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Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Financial Management and Governance – Town and Community Councils 2017-18



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU



I have prepared and published this report in accordance  
with the Public Audit (Wales) Act 2004

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**Mae'r ddogfen hon hefyd ar gael yn Gymraeg.**

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# Summary report

The amount of money managed by local councils in Wales continues to increase. However, the current standard of financial management and governance remains disappointing at too many councils as evidenced by a doubling of the number of qualified audit opinions. Furthermore, it has been necessary for me to issue reports in the public interest or to make formal recommendations, to eight councils in 2018

- 1 There are over 730 town and community councils in Wales. In some cases, these councils jointly provide services through joint committees established for specific services, usually burial services. There are six such joint committees in Wales. Collectively, this report refers to these bodies as local councils.
- 2 Collectively, in 2017-18 these bodies raised over £48.5 million income, primarily from council tax payers, and spent over £47.4 million. Because income continues to outstrip expenditure, their reserves have increased to over £38.7 million at 31 March 2018.
- 3 This is my seventh annual report summarising issues identified by external auditors during their statutory audit of local councils in Wales. The audit arrangements for local councils are designed for the following purposes:
  - to enable me to discharge my responsibilities as the statutory auditor for local councils;
  - to provide local residents with a reasonable level of assurance on the effective financial management and governance of their local council; and
  - to support all councils to improve their financial management and governance arrangements where further development is needed.
- 4 The audit process involves a review of the annual accounts and an examination of the council's financial management and governance arrangements that underpin securing value for money in councils' use of resources. Since 2015-16, the same audit arrangements have been applied to all local councils across Wales.

- 5 This report summarises the outcomes of audit work completed to 30 November 2018, two months past the statutory deadline for the publication of the 2017-18 audited accounts. As at 30 November, 647 out of 741 (87%) audits had been completed. The reasons for non-completion are set out in more detail in **Part 2**.
- 6 This report has five main sections.
- **Part 1** provides commentary on the increasing amount of public money and assets managed by local councils across Wales and the importance of demonstrating effective stewardship and management of these resources.
  - **Part 2** identifies the most common issue reported by auditors for 2017-18.
  - **Part 3** explains the issues identified by auditors that lead to qualified audit opinions and other matters being referred to councils.
  - **Part 4** summarises the issues identified at individual councils where I considered that it was necessary to exercise my powers to issue reports in the public interest and/or to make written recommendations that require a formal response from individual councils. This section of the report draws attention to these issues so that local councils can consider if there are lessons they can learn from others and use this information to develop and improve their own arrangements.
  - **Part 5** sets out my future audit programme which has been informed by the issues that auditors identified in previous years and wider developments affecting local councils. In my report on the outcomes of the 2012-13 audit, I committed to publishing in advance the specific areas that auditors will focus on in the following year's audit. This allows local councils to identify areas where they need to develop their arrangements and to take any required action. This section of the report outlines the areas I plan to focus on over the next three years.

7 My overall conclusions from the 2017-18 audits are set out below.

**Local councils manage increasing sums of public money and hold reserves equal to the monies raised from council tax payers: following the Independent review panel report they need to consider their future role and how this will impact on their financial management arrangements**

- 8 Following publication of the report of the Independent Review Panel on Community and Town Councils in Wales, local councils have an opportunity to reflect on the services they deliver to their communities and the financial impact of any proposed developments.
- 9 There is significant variation across county areas of numbers of local councils and the sums of money spent in delivering local services.
- 10 Local councils' income continues to increase each year primarily due to increases in the precept charged to council tax payers.
- 11 Local councils' expenditure continues to increase each year due to increasing staff costs and direct expenditure on goods and services.
- 12 Local councils' reserves continue to increase as income outstrips expenditure and almost 400 councils hold reserves that exceed the precept charged to council tax payers.
- 13 An increasing number of councils are passing the threshold for the adoption of specific duties set out in the Well-being of Future Generations (Wales) Act 2015. 53 councils now meet the threshold requirement of annual income or expenditure exceeding £200,000 for three consecutive years.

**A significant number of councils fail to comply with their statutory responsibilities for preparing accounts and ensuring that proper arrangements are made for the statutory audit, including making arrangements for inspection of the accounts by their electors**

- 14 The Public Audit (Wales) Act 2004 and the Accounts and Audit (Wales) Regulations 2014 clearly set out the statutory requirements for the preparation and audit of local councils' accounting statements.

- 15 Too many councils in Wales have audits that have not been completed due to delays in submission of the annual return for audit
- 16 A significant number of local councils in Wales have failed to comply with the statutory timetable for approving the accounts
- 17 To assist councils to comply with the Regulations, for the 2018-19 audit I will set a common date of 29 July 2019 for the exercise of electors' rights for all local councils in Wales.
- 18 Auditors will require evidence to demonstrate that every local council has made proper arrangements for public inspection of their accounts.

