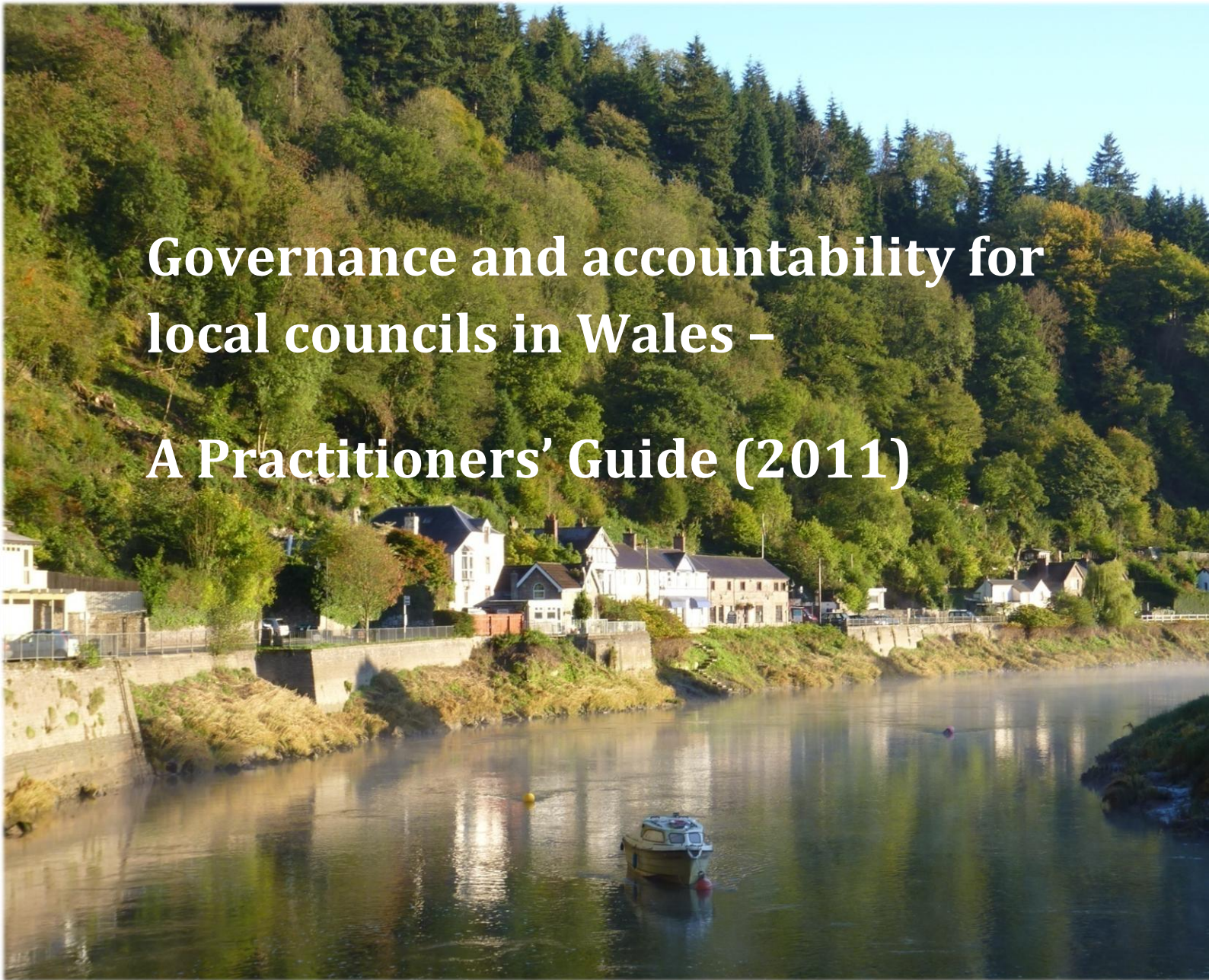


# Governance and accountability for local councils in Wales – A Practitioners' Guide (2011)



Un Llais Cymru



One Voice Wales

Society of  
Local Council Clerks

# Appendices

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## Appendix 1: Further information

