



Governance and accountability for Local Councils

A Practitioners Guide 2008 (Wales)



Acknowledgements

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

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

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

The current members of the Local Councils Liaison Group are:

Simon Edge	Wales Audit Office (Chair)
Deryck Evans	Wales Audit Office (Secretary)
Simon White	One Voice Wales
Lyn Llewellyn	One Voice Wales
Jim Griffiths	SLCC
Ian Skinner	Welsh Assembly Government

And representing audit suppliers:

Emma Prince	BDO Stoy Hayward
Stephen Christopher	Mazars LLP
Nick Jenkins	UHY Hacker Young

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

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

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

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Preface

Governance [guhv-er-nuh ns] <i>noun 14th Century</i>	Accountability [uh-koun-tuh-bil-i-tee] <i>noun 1794</i>
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.	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.

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

Those who are responsible for the conduct of public business and for spending public money are accountable for ensuring that public business is conducted in accordance with the law and proper standards. They must also ensure that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

In discharging this accountability, public bodies and their managements (both members and officers) are responsible for putting in place proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal. They are required to report on these arrangements in their published Annual Governance Statement

As a safeguard to the proper discharge of this accountability, external auditors in the public sector give an independent opinion on public bodies' financial statements. They may also review, and report on, aspects of public bodies' arrangements to ensure the proper conduct of their financial affairs, and those to manage their performance and use of resources.

This publication has been prepared in response to the need for a clear statement on 'proper practices' for both day-to-day practitioners - users and trainers alike - and auditors, internal and external. It is a guide to the accounting practices to be followed by local councils, and sets out the appropriate standard of financial reporting to be followed. It represents 'proper practices' as referred to in Accounts and Audit (Wales) Regulations.

We are committed towards making this guidance as useful, complete and 'user friendly' as possible, but there will always be scope to improve. As it is our intention to issue updated versions of this guidance from time to time, there is a continuing opportunity to keep it up to date, identify and share good practice and respond 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.

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The public accountability framework

1. This guide maps out in a practical way the current requirements of legislation and the responsibilities of the various parties involved. It explains the processes that need to be carried out to comply with legal requirements and provides examples of how this may be achieved, building on the good practices currently being employed.
2. Basically stated, the accountability framework means that to inform council taxpayers, local councils must prepare a report on their activities for the year which is externally audited and then published.
3. The approach relies to a significant extent on self-certification by councils that their internal arrangements are being maintained at a level consistent with good practice. This requires the active participation of elected and appointed members in the process of providing positive public assurance that their stewardship and governance of the publicly owned assets with which they have been entrusted has been properly managed.
4. Although councils have always provided some assurance to taxpayers through approving the annual accounts, members also need to 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. The assurance must therefore be based on adequate information about the operation of internal controls within their councils.
5. The accountability framework is 'risk-based'. It must be proportionate to risk, to the amounts of public money involved and to stakeholders' need for assurance. Whilst the limited assurance audit approach provides a lower level of assurance than that which preceded it, it remains responsive to the need to safeguard the proper conduct of public business.
6. External audit remains an essential element in accounting for public money and 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 and by providing assurance that the public money they manage has been properly spent.
7. The public accountability framework encourages openness and transparency from local councils by requiring that the annual return and external audit reports are made public. Councils should consider also making available to local taxpayers internal audit and other third party reports to demonstrate their commitment to inclusiveness, openness and transparency.

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Introduction

1. The purpose of this guidance is to help practitioners to understand regulatory requirements faced by local councils in Wales. It provides a guide to the accountability and audit framework and looks at how risk management, principles of good internal control and the roles of the internal and external auditors apply to local councils. The aim is to provide a source of information about accounting and audit matters as they affect local councils, and is intended to be used not only by practitioners, but also by elected members and officers, accountants, internal auditors and trainers.
2. Most local councils meet their public accountability and reporting duties by completing a single document, the annual return, which in Wales is published annually by the Wales Audit Office (WAO). The annual return balances the need for transparency and openness with the need to minimise the burden of public reporting. It is designed to inform taxpayers and other key stakeholders about the work and finances of their local council in as accessible a way as may be achieved whilst still meeting public reporting standards.
3. The accountability and audit framework applies to all local councils with either annual expenditure or annual income up to £1,000,000. The largest local councils operating above this threshold are subject to the same accounting regulations and audit approach as principal authorities and must follow the Statement of Recommended Practice (SORP)¹. Local councils with income or expenditure greater than £100,000 may elect under the Accounts and Audit (Wales) Regulations to prepare a statement of accounts in accordance with the SORP. Councils preparing statements of accounts under the SORP are excluded from the scope of this guidance. In Part 4, we provide some information on how larger councils may approach applying the SORP.
4. The guidance is structured as follows:
 - **Part one** covers the legal framework within which local councils and their auditors must work. This is supported by Appendix 1, which summarises local council services and their legal powers;
 - **Part two** provides guidance on the annual return and corporate governance. This takes practitioners through each of the sections of the annual return and provides guidance on good practice;
 - **Part three** focuses on accounting guidance aimed at promoting good practice when preparing the statement of accounts;
 - **Part four** provides those larger councils which are not covered by this guidance with a brief summary on how they may apply the SoRP;

¹ The Statement of Recommended Practice (the SORP) is available from the Chartered Institute of Public Finance and Accountancy (CIPFA)

- **Appendices** provide additional information and tools for practitioners; and
 - A **glossary** of words and phrases commonly used is included at the end of this guidance.
5. This document is intended to be a working tool for local councils. 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.
6. Arrangements have, therefore, been put in place to provide technical support through the respective regional structures of One Voice Wales (OVW) and the Society of Local Council Clerks (SLCC), which are themselves supported by regular meetings of the Local Councils Audit Liaison Group (LCALG) in Wales and the Joint Practitioners' Advisory Group (JPAG). These arrangements are intended to provide sources of further support and guidance, and, from time to time, the guidance in this document will be updated and revised as appropriate.
7. For a detailed summary of the rights of individuals in relation to the accounts of local councils please see the Auditor General for Wales' (Auditor General) publication – *Your rights in Wales – Councils' accounts*. For those viewing this guidance electronically you may access the publication via the following hyperlinks:
- English - http://www.wao.gov.uk/assets/englishdocuments/WAO_Council_Accounts_A5_eng.pdf
 - Welsh - http://www.wao.gov.uk/assets/welshdocuments/WAO_Council_Accounts_A5_welsh.pdf