**The number of qualified audit opinions has doubled in 2017-18 to 340 councils, with auditors highlighting ongoing failings in financial management and governance**

- 19 Auditors issue 'qualified' audit opinions when councils fail to comply with their statutory responsibilities or where auditors conclude that the information reported in the annual return is mis-stated.
- 20 Over 340 individual councils received a qualified audit opinion for 2017-18 compared with 170 in 2016-17. This increase is mainly due to a failure to adhere to the statutory timetable for the accounts and audit.
- 21 Auditors identified issues that require attention by the council, but which did not result in an audit qualification, at 522 councils compared with 424 in 2016-17.
- 22 Auditors have again highlighted a need to develop the internal audit function and this is supported by the findings of my national study on internal audit in the sector.

In 2018, due to significant deficiencies identified during the audit, I exercised my statutory powers to issue reports in the public interest or to make written recommendations to 8 councils in Wales

- 23 Town and community councils in Wales can learn lessons from the reports in the public interest issued at 7 councils during 2018. I am also considering similar reports on several other councils.
- 24 Councils can also learn lessons from written recommendations issued under section 25 of the Public Audit (Wales) Act 2004. In 2018 I made such recommendations to one council.

The 2018-19 and 2019-20 town and community council audits will continue to focus on areas where auditors identify scope for improvement in council's arrangements and during this period, I will review the adequacy and effectiveness of the current audit arrangements to ensure they are fit for purpose

- 25 My audit programme for 2018-19 to 2020-21 will continue to focus on areas where there is scope for local councils to improve their financial management and governance.
- 26 In 2019, I will review the current audit arrangements to determine if they remain fit for purpose with any resulting changes to the arrangements expected to be introduced for the 2020-21 audit of accounts.



## Part 1

Local councils manage increasing sums of public money and hold reserves equal to the monies raised from council tax payers: following the Independent review panel report they need to consider their future role and how this will impact on their financial management arrangements



## Following publication of the report of the Independent Review Panel on Community and Town Councils in Wales local councils have an opportunity to reflect on the services they deliver to their communities and the financial impact of any proposed developments

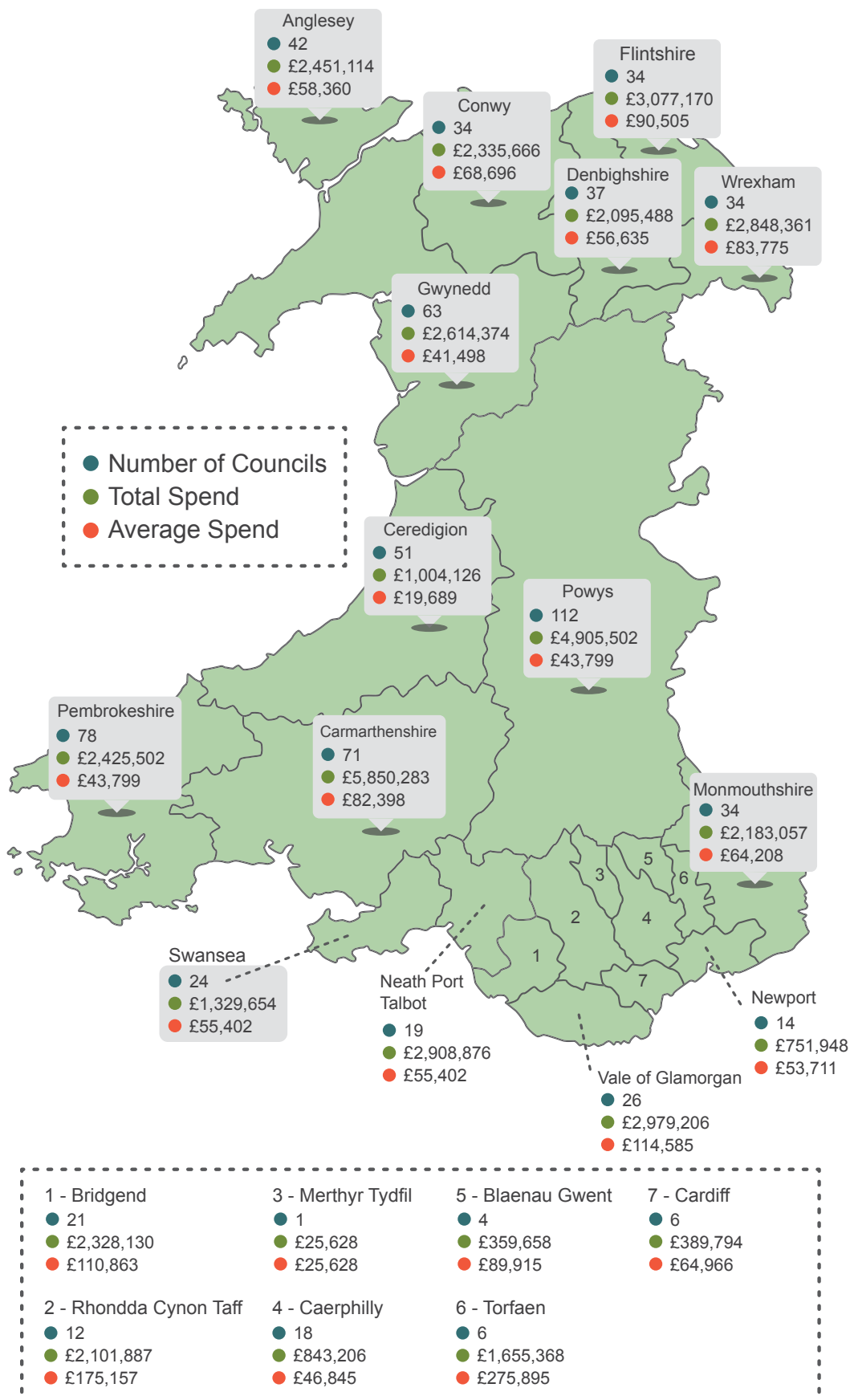
- 1.1 The Independent Review Panel on Community and Town Councils in Wales' final report, published in October 2018 addressed the following themes:
  - what community and town councils are: including tackling questions such as whether community and town councils should exist, coverage and types of community and town Councils;
  - what community and town councils do: looking at aspects of the role such as local delivery, powers and flexibilities, local voice and identity, and community engagement;
  - how community and town councils do it: exploring capacity and capability, staffing, funding, expert advice, role of a councillor and the relationships community and town councils have with other bodies; and
  - how community and town councils are held to account: considering democratic accountability, diversity, audit, independent scrutiny and support/intervention.
- 1.2 **The report is available on the Welsh Government website.**
- 1.3 The Panel made several recommendations that local councils may now wish to consider in planning for the future. In whatever manner councils respond, they will need to consider the financial consequences of decisions they make.
- 1.4 This section of my report provides some high-level analysis of the financial position of the sector.