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

### Accounts and Audit (Wales) Regulations 2005

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

The original Regulations can be found at:

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

The 2007 amendments can be found at:

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

The 2010 amendments can be found at:

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

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

#### Welsh Assembly Government

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

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

### Safeguarding Community Council Funds

#### Wales Audit Office

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

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

### Community Council Money

#### Wales Audit Office

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

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

### Community Councils: Good Governance – Good Practice

#### Wales Audit Office

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

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

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

#### **Wales Audit Office**

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

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

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

#### **Wales Audit Office**

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

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

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

#### **Wales Audit Office**

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

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

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

#### **Welsh Assembly Government**

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

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

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

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

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

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

Made 22 February 2005

Coming into force 1 April 2005

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

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

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

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

- (1) In these Regulations--

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### 3 Revocation and saving of instruments

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

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

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

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

- (a) arrangements for the management of risk; and
  - (b) adequate and effective financial management.
- (2) The local government body shall conduct a review at least once in a year of the effectiveness of its system of internal control and shall include a statement on internal control, prepared in accordance with proper practices, when relevant , with--

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

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

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

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

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

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

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

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

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

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

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## 6 Internal audit

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

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

## [7 Statement of accounts]

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

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

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

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

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

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

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

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

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

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

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

(i) senior employees, or

(ii) relevant police officers,

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

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

(3) The categories are:

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

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

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

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

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

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

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

(4) In this regulation--

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

- (a) in relation to contributions to the local government pension scheme established under section 7 of the Superannuation Act 1972, the sum of--
  - (i) the common rate of employer's contribution specified in a rates and adjustments certificate prepared under regulation 36 (actuarial valuations and certificates) of the Local Government Pension Scheme (Administration) Regulations 2008, being the amount appropriate for that body calculated in accordance with the certificate and regulation 39(4) (employer's contributions) of those Regulations, multiplied by the person's pensionable pay; and
  - (ii) if applicable, the appropriate sum within the meaning of regulation 40 (employer's payment following resolution to increase membership or award additional pension) of those Regulations;
- (b) in relation to contributions to the firefighters' pension scheme established under the Fire Services Acts 1947 and 1959, the percentage of the aggregate of the pensionable pay calculated for the purposes of paragraph G2(3) and (4) of Schedule 2 to the Firemen's Pension Scheme Order 1992, multiplied by the person's pensionable pay;
- (c) in relation to contributions to the firefighters' pension scheme established under the Fire and Rescue Services Act 2004, the percentage of the aggregate of the pensionable pay calculated for the purposes of paragraphs (2) and (3) of Rule 2 of Part 13 of Schedule 1 to the Firefighters' Pension Scheme (Wales) Order 2007, multiplied by the person's pensionable pay;
- (d) in relation to contributions to police pension schemes established under the Police Pensions Regulations 1987 or the Police Pensions Regulations 2006, the percentage of pensionable pay specified in regulation 5(1) of the Police Pension Fund Regulations 2007, multiplied by the person's pensionable pay;

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

"relevant police officer" means--

- (a) in relation to a police force maintained under section 2 of the Police Act 1996, the chief constable, and
- (b) any other senior police officer whose salary is £150,000 per year or more;

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

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

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

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

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

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

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

### **8 Other accounting statements**

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

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

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

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(c) an internal drainage board[; and

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

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

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

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

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

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

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

(4) ...

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

[A local government body must ensure that--

(a) the statement of accounts, or

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

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

is prepared in accordance with these Regulations.]

