the grant without having to make further reference to the council.</p> <p>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.</p>

<p>8 Confirm the precept</p>	<p>The important statutory stage of the budget process is confirming the precept that is to be raised on the district council or 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 for precepts to be issued by an earlier date to assist their setting and administration of the council tax and will normally provide assistance to local councils to ensure that everything goes smoothly.</p> <p>All other parts of the budget process will be timed so that the date for setting the precept can be achieved safely.</p>
<p>9 Review progress against the budget</p>	<p>Once the budget has been approved, it should be an active tool for managing the council's finances. The well-run council will have the following arrangements in place:</p> <ul style="list-style-type: none"> <li>• progress reports prepared periodically through the year, showing spending and income to date against budgeted amounts. Care should be taken to profile the budget across the year and not necessarily assume, say, that half the budget would have been spent after six months. For instance, a significant element of spending may be grants to local organisations paid at the start of each financial year. There would then be a peak of spending in April that would 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;</li> <li>• the report is presented at each council meeting. This would provide 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.</li> </ul> <p>It is good practice to change a budget that is shown by experience to be ineffective. However, changes should only be made with the authorisation of those who approved the original budget.</p>

## Capital budgeting

- 3.34 Councils can only use receipts from the sale of fixed assets ('capital receipts') in excess of a *de minimis* value for specified purposes, of which the main ones 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 properly planned over an appropriate timescale. It is unlikely that the majority of smaller councils will embark on many major capital schemes, but where they do they should have a long-term capital budget or a rolling capital programme. Advice should be sought from OVW or SLCC where a capital receipt is to be realised.
- 3.35 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.

## The Cash Book

- 3.36 The most important accounting record maintained by local councils will be the cash book – a register of all the payments made and receipts taken in by the council. There may be a temptation to rely on the bank statement as a record of cash transactions. However, a cash book is essential because the statements provided by the bank will not necessarily be a reliable record of the council's cash balances because:
- the bank can make errors and omissions in processing transactions - the council needs its own records to provide a check on the bank statement;
  - 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.
- 3.37 The cash book 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 cash book. 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.

- 3.38 Whatever medium is used for the cash book, it will normally be set out in a columnar format – the date and description of the transaction will be written in the left-hand column, and the value of the transaction entered in other columns across the page according to the nature of the receipt or payment. The headings for the columns will be chosen by the council to cover the main categories into which their cash transactions fall.
- 3.39 Example 1 at the end of this part shows a typical layout for the cash book.
- 3.40 The basic principles for managing a cash book effectively are:
- the cash book should start each year at 1 April on a fresh page or new spreadsheet, with the first entry being 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);
  - all entries should be dated – receipts should be recorded 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 cash book 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;
  - details of the transaction should be entered, as well as a reference to supporting documentation – the description should be sufficiently detailed to allow the cash book to be understandable if the supporting documentation were lost or destroyed, but not excessively so. Each council will have its own referencing system for voucher numbers, linking to the bills, invoices, receipts, etc, that support the cash transaction, usually using the numbers already marked on the council's own documents and marking up new serial numbers on the documents received from other parties;
  - 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 cash book and the receipts and payments are also then 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 is helpful because:
    - it has an element of internal check in it, because, 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.
- where a council has more than one bank account, it may be easier to operate a separate cash book for each account, treating transfers between accounts as receipts and payments in the same way as for transactions with other parties. However, if the council only has a straightforward savings account, there may be room in the cash book for two additional columns for the receipts and payments of the savings account.

3.41 What this means in practical terms is that if, for instance, the clerk had ordered goods from a supplier on credit in the council's name and spent £30 on computer supplies and £20 on cleaning materials, arranging for a cheque for £50 to be drawn to settle the bill, then the following would happen:

- 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 cash book would be required;
- a gross payment of £50 would be written in the payments column on the left-hand side of the cash book;
- entries would be made in the appropriate columns on the right-hand side of the cash book for computer supplies and cleaning materials to the value of £25.75 and £16.80 respectively (i.e., net of 17.5 per cent VAT) and for reclaimable input VAT of £7.45.

3.42 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 cash book:

- reconciling the cash book to the bank statement; and
- balancing the cash book at the end of the financial year.

3.43 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.

- 3.44 If the error is discovered after the cheque or payment has been recorded in the cashbook, it is not helpful simply to cross through the entry. Good practice would be to record the cancellation as an entry in the receipts column giving all the details of number, name, date and amount together with a comment that this represents a cancelled cheque. If the cheque has already been sent, a copy of the letter to the bank cancelling the payment should be kept in the file of cancelled cheques.
- 3.45 These cancelled cheque procedures, if followed, will allow the process of balancing the cash book (see below) to take place most easily.