## There is significant variation across county areas of numbers of local councils and the sums of money spent in delivering local services

- 1.5 Expenditure by local councils varies across Wales. **Exhibit 1** identifies the spread of councils and the expenditure they incur across county areas in Wales.

## Exhibit 1 – Variation of councils and expenditure by county area

The number of town and community councils varies across Wales from only 1 in Merthyr Tydfil to 112 in Powys. The average spend per council varies from £19,000 in Ceredigion to £275,000 in Torfaen.



Source: Wales Audit Office analysis

- 1.6 This variation indicates the disparate scope of services offered by town and community councils across Wales. The smallest councils may only provide limited services in the form of community halls and commentary on planning applications whilst the larger councils may maintain public footpaths, undertake street cleaning, operate public conveniences, cemeteries and parks or provide tourist information. As individual councils develop their role in response to the Independent Review Panel's report, the sums of money they manage is likely to increase. The development of robust financial management and governance arrangements will be an essential part of each council's administration and governance.

## Local councils' income continues to increase each year primarily due to increases in the precept charged to council tax payers

- 1.7 The 735<sup>1</sup> town and community councils and their 6<sup>2</sup> joint committees covered by this report raised over £48.5 million income in 2017-18. Local councils raise income either through setting a precept, by charging for goods and services, by claiming grants or disposing of long term assets.
- 1.8 A precept is a peremptory order to the unitary authority to pay a specific sum of money to the local council. The amount of the precept is divided equally between the council tax payers of the community and is paid in full to the local council.
- 1.9 Councils also raise funds by charging for goods and services provided by the local council. Charges may typically be made for:
- use of village halls/community centres owned and managed by the local council;
  - burial fees where the local council is a burial authority;
  - hire charges for sports facilities; and
  - car parking charges.