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

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

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

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

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

- [(1) In this regulation "accounts" means the statement of accounts, the income and expenditure account and the statement of balances, or the record of receipts and payments, as required by regulation 7(1) or 8(1) or (3).
- (2) A local government body must approve the accounts in accordance with this regulation.
- (3) Approval pursuant to paragraph (2) must take place as soon as reasonably practicable and in any event before the 30 September immediately following the end of a year.
- (4) If the accounts were approved pursuant to paragraph (3) before the conclusion of an audit of those accounts, the accounts must be approved as soon as reasonably practicable after the receipt of any report from the auditor which contains the auditor's final findings from the audit and which is issued before the conclusion of the audit.
- (5) The approval required by paragraph (4) is in addition to approval pursuant to paragraph (3).

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- (6) The approval required by paragraphs (3) and (4) must be by a resolution of a committee of the local government body or otherwise by a resolution of the body meeting as a whole.
- (7) Following approval in accordance with paragraph (3) and (4), the accounts must be signed and dated by the person presiding at the committee or meeting at which that approval was given.
- (8) Where any material amendment is made to the accounts, the responsible financial officer must report such amendment to the local government body or the committee of that body immediately before the body or committee is to approve the accounts pursuant to regulation 9(3) or (4).]

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

- (1) . . . As soon as reasonably possible after conclusion of an audit, and in any event before the 30 September immediately following the end of a year, a local government body to which paragraph (2) below applies shall--
- (a) publish by means other than merely by reference in the documents of meetings, committees or sub-committees of the body, the statement of accounts prepared in accordance with regulation 7 together with any certificate, opinion, or report issued, given or made by the auditor under sections 23(2) and 33 of the 2004 Act before the date of publication, or, if publication takes place prior to the conclusion of the audit and no such opinion has been given, together with a declaration and explanation of the fact that at the date of publication the auditor has given no opinion, and
- (b) keep copies available for purchase by any person on payment of such sum as the local government body may reasonably require.
- (2) This paragraph applies to--
- (a) a local government body to which regulation [7(2)] applies; and
- (b) a local government body referred to in regulation [7(3)] in relation to the accounts for a period referred to in that regulation.
- (3) . . .

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

- (1) As soon as reasonably possible after conclusion of an audit, and in any event before the [30 September] immediately following the end of a year, a local government body to which paragraph (2) applies, shall--
- (a) publish by means other than merely by reference in the documents of meetings, committees or sub-committees of the body, the statement of accounts, if the council so decides, or the income and expenditure account and the statement of balances prepared in accordance with regulation 8(3) together with any certificate, opinion, or report issued, given or made by the auditor under sections 23(2)(a) and 33 of the 2004 Act before the date of publication, or, if publication takes place prior to the conclusion of the audit and no such

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opinion has been given, together with a declaration and explanation of the fact that at the date of publication the auditor has given no opinion; and

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

(2) This paragraph applies to--

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

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

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

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

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

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

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

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

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

### **14 Alteration of accounts**

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

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### 15 Notice of public rights

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

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

(a) the period during which the accounts and other documents referred to in paragraph (1) will be available for inspection in accordance with regulation 13;

(b) the place at which, and the hours during which, they will be so available;

(c) the name and address of the auditor;

(d) the provisions contained in section 30 and section 31 of the 2004 Act; and

(e) the date appointed under regulation 12.

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

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

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

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

### 16 Written notice of ... objection

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

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

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

(2) ...

### 17 Notice of conclusion of audit

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

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

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

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

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

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

(3) ...

(4) ...

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

### **18 Publication of annual audit letter**

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

(a) publish the annual audit letter received from the auditor; and

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

### **19 Joint committees etc**

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

(a) within the period of fourteen days specified by regulation 17(2), a copy of the auditor's report, and

(b) where the committee, board or authority is a body to which [regulation 7(2)] applies, on giving notice under regulation 17(1), a copy of the statement of accounts.

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

### **20 Extraordinary audit**

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

- (a) in the case of a body to which regulation 10(2) applies, give notice by advertisement, and
- (b) in the case of a body to which regulation 11(2) applies or which is referred to in regulation 11(3), display a notice in a conspicuous place or places in the area of the body, concerning the right of any local government elector for the area to which the accounts relate to attend before the auditor and make objections to any of those accounts.