## Reporting investments

- 3.46 Where a council holds short term investments such as deposit or savings accounts, all year-end balances must be reported in detail within the bank reconciliation and be included in the sum of annual return Box 9 - Total cash and short-term investments. Auditors may wish to confirm these account balances from time to time.
- 3.47 The council may also hold long-term investments (see paragraphs 2.29 to 2.39 on how to distinguish short-term and long-term investments). On acquisition, long-term investments should be recorded in the cash book as capital expenditure and will therefore appear as part of the annual return Box 6 - Total other payments. Any asset created in this way should also be recorded on the asset register at the same purchase cost. At year end the asset will therefore appear within the sum at annual return Box 9 – Total fixed assets and long term assets.
- 3.48 Each asset owned by the council should be recorded on the asset register at its original purchase cost. In the event that the original purchase cost is not known at the time of first recording on the asset register, the council should, having taken appropriate advice, establish a current value for the asset. This value will act as a proxy for the original purchase cost and remain unchanged until disposal.
- 3.49 The market value of long term investments may change over time. At each year end, the RFO should make a note on the asset register of the market value of each investment at 31 March to inform readers. However, any gain or loss as compared to purchase cost will only ever be accounted for at the time of disposal when the total proceeds will be included in annual return Box 3.
- 3.50 Any dividend or interest payments received during the year from these investments should be recorded as income and reported in annual return Box 3 – Total other receipts.
- 3.51 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 cash book. Any loan made must also be added to the asset register.
- 3.52 The outstanding amount of any loan at 31 March each year, excluding interest, falls to be reported in the sum of annual return Box 12 – Total

fixed assets and long-term assets. Any repayment of a loan or part of it, or any interest received should be recorded as an income item in the cash book when received and reported in annual return Box 3 – Total other receipts. This receipt will also be reflected as an increase in annual return Box 7 - Balances carried forward. Any repayments of loan principal must also be applied to reduce the amount of the loan outstanding on the asset register.

## **Reconciling the cash book to the bank statement**

- 3.53 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 cash book which is the council's own record of its cash position. It is consequently an invaluable exercise to compare the balances on the bank statement and in the cash book at any particular date and to investigate the reasons for any differences between them. This will reveal whether there are any errors or omissions in either the bank records or the cash book. (Cheques drawn properly have been known to be altered by recipients before being banked.)
- 3.54 Bank reconciliation should be performed regularly, normally 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 most transactions are made, and possibly one or more deposit accounts.
- 3.55 Bank reconciliation is a key tool for management as it identifies available funds at a specific moment in time which aids good decision making, particularly when there are competing priorities. The year-end bank reconciliation is particularly important as it will 'prove' the total cash and investments balance shown on the council's annual return (Section 1 line 9). As bank statements may be made up to different dates in the month care should be taken, particularly at year end, to ensure that the statement being reconciled includes balances as at 31 March.
- 3.56 Some councils will carry out a reconciliation every time they receive a bank statement, which is good practice as it identifies bank errors early on. It is for each council to decide how regularly it wants to receive the assurance that a successful reconciliation can provide. Reconciling the cash book to bank statements should be reported to members, and the full reconciliation made available for their scrutiny each time it is done. Approval of the bank reconciliation by the council or the chair of finance or another council nominee is not only good practice but it is also a safeguard for the RFO and may fulfil one of the councils internal control objectives.
- 3.57 There are a limited number of reasons for differences between bank statements and the cashbook, and most councils will be able to use a standard layout for the bank reconciliation. The common reasons are:
- unrepresented cheques – payments are recorded in the cash book when the authority commits itself to making them, usually by handing over a cheque, putting a cheque in the post or completing the instructions for an automated payment; the balance on the bank account will not reduce until several days later when the cheque or instruction is received by the bank and processed. Unrepresented

cheques therefore need to be deducted from the bank statement balance in the reconciliation;

- 'payments in to the bank' which are outstanding ('sometimes referred to as 'cash in transit') – receipts are recorded in the cash book when they come into the possession of the council. However, they will not be recognised on the bank statement until after cash is banked or cheques are presented for clearance. Payments in to the bank which are outstanding from the bank statement therefore need to be added to the bank statement balance in the reconciliation; and
- there may be transactions in the bank statement that are not recorded in the cash book – this will particularly apply to interest payable and bank charges, which might be advised to the council for the first time through the bank statement. The bank statement may also show up direct debits, standing orders and other automated payments that have been omitted from the cash book. None of these is strictly an item for the reconciliation, however. Instead, the cash book should be updated to record all of these transactions, and the resulting balance is then brought into the reconciliation.

3.58 A standard layout for a financial year-end bank reconciliation would look something like this (although the model can be applied for reconciliations carried out at any time of year):