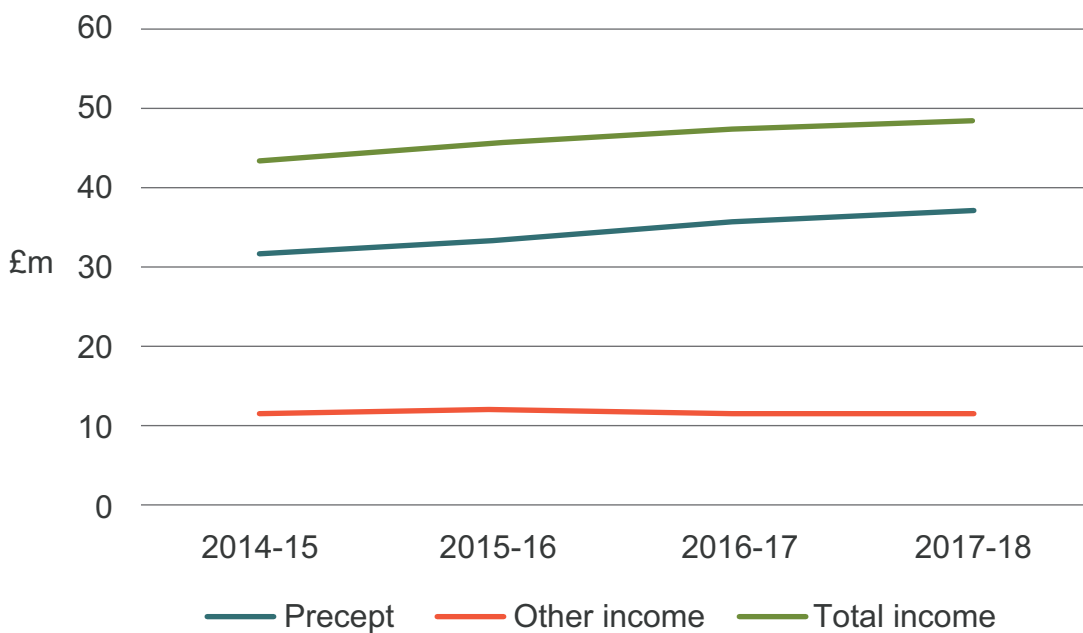
1 My previous reports included Llanelli Rural Community Council and Llanelli Joint Burial Committee. Due to its annual expenditure exceeding £2.5 million, the Council now prepares its accounts on a different basis to other councils and has therefore been excluded from this report. In 2018, the activities of the Joint Burial Committee transferred to Llanelli Rural Community Council and are not now accounted for separately. Data reported in previous years has been amended to exclude these bodies.

2 The joint committees are all burial committees and spend a total of just over £239,000.

- 1.10 Councils may also raise funds for investment in long term assets by applying for grants, drawing down loans or disposing of long term assets. Usually, the use of these funds will be restricted to specific purposes.
- 1.11 Overall, local councils' income has increased by £5.1 million (12%) since 2014-15. In the same period, the total precept charged to council taxpayers increased by £5.2 million (16%).

**Exhibit 2 – Local council income 2014-15 to 2017-18**

Local council total income has increased each year, from £43.4 million in 2014-15 to over £48.5 million in 2017-18. The total precept increased by £5.2 million to £37.1 million while income from other sources fell by £100,000 to £11.4 million in the same period.



Source: Wales Audit Office analysis

1.12 In 2016, I published a report on Charging for services and generating income by local authorities. Although this report was not aimed at town and community councils, they may find it useful when they think about generating income from sources other than the precept. The report can be accessed on [our website](#).

## Local councils' expenditure continues to increase each year due to increasing staff costs and direct expenditure on goods and services

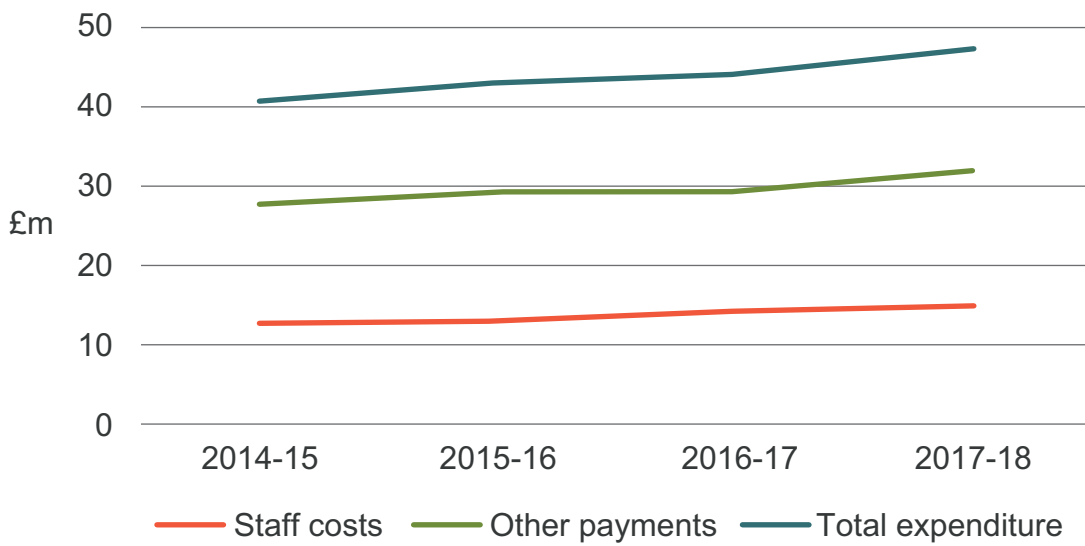
1.13 Town and community councils and their joint committees spent more than £47.4 million in 2017-18. Local councils have a range of statutory powers and functions upon which they may lawfully incur expenditure. These include powers related to:

- appearance of villages including for example, key buildings and sites, good design and roadside verges;
- open air and exercise including for example, village greens, protection of commons, recreational facilities, pleasure grounds and public walks, swimming pools and facilities for countryside visitors;
- gatherings including powers related to tourism, entertainments and the arts, halls and centres and twinning;
- public lighting and crime prevention including for example, surveillance;
- ownership and provision of allotments;
- health including public conveniences, litter and graffiti and water and pond drainage;
- communication including rights of way, works to footpaths and bridleways, shelters and seats and vehicle parks and cycle racks; and
- powers related to the dead, for example provision of a cemetery.