### **21 Offences**

- (1) It is hereby declared that contravention of any of the provisions specified in paragraphs (2) and (3) is an offence.
- (2) Subject to paragraph (3) the provisions referred to in paragraph (1) are regulations 4, 7, [7A,] 8, 10, 11, 13, 14, 15, 17, 18 and 20.
- (3) The provisions referred to in paragraphs (1) and (2) include regulation 4 only in so far as regulation 4 requires that a statement of internal control be included with any statements of accounts, any income and expenditure account and the statement of balances or receipts and payments.

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

- (1) Schedule 1 (Functions not to be the responsibility of an authority's executive) to the Local Authorities (Wales) Regulations 2001 and Schedule 1 (Functions not to be the responsibility of an authority's Board) to the Local Authorities (Alternative Arrangements) (Wales) Regulations 2001 shall be amended as follows.
- (2) In column 2 of paragraph 8 of Part I (Miscellaneous functions) the following shall be substituted "The Accounts and Audit (Wales) Regulations 2005".

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

- [(1) This regulation applies to bodies referred to in regulation 8(2)(a) to (c) and (3).
- (2) In respect of the years ending with 31 March 2010 and 2011--
  - (a) the references to 30 June in regulation 8B are to be read as references to 30 September; and

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

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

*D Elis-Thomas*

The Presiding Officer of the National Assembly

22 February 2005

## Appendix 3: Guidance for internal audit

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

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

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

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

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

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## Appendix 4: An approach to internal audit testing

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

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

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

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

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

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

## Appendix 5: Annual internal audit review

### Checklist 1 – meeting the standards

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

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### Checklist 2 – Characteristics of effectiveness

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

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

### Welsh Assembly Government

#### GUIDANCE ON LOCAL GOVERNMENT INVESTMENTS

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

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

#### PART 1

##### INFORMAL COMMENTARY ON THE INVESTMENTS GUIDANCE

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

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

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

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

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

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

##### APPLICATION [3.1 - 3.3]

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **PART 2**

### **Welsh Assembly Government**

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

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

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

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

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

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

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

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

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

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

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

##### **Effective date**

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

##### **Local authorities**

3.2 This guidance applies to all local authorities in Wales.

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

## Appendices

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

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

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

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

#### **Preparation**

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

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

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

#### **Approval**

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

#### **Timing**

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

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

#### **Publication**

## Appendices

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

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

#### **Specified investments**

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

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

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

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

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

(i) the United Kingdom Government

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

(iii) a parish or community council.