## Example bank reconciliation

<b>Bank Reconciliation</b>		
Council Name _____		
Financial year ending 31 March 20xx		
Prepared by _____ (Name and role [clerk/RFO etc]) Date _____		
Approved by: _____ (Name and Role RFO/Chair of Finance etc) Date _____		
Balance per bank statements as at 31 March 20xx:	£	£
e.g. Current account	1,000.00	
High interest account	3,000.00	
Building society premium a/c	10,000.00	
Petty Cash float	10.00	
		14,010.00
Less: any unpresented cheques at 31 March (normally only current account)		
Cheque number 000154	(40.00)	
000157	(18.00)	
000158	(2.00)	
		(60.00)
Add: any uncredited deposits at 31 March		
e.g. Allotment rents banked 31 March (but not credited in bank account until 1 April)	30.00	30.00
Net bank balances as at 31 March 20xx		13,980.00
Add: Value of other short term investments*		4,030.00
<b>Total Cash and Short Term Investments 31 March 20xx</b>		<b>£18,010.00</b>
<b><i>The net balances reconcile to the Cash Book (receipts and payments account) for the year, as follows:</i></b>		
<b><u>CASH BOOK</u></b>		
Opening Balance		15,280.00
Add: Receipts in the year		6,500.00
Less: Payments in the year		(7,800.00)
Closing balance per cash book [receipts and payments book] as at 31 March 20xx (must equal net bank balances above)		13,980.00
Add: Value of other short term investments as at 31 March 20xx*		4,030.00
<b>Total Cash and Short Term Investments 31 March 20xx</b>		<b>£18,010.00</b>
*Note: If the Council holds other short term investments they should be added to the closing balances of the Cash Book at historic cost, and included in Box 9 of the annual return. Accounting requirements for investments are set out in paragraphs 3.46 to 3.52.		

- 3.59 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;
  - review the bank statements for transactions that have not been recorded in the cash book, such as interest and bank charges, and make the appropriate cash book entries;
  - balance off the cash book (see below) and enter the resultant balance at the foot of the page;
  - identify the cheques that have been recorded as drawn in the cash book 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 cash book 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 cash book balance, an in-depth analysis of the bank statement and cash book may be necessary to discover the reason for the unreconciled difference; and
  - 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.
- 3.60 Where a council has more than one bank account, each account should be balanced to the cash book, 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 yet processed by the bank.
- 3.61 RFO's should note that transfers are neither receipts nor payments so they should not be included in the totals of receipts and payments in the cashbook. Therefore, transfers are excluded from the totals reported in boxes 3 and 6 of section 1 of the Annual Return.

## **Balancing the cash book**

- 3.62 The process of balancing the cash book involves putting new entries in the cash book 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.

3.63 The purpose of balancing the cashbook is explained as follows (and demonstrated in Example1 at the end of this part of the guidance):

- the first step in balancing the cash book is to add up the figures in the receipts and payments columns, including the brought forward cash figure – in the example this gives totals of £2,119.12 and £784.99 respectively;
- 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. This requires that the brought forward cash balance is ignored in the totals for the left-hand side (i.e. 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) and that the right-hand totals add back in the VAT elements that have been separated out;
- 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 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.);
- 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 cash book 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; and
- 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, either cash-in-hand (if in the Receipts column) or cash overdrawn (if in the Payments column). It is the figure that is used as the cash book balance in the bank reconciliation.

## Accounting for Fixed Assets

3.64 This section covers the arrangements in respect of the acquisition, maintenance and eventual replacement of those items of a capital nature where values tend to be high and which have a useful life of more than one year. These items are usually described as Fixed Assets (or more frequently now as non-current assets). They comprise the sum of land, buildings, play equipment, plant, office equipment and vehicles

etc. Long term investments which are treated as capital expenditure (see paragraphs 2.29 to 2.39) create a non-current asset which must also be accounted for in the asset register. See paragraphs 3.46 to 3.52 on how to report long term investments.

- 3.65 Fixed assets acquired in any year must be added to the asset register for management purposes. For accounting purposes, however, acquisitions and disposals of fixed assets must be treated as any other purchase or sale and recorded as part of annual payments or receipts, expenditure or income normally through line 6 of section 1 of the annual return. Commercial concepts of depreciation, impairment adjustments, etc are not appropriate for local councils. For reporting purposes therefore, the 'book' value of fixed assets will usually therefore stay constant until disposal.
- 3.66 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.
- 3.67 These risks are most likely to be realised when information is poor. In particular where information about assets is not available or access to information about assets is denied by being out-of-date or non-existent. The risk of financial loss can be greatly reduced by setting up an asset register which holds all the information needed.
- 3.68 An asset register is the starting point for any system of financial control over assets as it:
- facilitates the effective physical control over assets;
  - provides the information that enables the Council to make the most cost effective use of its capital resources;
  - ensures that no asset is overlooked or under utilised and is therefore used most efficiently;
  - pools all the information available about each asset from across the organisation and makes it available to every part of the organisation,
  - provides a record of the sources of evidence used to support the existence and valuation of assets to be covered by insurance;

- supports the annual return entry for capital assets by collecting the information on the cost or value of assets held; and
- forms a record of assets held for insurance purposes.

3.69 The key information needed in the asset register is:

- dates of acquisition, upgrade and disposal (it is useful to keep a record of disposed assets as an asset management tool);
- costs of acquisition and any expenditure which increases the life of the asset;
- useful life estimate;
- location;
- responsibility (it may be appropriate to assign responsibility for each asset to members of staff);
- present use and capacity, for example in terms of site area, internal floor areas, and measures of occupancy and/or usage;
- corresponding periodic measures of usage or occupation;
- any available indications of asset value and condition; and
- charges for usage or occupancy.