1.14 Overall, local councils' expenditure has increased by £6.5 million (16%) since 2014-15. In this period, expenditure on staff costs increased by £2.2 million (18%) and other payments by £4.2 million (16%).

### Exhibit 3 – local council expenditure 2014-15 to 2017-18

Local council total expenditure has increased each year, from £40.9 million in 2014-15 to £47.4 million in 2017-18. Expenditure on staff costs increased by £2.2 million to £14.9 million and other expenditure on goods and services increased by £4.3 million to £32.1 million in the same period.



Source: Wales Audit Office analysis

## Local councils' reserves continue to increase as income outstrips expenditure and almost 200 councils hold reserves that exceed the precept charged to council tax payers

- 1.15 Local councils hold reserves and balances for a variety of reasons. These include to finance unforeseen expenditure and to 'save' for future projects. In some cases, they are required by law to set money aside for specific purposes. For example, receipts from the disposal of long term assets may be defined as capital receipts. If so, they may only be used to finance capital expenditure.
- 1.16 Local council reserves at 31 March 2018 exceeded £41.5 million and have increased by over £8.6 million or 29% since 31 March 2014.

### Exhibit 4 – local council reserves at 31 March 2014 to 31 March 2018

Local council reserves have increased by over £8.6 million over the last three financial years.



Source: Wales Audit Office analysis

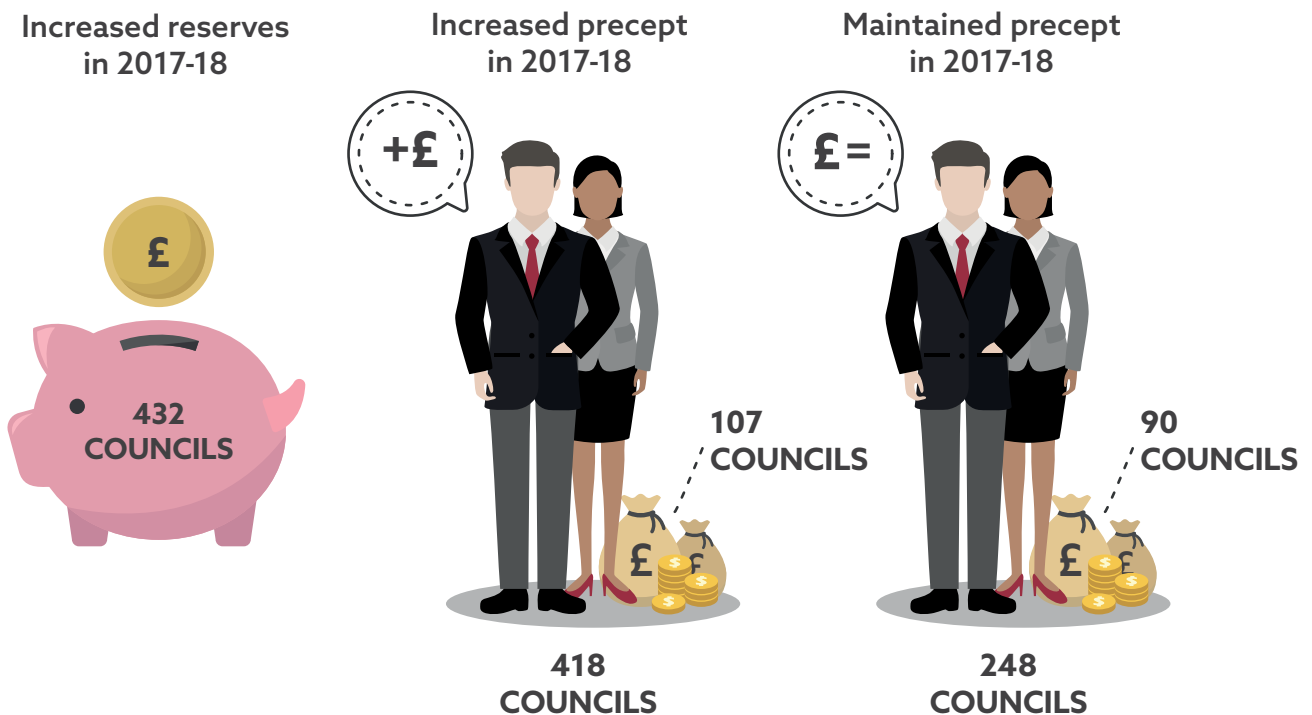


1.17 In setting the precept, local councils are required by law to consider the value of funds held as reserves. Local councils must consider the level of the reserves they hold and whether they plan to finance any of their expenditure from reserves or whether they need to increase the amounts set aside in reserves.

