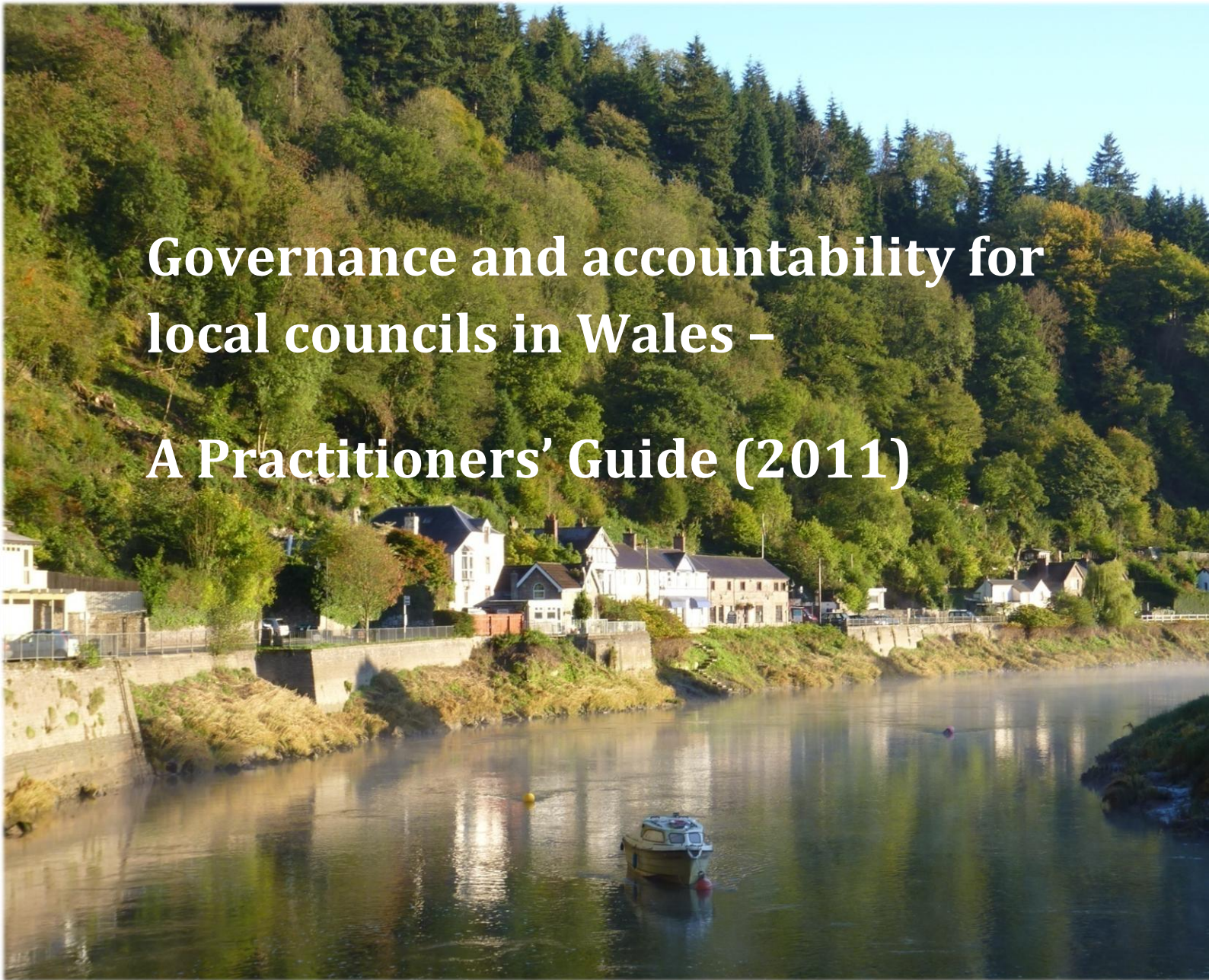


Governance and accountability for local councils in Wales – A Practitioners' Guide (2011)



Un Llais Cymru



One Voice Wales

Society of
Local Council Clerks

Part 1 - Overview

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Chapter 1: Introduction to the Practitioners' Guide

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

Origins of the Practitioners' Guide

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

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

The purpose and status of the Guide

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

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

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

Format and content

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

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

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

Publishing the Guide

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

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www.onevoicewales.org.uk. Alternatively, councils may purchase paper copies from both organisations for an appropriate charge.