3.70 Most assets will be first recorded in the asset register at their purchase cost. In some cases this may not be known and a proxy cost substituted, usually the insurance value, or, where the asset is land or is not insured, a value estimated by the council based on external advice. Whatever valuation basis is adopted for accounting purposes, it is essential that the basis is applied consistently. If for some reason the basis of valuation is to be changed the figures shown for the previous year should also be changed to the same new basis and marked as RESTATED. The council must provide an explanation for the change to the external auditor.

## Preparing the Wales Audit Office annual return

3.71 Section 1 of the Wales Audit Office annual return represents the statutory statement of accounts 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 cash book has been balanced and reconciled to the bank statement at the 31 March, then the Return should be straightforward to prepare.

## **For councils with gross income or expenditure (whichever is the higher) in any year under £100,000**

- 3.72 For councils with gross income or expenditure (whichever is the higher) in any year of less than £100,000 the Return should be prepared on a receipts and payments basis, or, if the council so wishes, it may be prepared on an income and expenditure basis. In this case, councils should refer to paragraphs 3.75 to 3.83 below.
- 3.73 An income and expenditure basis is where the accounts would add in all the amounts that the council owes at the year-end (e.g. an unpaid electricity bill) as spending for the year, and anticipate amounts owed to the council (e.g. unpaid allotment rents). But the receipts and payments basis requires councils only to consider their actual bank and cash transactions. The entries for the annual return will usually be taken straight from the summary totals in the cash book.
- 3.74 For example, if the council whose cash book is shown in Example 1 had no further transactions for the year, then its annual return would be compiled like this:

## Receipts and payments accounts

		This Year	Last Year	<i>Notes on compilation from the Example 1 cash book</i>
		£	£	
1	Balances brought forward	1,009		<i>This should be the brought forward figure shown at the head of the cash book for this year – it will equal the last year figure in line 7 of the Return</i>
2	(+) Annual precept	600		<i>The total in the Precept column of the cash book</i>
3	(+) Total other receipts	510		<i>The total in the Receipts column (£2,119.12), less the balance brought forward (£1,008.75) and the annual precept (£600).</i>
4	(-) Staff costs	(200)		<i>The total in the Clerk's Salary column.</i>
5	(-) Loan interest/capital repayments	NIL		-
6	(-) Total other payments	(585)		<i>The total in the Payments column (£784.99) less staff costs (£200)</i>
7	(=) Balances carried forward	1,334		<i>The sum of the above entries</i>
8	Debtors and stock	Nil		-
9	Total cash and investments	1,334		<i>No other balances held but cash</i>
10	Creditors	Nil		
11	(=) Balances carried forward	1,334		<i>As line 7</i>
12	Total fixed assets	NIL		-
13	Total borrowings	NIL		-

## **For councils with gross income or expenditure (whichever is the higher) in any year between £100,000 and £1,000,000 and those electing to prepare income and expenditure accounts**

- 3.75 For councils with gross income or expenditure (whichever is the higher) in any year between £100,000 and £1,000,000 the return has to be prepared on an "income and expenditure" basis. Councils with income and expenditure below £100,000 may elect to prepare their accounts on an income and expenditure basis. In income and expenditure accounts, the transactions for the year comprise all those instances in the twelve months where the council has received economic benefits (irrespective of the year when it will pay for them) or given others economic benefits (irrespective of the year when it will receive payment for them).
- 3.76 For example, suppose a council has its owned offices re-roofed in March but the builders do not manage to issue an invoice until April and the council does not settle the bill until May. The cash book 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 their 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.
- 3.77 In contrast, someone might put down a refundable deposit in February on a booking for the hall in June. The cash book 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, and 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.
- 3.78 Income and expenditure accounting thus gives a more sophisticated presentation 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.
- 3.79 Very few councils will actually maintain their books of account on an income and expenditure basis. The cash book will be the main focus for day-to-day accounting and balancing off and reconciliation to the bank statement will remain the most important controls over the accounting system. Subsidiary records will be kept of the council's debtors (people who owe the council) and creditors (people the council owes) based on invoices, but transactions will be made in the cash book for this activity only when cheques and cash are actually received.
- 3.80 This means that there will need to be a special exercise at the end of each financial year to convert the receipts and payments record represented by the cash book into the income and expenditure account required by Section 1 of the annual return.

- 3.81 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.
- 3.82 The adjustments required will comprise:

## Income and expenditure adjustments

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

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

- 3.83 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;
  - assessing the value of stock at the 31 March (having a formal stocktaking if the council has a proper stock control system); and
  - considering whether the council has any other obligations arising from events that took place before 31 March that mean it will not be able to avoid making a payment at some time after 31 March.