1.18 Councils continue to raise income in excess of expenditure each year. The sums held by local councils as reserves has increased by over £8.6 million (29%) since 31 March 2014. For 2017-18, councils set aside in reserves, 2% of the total income they received compared with 7% for 2016-17.

**Exhibit 5 – Local councils increased their precepts and reserves for 2017-18 despite generating a surplus in 2016-17**

Over 430 councils increased their reserves in 2017-18 while almost 200 council maintained or increased their precept in 2017-18 even though they had generated a surplus in 2016-17 and held reserves at 31 March 2018 that exceeded the 2017-18 precept.



Councils maintained or increased precept in 2017-18 but generated surplus in 2016-17 and held reserves at 31 March 2018 that exceeded the 2017-18 precept

Source: Wales Audit Office analysis

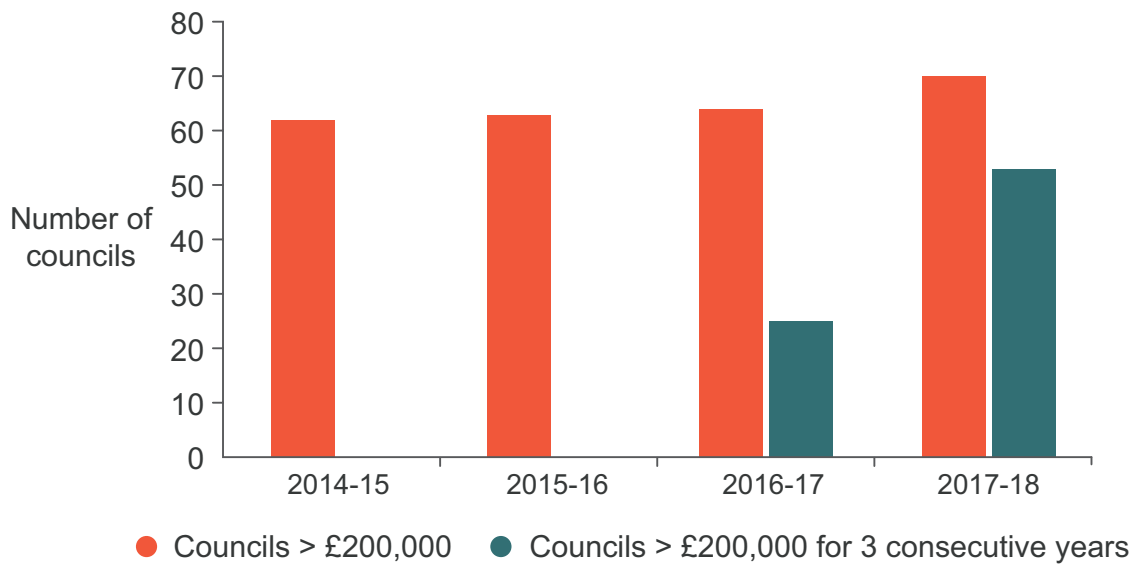
- 1.19 I expect income and expenditure across the sector to increase over time as local councils begin to manage more services and assets transferred to them by the unitary authorities. However, in times of austerity, it is important that councils do not add unnecessarily to the burden placed on council-tax payers, by raising more income through council tax than is necessary to deliver council services and administer their affairs.
- 1.20 In this context, it is a matter of concern that auditors regularly report that councils fail to take their reserves into account when setting their budgets. The above statistics suggest that some local councils need to give very careful consideration as to whether they need to hold the level of reserves they currently have, and whether some of the balances held should be used to finance current expenditure, enabling a lower precept to be set. Local councils do not have powers simply to raise money to hold in ever increasing reserves. Where councils do hold significant reserves balances they should ensure they have developed plans to apply these monies for the benefit of the communities they serve.

### **An increasing number of councils are passing the threshold for the adoption of specific duties set out in the Well-being of Future Generations (Wales) Act 2015 and 53 councils now meet the threshold requirement of annual income or expenditure exceeding £200,000 for three consecutive years**

- 1.21 Section 40 of The Well-being of Future Generations (Wales) Act sets out the role of local councils in relation to local well-being plans. It states that councils with annual income or expenditure over £200,000 for three consecutive years or more are subject to specific but limited duties under the Act.
- 1.22 In 2017-18, 70 councils had income or expenditure of over £200,000. This number is increasing each year.

### Exhibit 6 – Local councils with annual income or expenditure exceeding £200,000

The number of local councils with annual income or expenditure exceeding £200,000 has increased to 70 in 2017-18 and 53 of these councils now meet the qualifying condition set out by the Well-being of Future Generations (Wales) Act 2015.