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

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

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

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

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

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

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

# Appendices

## **Risk assessment**

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

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

## **Treasury management advisors**

6.2 Welsh Ministers recommend that the Strategy should state what:

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

## **Investment training**

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

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

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

## **(7) INVESTMENT LIQUIDITY**

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

## **Welsh Assembly Government April 2010**

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

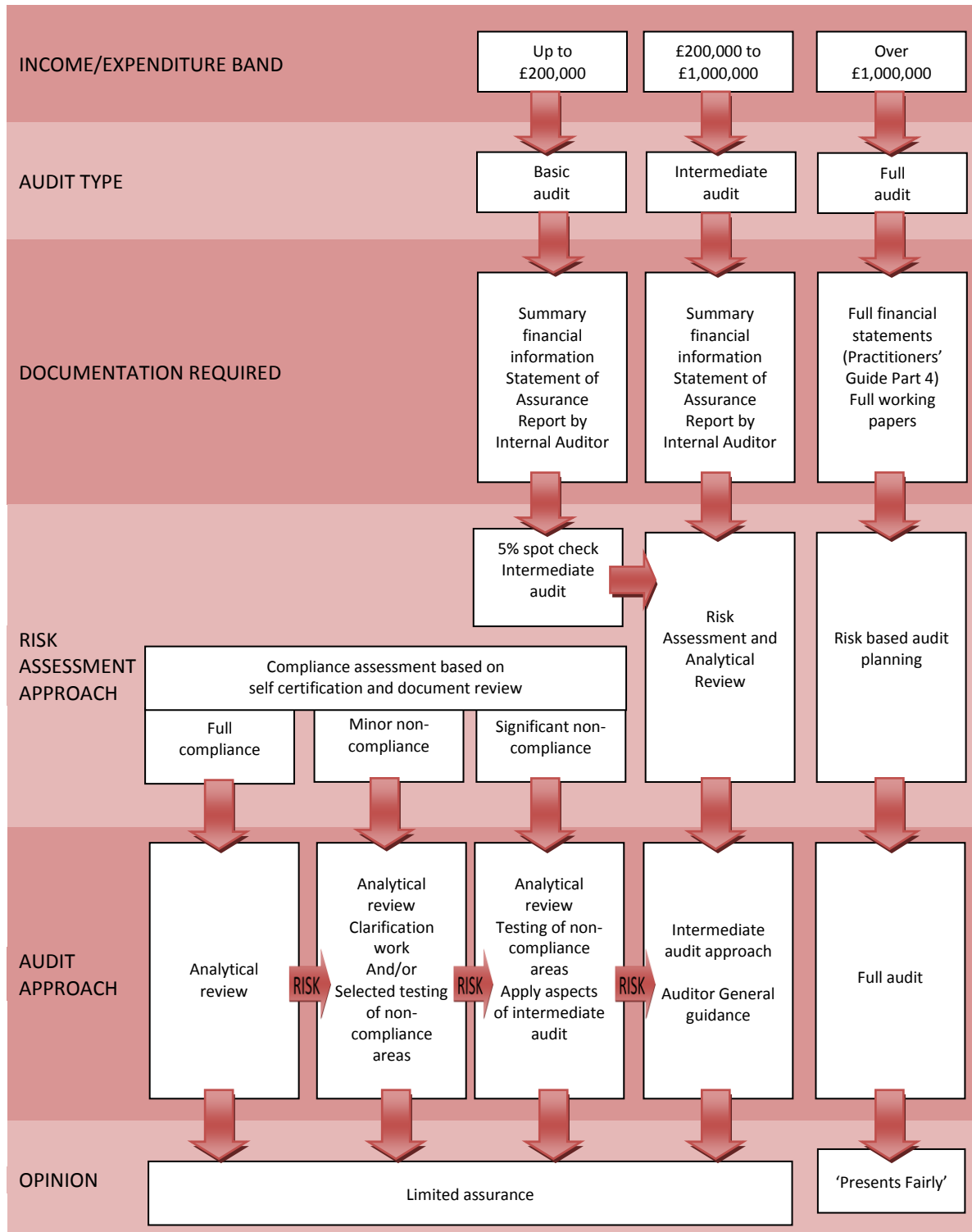
The local council audit approach distinguishes between three types of local council:

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

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

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## Exhibit: Local council audit model of delivery



# Appendices

## Appendix 8: Executive checklist for financial year end

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

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

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

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

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

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

Review carried out by:		Date:	
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# Appendices