### **Notes applicable to all local councils**

- 3.84 Compilation of the Return from the cash book might not always be straightforward. The following table discusses the difficulties that might arise with each line of the Return:

## Potential difficulties with the Annual Return

1 Balances brought forward	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 errors and omissions can be found in the accounts, even after an audit. If it is found that there were 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. A note should be prepared 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	There will be very few occasions when the precept on the unitary council is not paid in full before the end of the relevant year or is paid early when the normal payment dates fall on a weekend or bank holiday.
3 (+) Total other receipts	<p>This figure will simply be the total cash receipts taken by the council in the year, reduced by the value of precept payments recorded in the preceding box.</p> <p>If the statement of accounts is being prepared on a receipts and payments basis, VAT charged on goods and services provided by the council should be included, even though the tax is payable to HMRC.</p> <p>Some adjustments may be necessary where the council has more than one bank account – transfers between bank accounts (e.g. between current and deposit account) would show up as receipts and payments for the individual accounts in the cash book, but they are not receipts and payments for the council as a whole. Both sides of a transfer between the council's own bank accounts should be ignored when adding up receipts and payments for the year.</p> <p>Similarly, Councils should review their cashbook and schedule of assets and liabilities to see if there are any receipts arising from the disposal of investments reflected in the cash book balance. On disposal, these are recorded as a cash receipt in the cash book, However, in order to give a fair view of the council's finances the cash receipts related to disposal of investments should not be included in line 3.</p>

4 (-) Staff costs	This figure comprises all payments made in relation to the employment of staff. Including employment expenses which 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	<p>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.</p> <p>If a council goes overdrawn at the bank then any interest or charges paid as a result of the overdraft should be included under this heading. Bank charges other than those arising as a result of temporary borrowing should be included in Total other payments in line 6.</p>
6 (-) Total other payments	<p>This figure should simply be the total cash payments made by the council in the year reduced by the value of staff costs and loan interest and capital repayments recorded in the preceding two boxes.</p> <p>If the statement of accounts is being prepared on a receipts and payments basis VAT on goods and services acquired by the council should be included, even though the tax is reimbursable by HMRC.</p> <p>Some adjustments may be necessary where the council has more than one bank account and transfers have been made between them – see Total other receipts above.</p> <p>Similarly, Councils should review their cashbook and schedule of assets and liabilities to see if there are any payments arising from the acquisition of short term investments reflected in the cash book balance. On acquisition, these are recorded as a cash payment in the cash book, However, in order to give a fair view of the council's finances the cash payments related to purchase of short term investments should not be included in line 3.</p>
7 (=) Balances carried forward	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 cash book at the end of the year.

## Notes on VAT

- 3.85 For councils reporting on the receipts and payments basis the amount of VAT charged to “customers” and the VAT refund made by HMRC will be included in line 3 (other receipts); the amount of VAT paid to suppliers and any paid to HMRC will be included in line 6 (other payments).
- 3.86 For councils reporting on the income and expenditure basis the amounts of VAT collected from customers, paid to suppliers, and payable to, or repayable by, HMRC will be posted to a VAT Account which will result in a balance due to, or from, HMRC. This balance will be included in Creditors or Debtors as appropriate – i.e. in this case the only value of VAT to be included in the Annual Return figures will be any that is to be written off as irrecoverable (usually due to a partial exempt position on VAT)

## Moving from Receipts and Payments to Income and Expenditure

- 3.87 Having prepared a receipts and payments account from the cash book the receipts and payments account needs to be converted into an income and expenditure account by the adjustments set out in paragraph 3.82. Suppose that the council in Example 1 had the following circumstances:

Debtors	<ul style="list-style-type: none"> <li>the hall booking fee of £75 received on 8 April 20xx was paid in arrears for an event that took place on 30 March 20xx before the year start and had been accounted for as a debtor in last year's income figure</li> <li>a hall booking fee of £200 for an event held on 14 March 20yy was not paid until 30 April 20yy after the year-end</li> </ul>
Receipts in advance	<ul style="list-style-type: none"> <li>hall booking fees of £300 were taken before 1 April 20xx for events that were to take place after 1 April and these were accounted for as receipts in advance in last year's income and expenditure figure</li> <li>the hall booking fees of £150 received on 24 May 20xx were for an event that did not take place until April 20yy in the following financial year</li> </ul>
Creditors	<ul style="list-style-type: none"> <li>the payment of £45 for the repair of a window made on 22 April was for work carried out before the start of the year and had been accounted for as a creditor in last year's income and expenditure figures</li> <li>no payment has yet been made for the replacement of a door in February 20yy – an invoice received after the year-end confirms that</li> </ul>

	£56 is payable
Prepayments	<ul style="list-style-type: none"> <li>• before 1 April 20xx the council paid £220 in advance for a service cover agreement on its kitchen equipment for the year starting on 1 April 20xx</li> <li>• the grant of £250 paid to the sports association on 17 May was to cover the period running from June 20xx to May 20yy, extending beyond the end of the financial year – one sixth of the grant (around £40) is a prepayment for amounts due after 31 March 20yy</li> </ul>
Stock	<ul style="list-style-type: none"> <li>• checks of the levels of stocks of cleaning products in the village hall showed that £120 was held at 31 March 20xx and £70 at 31 March 20yy</li> </ul>
Provisions	<ul style="list-style-type: none"> <li>• in July 20xx there was an accident in the village hall that resulted in slight injury – the council's solicitor estimates that the council will end up with a bill for compensation of £300 that will not be covered by insurance</li> <li>• in November 20xx, an earlier claim for accident compensation was settled without the council having to pay a penny – however, a provision had been made in the previous year's income and expenditure account for £100 for a likely settlement</li> </ul>