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

Additional information

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

Chapter 2: Defining ‘Governance and Accountability’

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

Governance

[guhv-er-nuh-ns]

Noun 1794

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

Accountability

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

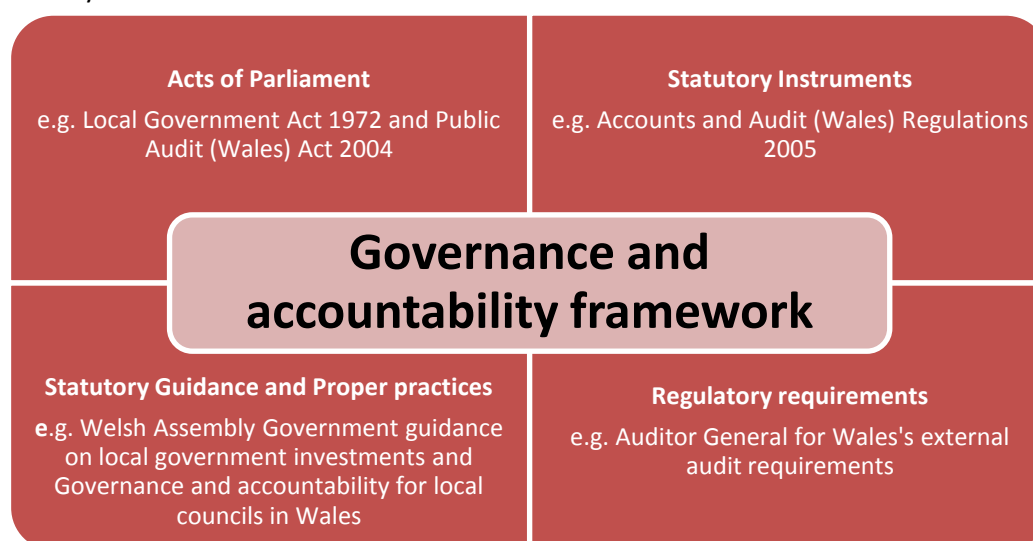
Noun 1794

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

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

What is the governance and accountability framework?

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



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

Legislation governing councils' accounting statements and audit arrangements

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

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The Auditor General for Wales and the external audit

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

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

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

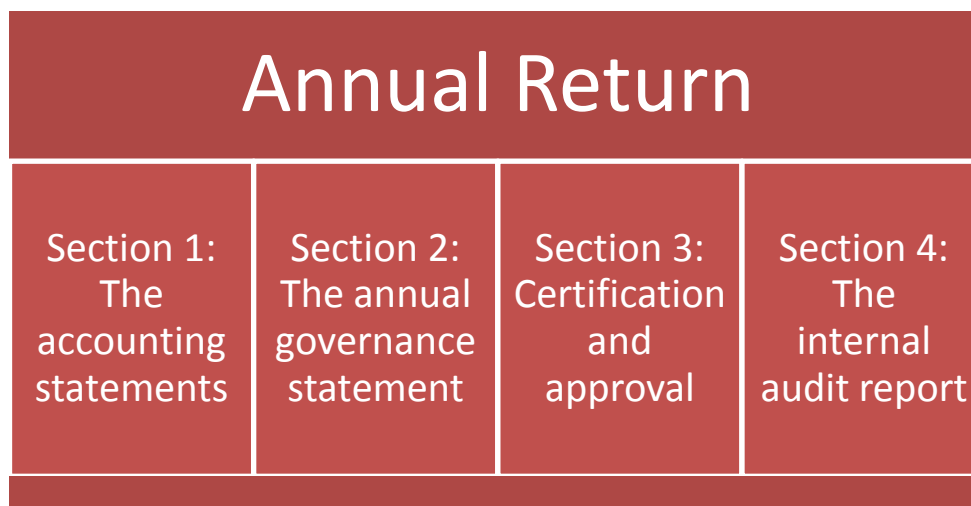
Smaller local councils' annual return and the limited assurance audit

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

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

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



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

Chapter 3: The legal framework for local councils in Wales

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

What are local councils?

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

Community councils

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

Town councils

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

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Joint committees

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

Proper practices

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

The council as trustee

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

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

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

Chapter 4: Roles and responsibilities

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

Who is involved in local council governance and accountability?