## Appendix 9: Limited assurance audit fees

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

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



# Parish Council and Community Council Clerks PAYE Implementation

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

## HM Revenue & Customs' previous guidance

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

## The correct Tax and NIC treatment of Parish Clerks

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

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

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

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

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

### Responsible Financial Officer

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

### Moving forward

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

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

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

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

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

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

## Glossary

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

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	<p>debts owed to the council. Councils hold these assets and use them in the short term.</p> <p>Fixed Assets are assets such as land, buildings, machines, office equipment etc. Councils hold these assets and use them for a longer period. Almost all councils have some fixed assets.</p> <p>The Asset Register is an important record of the council's assets and supports the annual return entry for assets. It collects information on the cost or value of assets held and for insurance purposes, forms a record of assets held. It should recorded details such as:</p> <ul style="list-style-type: none"> <li>• what you own;</li> <li>• <i>what it cost</i>;</li> <li>• <i>when you bought it; and</i></li> <li>• its current value and useful life.</li> </ul>
<b>Balances</b>	See reserves.
<b>Bank reconciliation</b>	This is an important internal control. It compares the council's cash book with the bank statements. Typically bank statements are received monthly. Some smaller councils may receive quarterly statements. It is good practice for the bank reconciliation to be prepared every time a bank statement is received. In all cases, the council should arrange for the reconciliation to be checked by a nominated council member or officer.
<b>Budget</b>	The budget is the council's estimate of its annual income and expenditure. The preparation of its annual budget is key statutory task. The budget allows the council to set its precept at the right level for the year and to monitor progress through the year.
<b>Budget monitoring and control</b>	This is the way the council manages its income and expenditure. Budget monitoring compares actual income and expenditure against the council's original plans. As good practice councils should monitor their finances against their budget monthly.
<b>Cash book or receipts and payments book</b>	The cash book or receipts and payments book is a daily record of all money the council receives and spends. The totals in the cash book should be balanced regularly and reconciled to the bank statements. Many councils prepare their accounts directly from the cash book.
<b>Clerk</b>	The clerk's role is to manage the administration of the council in accordance with its policies. It is essential for all clerks to ensure they understand their role and responsibilities. The Society of Local Council Clerks (SLCC) provide training for clerks on various aspects of their role.
<b>Comparative figures</b>	The council's accounting statements show last year's figures to allow comparison with the current year.
<b>Contracts</b>	Councils enter into contracts with suppliers of goods and services. Councils should always seek to get the best value for money possible. Their procedures should make sure that all

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	decisions in relation to awarding contracts are transparent and reasonable.
<b>Council meetings</b>	<p>Elected members come together to discuss and make decisions on community affairs. This will include:</p> <ul style="list-style-type: none"> <li>• setting policies and budgets;</li> <li>• making decisions about expenditure;</li> <li>• approving payments and setting charges; and</li> <li>• approval of accounts.</li> </ul> <p>Councils are legally required to keep minutes of meetings held. These minutes have to be made available to the public for inspection.</p> <p>Council meetings must be open to the public and press. They can only be excluded by a council resolution for a particular occasion. They should only be excluded if the confidential nature of the business would prejudice the public interest.</p>
<b>Councillors or members</b>	<p>A councillor or member is a person elected to serve on the council for a specified period of time which is currently four years. Collectively, the members form the political arm of the council and make the councils policies. Once elected, they represent all their constituents.</p> <p>Although members can fulfil the responsibilities of an officer, including that of clerk, they cannot hold a paid office.</p> <p>Members cannot be the internal auditor even if unpaid.</p> <p>It is essential for all councillors to ensure they understand their role and responsibilities. One Voice Wales operate a training course for councillors explaining their role. In 2006, the Welsh Assembly Government published a guide for councillors.</p>
<b>Creditor</b>	A person to whom a debt is owed.
<b>Debtor</b>	A person from whom a debt is owed.
<b>Declaration of interests</b>	Where councillors have an interest in any business of the council the members' code of conduct says they must declare this to the council. Declarations should be made at the start of each council meeting. They must then be recorded in the register of interests.
<b>Delegated authority</b>	<p>In certain cases the council may delegate its authority to sub committees, individual councillors or officers.</p> <p>Examples of delegated powers include power to sign cheques and powers to approve emergency payments. It is good practice to clearly define the extent of delegated powers.</p>
<b>Electors' rights</b>	<p>The Public Audit (Wales) Act 2004 gives local people the right to:</p> <ul style="list-style-type: none"> <li>• inspect a council's accounts and accounting records; and</li> <li>• ask the external auditor questions about the accounts or challenge their legality.</li> </ul> <p>The Wales Audit Office leaflet, Your rights in Wales - Councils'</p>