3.88 The following adjustments to the receipts and payments account would then be necessary:

		R + P £	Previous year adjust- ments £	Current year adjust- ments £	I + E £	Notes on compilation from the receipts and payments account
1	Balances brought forward	1,009	(30)	-	979	<i>This should equal the last year figure in line 7 of the Return and the adjustment requires replacing the R+P amount with last year's I+E figure</i>
2	(+) Annual precept	600	0	0	600	
3	(+) Total other receipts	510	(75) 300	200 (150)	785	<i>Debtors adjustments</i> <i>Receipts in advance adjustments</i>
4	(-) Staff costs	(200)	0	0	(200)	
5	(-) Loan interest/capital repayments	0	0	0	-	

6	(-) Total other payments	(585)	45 (220) (120) 100	(56) 40 70 (300)	(1,026)	<i>Creditors adjustments</i> <i>Prepayments adjustments</i> <i>Stock adjustments</i> <i>Provisions adjustments</i>  <i>(note – as the payments figure is presented as a negative, deductions from payments are shown as positive figures and additions as negatives.)</i>
7	(=) Balances carried forward	1,334	0	(196)	1,138	<i>The sum of the above entries</i>

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

	£
Balance carried forward	1,138
Cash (positive if credit, negative if overdrawn)	1,334
Debtors (positive figure)	200
Receipts in advance (negative figure)	(150)
Creditors (negative figure)	(56)
Prepayments (positive figure)	40
Stock (positive figure)	70
Provisions (negative figure)	(300)
	1,138

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

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

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

## Supporting documentation

- 3.91 The annual return also requires supporting documentation for the accounts in Section 1 to be provided to the auditor. Because of its importance as confirmation that the council's books of accounts are supported by the bank's records, the most important document to be provided is the year-end bank reconciliation. A reconciliation should be prepared to at least the detail of the example above, so that the auditor will be able to appreciate the difference between the year-end cash book and bank account balances and the nature of the items that reconcile the difference. A separate reconciliation will be expected for each of the bank accounts operated by the council.

- 3.92 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 be considering 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. These expectations will be compared with the actual figures and, 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.
- 3.93 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 a mistake had not been made 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.
- 3.94 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.
- 3.95 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 do not need to be explained. 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' any increase of plus or minus 10 to 15 per cent or more in any line item should be formally explained as a matter of course, as should any expenditure that has either started or ceased.
- 3.96 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.

- 3.97 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).

## **Audit Notices and the presentation of the annual return**

- 3.98 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. For more detailed information about the rights of electors please refer to the Auditor General's publication *Your rights in Wales: Councils' Accounts* (see also paragraph 1.7).
- 3.99 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.
- 3.100 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 section 1 of the annual return and the supporting books of accounts and other documents once the Return has been drafted; and
  - publish sections 1 & 2 of the annual return after it has been audited, together with the auditor's report (section 3), and make available other relevant documents e.g. reports in the public interest.

- 3.101 The council's appointed auditor is the person responsible for setting the date of the commencement of the audit period from which time electors may exercise their rights. The appointed auditor will inform the RFO of this date in the notice of audit sent to the council in order that it can be advertised by display in a prominent place. Similarly, a public notice that the auditor's certificate, which effectively closes the audit for any particular year, has been received must be displayed when it has been received. The auditor's certificate is in section 3 of the annual return.
- 3.102 The council has to 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. A common issue arising is whether councils 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 does extend to personal details of staff and their individual salaries and deductions.
- 3.103 Councils are therefore recommended to read the requirements of the Regulations to ensure they understand the Regulations' requirements and the consequences of failing to meet those requirements. 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.
- 3.104 The external auditor is not responsible directly for enforcing the provisions relating to public scrutiny. However, as their audit might not be properly carried out if the responsibilities of others have not been met (e.g. failure to advertise the audit), they may be willing to comment on issues that the council is having difficulty resolving.
- 3.105 The following timetable summarises the tasks that a typical council will need to schedule in order to prepare the accounts and facilitate the audit process (references are to the Accounts and Audit (Wales) Regulations 2005):

## Timetable for preparing the annual accounts

Step	Task	Comments
1	Arrange for the council to receive the documents needed to prepare the annual return	<p>Likely tasks include:</p> <ul style="list-style-type: none"> <li>• requesting bank statements for 31 March for all bank accounts</li> <li>• arranging for savings account books to be made up to date for 31 March</li> <li>• obtaining written confirmation of other investments at 31 March, including interest for the year</li> </ul>
2	Close, balance and reconcile the cash book, update the schedule of assets and liabilities.	<p>This should be done as soon as practicably possible after the end of the financial year, and certainly in good time for the council to approve Section 1 of the annual return by the statutory date (see step 5).</p> <p>For advice on balancing and reconciling the cash book, see paragraphs 3.53 to 3.63.</p> <p>For advice on preparing income and expenditure adjustments, see paragraphs 3.75 to 3.83.</p> <p>The annual statement of accounts, governance statement and internal audit report will be prepared on receipt of the Annual Return from the external auditor.</p>
3	Draw up Statement of Accounts and Annual Governance Statement	<p>The latest date for approval (see step 6) of the annual return is 30 September. Ensure receipt of current year annual return from the external auditor in good time and make arrangements for the necessary committee and/or full council meeting to approve the accounts</p>