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



Local councillors or members

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

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

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

The local council clerk

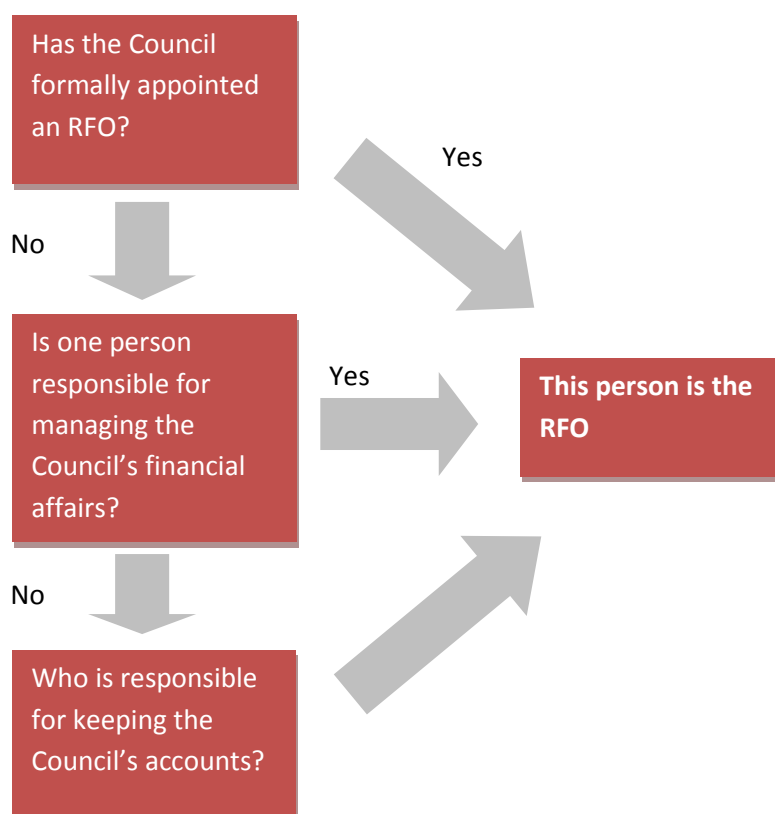
72. Most local councils employ a clerk to oversee the administration of their affairs. The clerk's primary responsibility is to advise the council on whether its decisions are lawful and to recommend ways in which decisions can be implemented. The clerk and members must recognise that:
 - the council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

The Responsible Financial Officer

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

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Identifying the RFO



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

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

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

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

The internal auditor

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

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

The external auditor

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

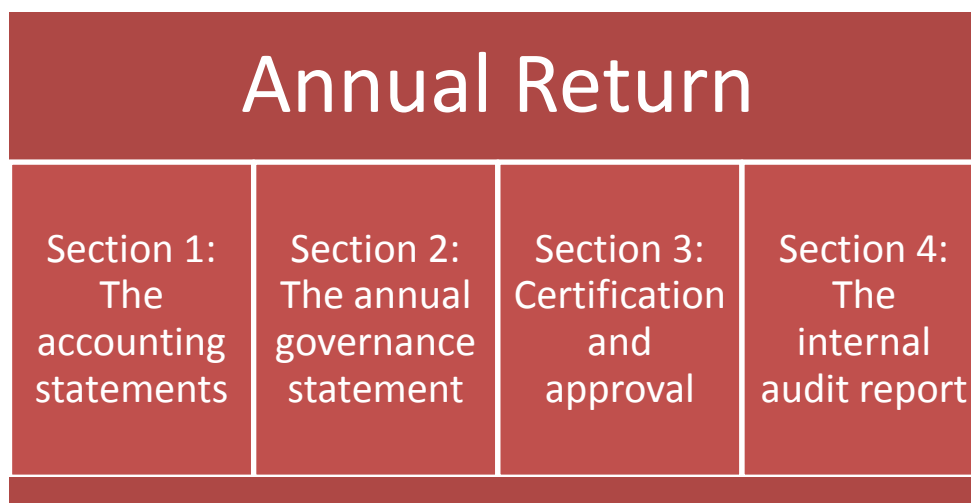
Chapter 5: The Annual Return

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

What is the Annual return?

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

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



Section 1 – the accounting statements

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

Section 2 – The Annual Governance Statement

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

Part 1 – Overview

Section 3 – Certification and approval

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

Section 4 – the Internal Audit report

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