Source: Wales Audit Office analysis

- 1.23 53 councils have income or expenditure exceeding £200,000 for each of the last three financial years. The requirements of the Act will now apply to these councils. [Appendix 1](#) includes a complete list of these councils.
- 1.24 These councils have a specific but limited duty under the Act to take all reasonable steps towards meeting the objectives included in the local well-being plan. Each financial year, they must publish a report on the progress they have made in meeting the local objectives.
- 1.25 The councils that exceed the threshold will need to be aware of and plan for discharging their duties. My interaction with councils to date suggests there is a need for increased awareness of the duties under the Act that apply to town and community councils.

## Part 2

A significant number of councils have failed to meet their statutory responsibilities for preparing accounts and ensuring that proper arrangements are made for the statutory audit, including making arrangements for inspection of the accounts by their electors



## The Public Audit (Wales) Act 2004 and the Accounts and Audit (Wales) Regulations 2014 set out clearly the statutory requirements for the preparation and audit of local councils' accounting statements

- 2.1 Section 13 of the Public Audit (Wales) Act 2004 (the Act) requires local councils to make up their accounts to 31 March each year and to have those accounts audited by the Auditor General.
- 2.2 The Accounts and Audit (Wales) Regulations 2014 (the Regulations) sets out the timetable for the preparation and approval of the annual accounts:
- 2.3 The council's responsible finance officer (RFO) must prepare and certify that the accounts properly present the council's receipts and payments or present fairly the council's financial position and income and expenditure. The certification is evidenced by the RFO signing and dating the accounting statements. Provision for signature and date are made in the annual return.
- 2.4 The members, meeting as a whole, must consider the accounting statements and following that consideration, approve the accounting statements for submission to the auditor by a resolution of the body; and following approval, ensure that the accounting statements are signed and dated by the person presiding at the meeting at which that approval was given.
- 2.5 These actions must be completed by 30 June following the end of the financial year.
- 2.6 Councils must also make arrangements for local electors to exercise their rights to inspect the accounts and supporting records at audit. Section 30 of the Act gives local electors the right to inspect the accounts that are to be audited and to approach the auditor to ask questions about, or to make objections to, the accounts.
- 2.7 The Regulations state that electors must be allowed to inspect the accounts for 20 working days on reasonable notice before the date set by the auditor from which local electors may exercise their rights to ask questions or make objections. Councils must publish a notice advertising this inspection period at least 14 working days before the period commences.

## Too many councils in Wales have audits that have not been completed due to delays in submission of the annual return for audit

2.8 It is disappointing to note that as at 30 November 2018 i.e. two months after the councils should have published audited accounts, the 2017-18 audit is incomplete at 94 councils. The audits are incomplete for various reasons as set out in [Exhibit 7](#). In many cases, the reasons for the delayed completion of the audit are avoidable and are due to a failure by the councils to prepare the annual return or to submit it to the auditor on a timely basis.

### Exhibit 7 – Reasons for incomplete audits

The 2017-18 audit is incomplete at 94 councils for various reasons.

	<b>Number of councils</b>
2017-18 annual return not submitted to the auditor	17
Councils not responding to requests for further information	24
Prior year audits incomplete	22
2017-18 audit issues to be resolved	31

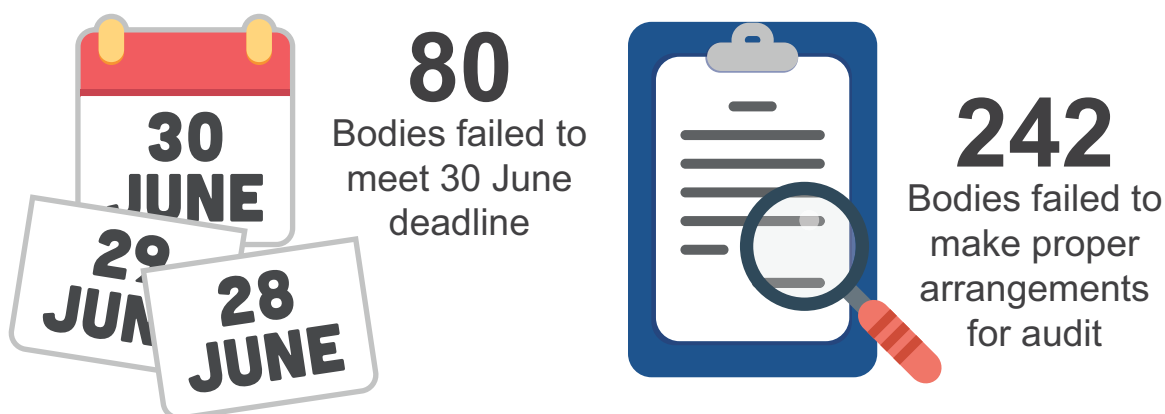
2.9 Details of which councils had incomplete audits as at 30 November 2018 are set out in [Appendix 2](#).

## A significant number of local councils in Wales have failed to comply with the statutory timetable for preparation and approval of their accounts

2.10 The Regulations related to the timing of the audit and the arrangements that must be made have not changed for several years. Notwithstanding this, many councils have failed to make appropriate arrangements. This is a recurring theme identified by auditors and indicates that council clerks and members do not understand the statutory requirements and their responsibilities for complying with them.