4	Receive confirmation of the date of audit with the auditor	<p>As part of their statutory responsibilities, the external auditor has to appoint a date when local electors can exercise their right to ask questions about the accounts or to object to any item of account and to notify the council (Regulation 12).</p> <p>The council has no official role to play on this date, but needs to know the date as steps 5 and 7 have to be scheduled to be completed before it</p>
5	Display a notice of public rights under audit	<p>In preparation for step 7, councils are required by Regulation 15 to display a notice (or notices) in a conspicuous place(s) in the council's area setting out:</p> <ul style="list-style-type: none"> <li>• the dates of the 20 working day period during which the accounts and other documents will be available for inspection;</li> <li>• the place at which, and the hours during which, they will be available;</li> <li>• the name and address of the auditor;</li> <li>• the rights conferred on the public by sections 29, 30 and 31 of the Public Audit (Wales) Act 2004 (public inspection of accounts and right to challenge), especially the effects of section 31 (2) requiring prior written notice of objections to be sent to the auditor and the council; and</li> <li>• the auditor's appointed date</li> </ul> <p>The notice is required to be displayed for at least 14 days immediately before the date in step 7.</p> <p>As step 7 has to be started at least 20 working days before the auditor's appointed date, this means that the notice is required at least six weeks before the appointed date (and longer if there are any public holidays during the inspection period). It is important that the council ensures that the notice is posted promptly and that it remains displayed for the</p>

		<p>whole 14-day period.</p> <p>The council will be giving a public assurance as part of the annual governance statement in the annual return that this step has been carried out during the financial year.</p>
6	Submit the statement of accounts to the council for approval	<p>Regulation 9(2) requires the RFO to:</p> <ul style="list-style-type: none"> <li>• sign and date the statement of accounts, income and expenditure account and statement of balances, or record of receipts and payments, as the case may be; and</li> <li>• certify that it presents fairly the financial position of the council at the end of the year to which it relates and its income and expenditure or that it properly presents receipts and payments, as the case may be, for that year.</li> </ul> <p>The certification is already set out in Section 1 of the annual return and just needs signing by the RFO (subject to them confirming that the statements therein are correct). This certification is required from the post holder at the time rather than that for the year (or part year) under review.</p> <p>After certification, regulation 9(4) requires that the accounts be approved by a meeting of the council (or one of its committees if the council's Standing Orders permit delegation of this duty) and that the person presiding at that meeting signs and dates the accounts to signify the completion of the approval process. Again, there is space on Section 1 of the annual return to record the council's resolution and the presiding member's signature. It is sensible to do this before the accounts are made available for inspection in step 6, but this is not a statutory requirement. However, regulation 9(4) (a) also requires that it is done as soon as reasonably practical and by the statutory date at the latest.</p>

7	Make the statement of accounts and other documents available for inspection	<p>Regulation 13 requires the accounts and all books, deeds, contracts, bills, vouchers and receipts relating to them to be available for inspection by interested parties for 20 working days before the auditor's appointed date. The council can require that interested parties give reasonable notice that they want to inspect records and do not have to grant immediate access on request. The public are entitled to make copies of any of the documents available for inspection.</p> <p>This can be the most contentious part of the accounts and audit process, where allegations can arise that documents are not being made available or that interested parties are taking advantage of the inspection period.</p> <p>Section 30(3) of the Act prevents a council from releasing certain personal information about members of staff. In other cases where a council wishes to withhold information, legal advice should be sought. The inspection period has to be complete before the auditor's appointed date for audit.</p>
8	The audit	<p>Section 18 of the Act entitles auditors to rights of access at all reasonable times to all documents of the council that the auditor determines are necessary for the audit. The auditor also has a right to require any persons holding or accountable for documents to provide any information and explanations the auditor thinks necessary for the audit.</p> <p>In most instances, however, the audit will be carried out co-operatively, with the council and the auditor agreeing a time when the audit work is to be performed and the RFO will be available to assist the auditor.</p> <p>The Auditor General provides guidance to external auditors. Summarised guidance from the Auditor General to appointed auditors in Wales is at Appendix 5.</p>