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	Accounts, explains the public rights to inspect local councils accounts.
<b>External auditor</b>	<p>Councils annual accounts are audited by an auditor appointed by the Auditor General for Wales. The auditor will set a date from which the public can exercise their rights to inspect the accounts and ask the auditor questions or object to an item of account.</p> <p>He/she sends the council a notice of audit telling the council when this will happen and advising the council what they need to do for the audit.</p> <p>The council must advertise the audit and allow members of the public to exercise their rights. The council then sends the auditor the annual return and any other information requested.</p> <p>The external auditor will look to see if the accounts have been properly prepared by the council.</p> <p>After the audit is completed the auditor certifies the annual return and the council publishes that the accounts with a statement that the audit is now complete.</p>
<b>Fidelity guarantee</b>	A type of insurance against the risk of theft or defalcation by officers responsible for a council's assets, specifically cash and balances.
<b>Financial statements</b>	The annual statement of accounts or accounting statements that larger local government bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.
<b>Financial checks and balances (internal controls)</b>	<p>The Accounts and Audit Regulations state that the council must have an adequate and effective system of internal control. These controls are the financial checks and balances that the council uses to manage its money on a day to day basis.</p> <p>The financial checks and balances make sure that:</p> <ul style="list-style-type: none"> <li>• the council properly uses and monitors its money and assets; and</li> <li>• properly records this use.</li> </ul>
<b>Financial regulation</b>	Financial regulations provide a framework setting out the council's approved financial systems to secure the proper administration of its finances. They may contain regulations that must be followed and more general guidelines to achieve good financial control.
<b>Fraud</b>	<p>Fraud is an intentional deception made for personal gain or to damage another individual. Good internal controls and governance arrangements are essential to minimise the risk of fraud.</p> <p>When council suffer fraud or theft it is often the case that the perpetrator has prepared false documents to disguise or to cover up the theft or fraud. In many cases the false documents include invoices and minutes.</p>

## Glossary

<b>Governance</b>	This is how councils ensure that they are doing the right things, in the right way for the right people in a timely, inclusive, open, honest and accountable manner.
<b>Insurance</b>	Insurance is one of the ways that the councils manage the risk of losses. It is good practice to insure against loss by: <ul style="list-style-type: none"> <li>• damage to buildings and equipment;</li> <li>• theft;</li> <li>• malpractice by an officer or members; and</li> <li>• third party.</li> </ul>
<b>Internal audit</b>	The law requires councils to maintain adequate and effective system of internal audit. The internal auditor checks whether the internal controls (financial checks and balances) are working and if they are effective. The internal auditor's work should be proportionate to the activities of the council. It's essential that the internal auditor is independent of the council's decision making process and internal control procedures that are being reviewed. This means that councillors and clerks cannot act as the internal auditor. It's good practice for councils to review the internal audit arrangements at least once a year.
<b>Internal control</b>	See Financial checks and balances.
<b>Investments</b>	Councils secure an income from surplus monies through investments. Investments must be managed in accordance with the Assembly Government's guidelines.
<b>Local Government Act 1972</b>	Community councils in Wales were created by the Local Government Act 1972. The Acts sets out most of the powers of community councils.
<b>Material/materiality</b>	In the accounting statements, information is material if its omission or misstatement could influence or mislead users of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement.
<b>Minutes</b>	A minute should be a short record of the item discussed and the decision reached. It is not necessary to record the majority by which a decision is made unless a member requires that the voting is recorded.
<b>Monitoring Officer</b>	The law requires all councils to have a Monitoring Officer. The unitary authority's Monitoring Officer acts as the Monitoring Officer for community councils in the area.  The Monitoring Officer ensures that the council and its officers maintain the highest standard in all they do. The Monitoring Officer reports on matters: <ul style="list-style-type: none"> <li>• that are or likely to be illegal or amount to maladministration; and</li> <li>• relating to the conduct of officers and members.</li> </ul>
<b>One Voice Wales</b>	One Voice Wales represents and provides support for community and town councils in Wales. Councils which are

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	members of One Voice Wales have access to a library of resources and a training programme for councillors.
<b>Opinion/Qualified opinion</b>	A statement of findings and assurance given by an auditor following the completion of an audit process. A qualified opinion means that the auditor's otherwise positive assurance has been modified in some way usually to report non-compliance or other failure or weakness in the accounts.
<b>PAYE and NIC</b>	Employees pay income tax on a Pay As You Earn basis. Employers and employees pay National Insurance Contributions on employees' wages and salaries. The council as the employer must deduct these amounts from the employees' pay before paying the employee. The council must then pay the money deducted to HM Revenue and Customs (HMRC). Failure to pay HMRC can result in fines and penalty charges on the council which can be substantial.
<b>Powers</b>	As a public body a community council can only do what it has the statutory power to do. The main source of councils powers are found in the Local Government Act 1972.
<b>Precept and council tax</b>	This is a legal demand by a community council on the local unitary authority for operating funds to meet budget needs. The unitary authority recovers the precept from local taxpayers via council tax. It is normally the council's main source of income.
<b>Public Audit (Wales) Act 2004</b>	This Act sets out a framework for the council's and auditor's responsibilities for the annual accounts and statutory external audit. The Act can be found on the Office of Public Sector Information website.
<b>Recharges</b>	Sometimes councils provide services such as administration services on behalf of other public bodies. They may recharge the cost of these services to those bodies.
<b>Register of interests</b>	Councils must maintain registers of members' and officers' interests. The register seeks to identify potential conflicts such as relationships, financial etc so that risks of acting inappropriately can be avoided.
<b>Reserves and balances</b>	When councils spend less money than they receive in a year, they create a surplus. The council holds these surpluses as reserves. A council needs to hold some reserves to make sure it can pay for unexpected events and to make sure it has enough money to pay bills until it receives income. Unless it has specific plans for future spending, councils should only hold reserves to provide a reasonable balance.
<b>Responsible financial officer</b>	The responsible financial officer (RFO) administers the financial affairs for the council. Councils must by law appoint an RFO. The RFO will usually be the clerk but this is not necessarily the case. The RFO sets up financial systems to help councils live within their means. The appointment of an RFO does not mean that members do not have responsibility for the council's finances. They continue to be accountable for ensuring that the council does not live beyond its means.
<b>Risk management</b>	The arrangements which a council makes to identify key

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	business risks, evaluate these and put in place to measures to reduce the risk or manage the consequences of its occurrence.
<b>Section 137 LGA 1972</b>	<p>This legislation enables the council to spend a total of up to £5.50 (inflation adjusted) multiplied by the number of electors in the community.</p> <p>This is an amount of money that councils can spend for the benefit of the community where it does not specifically have a statutory power. In most cases councils use section 137 to make grants to voluntary organisations within the community. For example, play groups.</p> <p>Before using Section 137, the council must consider whether the expenditure will bring direct benefit to the area or its inhabitants.</p>
<b>Society of Local Council Clerks (SLCC)</b>	SLCC represents local council clerks. It provides guidance, training and support for clerks regarding council administration.
<b>Standing orders</b>	<p>Standing orders are the set of rules by which the council conducts its business. Typically, it would define how a council is to be conducted which would include how many members constituting a quorum. It must also define the arrangements for entering into a contract.</p> <p>Model standing orders are obtainable from One Voice Wales.</p>
<b>Statement of variances</b>	External auditors ask councils to send them an explanation of variances with their annual return. This compares the current and previous year's figures. The auditor wants to know that councils understand the reasons for the changes. It should include a relevant analysis to support each explanation. The Practitioners Guide provides a number of examples to assist councils.
<b>Ultra vires/Intra vires</b>	As a public body a community council can only do what it has a statutory power to do. If it acts outside these powers it is said to act ultra vires. If a council acts ultra vires its actions can be declared unlawful by the courts. Councils may incur public censure and significant legal costs if they act ultra vires.