9	Publish the statement of accounts	<p>Regulation 11(1) states that as soon as reasonably possible after the completion of the audit (or the statutory date, if this is earlier) the local council should publish its statement of accounts and the auditor's certificate. This requirement can be met by displaying in a conspicuous place sections 1-3 of the annual return. 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.</p> <p>If the accounts are published before the audit certificate is received, the notice should declare and explain the fact that an audit opinion has not yet been given.</p> <p>The Assembly Government's guidance circular (04/2005) on the Accounts and Audit (Wales) Regulations 2005 clarifies what is meant by "publication" in Regulation 11 and gives examples of good practice (see Appendix 7). Although publication does not require any preparation beyond the annual return nor the distribution of copies of the statement of accounts to persons who have not expressed an interest in receiving them, it does require positive action.</p> <p>Publication does not mean merely the appearance of the accounts in the documents of meetings, committees or sub-committees of the council. Nor is the requirement covered by merely providing copies to enquirers on demand. Good practice might include putting a copy on each of the council's notice boards, copying it onto a website, publishing it as a separate leaflet or publication in a newspaper or as part of a newsletter.</p> <p>It is a matter for the council to consider the appropriateness of the publication arrangements they have in place, bearing in mind the need to make information as widely available as practicable, but also taking into account local circumstances, including the size of the local council, the resources available, the number of electors, and the existence of any local information networks</p>
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10	At the conclusion of the audit, display a notice of public rights	<p>Regulation 17 requires that as soon as possible after the auditor has certified that the audit is completed the council should for at least 14 days display a notice in a conspicuous place that the audit has been completed and that the statement of accounts (Sections 1-3 of the annual return) is available for inspection.</p> <p>The statement of accounts that is made available (not the notice itself) must:</p> <ul style="list-style-type: none"> <li>• contain any amendments required by the auditor's report (or a statement of the amendments that were required)</li> <li>• if auditor's amendments have been made, be accompanied by an explanation as to the material respects in which the accounts have been altered</li> <li>• contain a statement of the rights of local electors under section 29 of the Act to inspect and copy the statement of accounts and auditor's reports</li> <li>• state the address at which and the hours during which the statement of accounts and auditor's reports are available for the exercise of these rights.</li> </ul>
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**Example 1  
Cash Book Layout**

Date	Details	Voucher No	Receipt	Payment	Receipts			Payments				VAT Transactions		
					Hall Booking Fees	Precept	Grants	Clerk's Salary	Administration	Grants	Hall Expenses	VAT Input	VAT Output	C+E Repayment
	balance brought forward		1,008.75											
20XX														
1 April	Clerk's remuneration	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	Repair of broken window	5		45.00							38.30	6.70		
27 April	Booking fees	6	100.00		100.00									
30 April	Precept instalment from District Council	7	600.00			600.00								
1 May	Clerk's remuneration	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 association	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	17	100.00				100.00							

	sub-totals for the period		1,110.37	784.99	400.00	600.00	100.00	200.00	32.08	250.00	268.27	34.64	-	10.37
	totals		2,119.12	784.99										
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 and may not necessarily be those of most use to individual councils.

## Example 2 Schedule of Assets

Ref No	Description	Identification	Date Acquired	Value	Custodian	Disposal/Discharge
	<i>ASSETS</i>					
001	Offices and grounds	Deeds held at White Horse Bank	11 July 18xx	£300,000 (Insurance Value)	Caretaker	
002	Ogre Pastoral kitchen oven	Serial no: AURJH231	23 June 20xx	£400	Caretaker	
003	Land Church Drive –for Village Hall Trust	Land Reg cert 48/72/B899	28 December 20xx	N/A	Council as custodian trustee	Held as trustee only
004	Land at Gigg Lane Paddock	Deeds held at White Horse Bank	8 September 19xx	£8,000	Clerk	Sold 9 June 20xx for £10,000
005	HorsePower 324 desktop computer	Serial no: SJND28344	1 March 20xx	£500	Clerk	
006	Blunderbuss CP22 printer	Serial no: LWO19382	1 March 20xx	£100	Clerk	
007	Hall booking fees – Weasley wedding reception	Invoice 00045	8 April 20xx	£150	Clerk	Written off 19 October 20xx – council resolution 146
008	Hall booking fees – Malfoy 18 <sup>th</sup> birthday	Invoice 00046	10 June 20xx	£150	Clerk	Paid in full 29 June 20xx
009	Investment – (sale of allotment) Treasury Stock 5% 2014	Certificate No XP 45/003 lodged with Bank	19 August 20xx	£40,000	RFO for Investment panel	

### Notes:

- This layout for a schedule of assets would only be suitable for a small council that does not have many fixed assets, or hold stocks. Other councils would need to separate the schedule into different documents:
  - an inventory of property
  - stock control records (e.g. for bar supplies)
  - debtors ledgers (e.g. for allotment rentals)
- In determining the layout needed, the objectives to keep in mind are that the schedule should help the council:
  - to know at any time what its assets and liabilities are and keep them under control; and
  - to prepare the entries in the annual return

**Example 3  
Record of Grants**

<b>Lottery Funding for Leisure Centre Gym Extension</b>							
<b>Receipts</b>			<b>£</b>	<b>Payments</b>			<b>£</b>
1 May 20xx	Advice	First grant instalment	8,000	30 Apr 20xx	Invoice BL467	First interim payment to Bodgers Ltd	15,432
1 Aug 20xx	Advice	Second grant instalment	8,000	31 Jul20xx	Invoice BL489	Second interim payment to Bodgers Ltd	17,816
8 Sept 20xx	Advice	Contribution from Philanthropy International Ltd	24,000	31 Oct 20xx	Invoice BL504	Final payment to Bodgers Ltd	14,992
1 Nov 20xx	Advice	Third grant instalment	8,000				
		Balance to be paid by the council	240				
		Total	48,240			Total	48,240