### Exhibit 8 – compliance with the statutory timetable

Many councils in Wales fail to adhere to the statutory timetable set out in the Accounts and Audit (Wales) Regulations 2014



Source: Wales Audit Office analysis



- 2.11 The most common reason for the failure to make proper arrangements for the inspection of accounts was due to the local council approving the accounts after the commencement of the 20 day inspection period.
- 2.12 Section 30(1) of the Public Audit (Wales) Act 2004 provides that an interested person may 'inspect the accounts to be audited'. The Accounts and Audit (Wales) Regulations 2014 requires a relevant body (council) to 'approve the accounting statements for submission to the auditor' following its consideration.
- 2.13 It is only accounting statements that have been approved that may be submitted to the auditor for audit, so the 'accounts to be audited', which are to be made available for inspection must first be approved by the council.
- 2.14 In many cases, the accounts were approved just a few days into the inspection period. However, in other cases the accounts were only approved towards the end of the inspection period.
- 2.15 Auditors also reported that some councils do not provide sufficient time for the notice period or the inspection period. Where auditors identify significant breaches of the Regulations, they will instruct the council to place a new notice that meets the requirements of the Regulations in full.

**To assist councils to comply with the Regulations, for the 2018-19 audit I will set a common date of 29 July 2019 for the exercise of electors' rights for all local councils in Wales.**

- 2.16 To address the most common failings, from the 2018-19 audit onwards, I will set a common date for the electors to exercise their rights under the Public Audit (Wales) Act 2004. Auditors acting on my behalf will then issue a proforma audit notice for councils to display in a conspicuous place locally and to publish on their websites.
- 2.17 **Exhibit 9** explains for the 2018-19 audit, details of what councils must do and when they must do it to ensure proper arrangements are made for the exercise of electors' rights to inspect the accounts.

### Exhibit 9 – audit timetable for 2018-19

I have appointed 29 July 2019 as the date from which local electors may exercise their rights under section 30 of the and 31 of the Public Audit (Wales) Act 2004.

Action	To be completed by
Council to place audit notice in a conspicuous place and to publish a copy on its website	16 June 2019
Responsible Financial Officer to certify the accounting statements	30 June 2019
Council to approve the accounts for submission to the auditor	30 June 2019
Council to make accounts and supporting records available for public inspection	1 July 2019
End of statutory inspection period	26 July 2019
Date from which local electors can ask questions about or make objections to the accounts to the auditor	29 July 2019

2.18 As notice of these dates has now been given, I anticipate that almost all councils will comply with the Regulations for 2018-19.

## Auditors will require evidence to demonstrate that every local council has made proper arrangements for the exercise of electors' rights to inspect the accounts

- 2.19 In recent years, an increasing number of local electors have contacted their auditors or the Wales Audit Office with concerns that councils are not making proper arrangements for the exercise of electors' rights. In most of these cases, the council had not complied with the law.
- 2.20 Therefore, as part of the 2017-18 audit, auditors asked for evidence in the form of a photograph to demonstrate that councils had complied with the requirements to display the notices in a conspicuous place.
- 2.21 In some cases, despite being given notice of the evidence requirements, a small number councils were unable to provide the requested evidence. In other cases, the council's clerk simply refused to provide the evidence.
- 2.22 For 2018-19, I will instruct auditors that where councils fail to comply with the request for evidence, they are to refer the council to me to establish why the council and/or its clerk is unwilling to co-operate with the auditor. I will also consider whether I should issue a report in the public interest to draw the public's attention to the council's failings.

## Part 3

The number of qualified audit opinions has doubled in 2017-18 to 340 councils, with auditors highlighting ongoing failings in financial management and governance



## Auditors issue 'qualified' audit opinions when councils fail to comply with their statutory responsibilities or where auditors conclude that the information reported in the annual return is mis-stated

- 3.1 My audit approach for local councils is designed to discharge my responsibilities under the Public Audit (Wales) Act 2004.
- 3.2 Local councils prepare their accounts in the form of an annual return. The annual return includes:
  - The annual accounting statements made up to 31 March each year;
  - An annual governance statement which sets out assertions in which the council confirms the arrangements it has in place to manage its finances.
- 3.3 Auditors review the accounting statements included in the annual return and the assertions made in the annual governance statement to come to a conclusion on whether or not there is evidence that the accounting statements have been properly prepared, whether or not the council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources and whether or not the information contained in the annual return is an accurate reflection of the council's finances and financial management and governance arrangements.
- 3.4 Auditors measure the council's arrangements against its statutory responsibilities and issue 'qualified' opinions when they identify non-compliance. These are reported as exceptions in the audit opinion. However, all audit qualifications are avoidable if councils have appropriate arrangements in place to comply with their statutory responsibilities.
- 3.5 Auditors also qualify the audit opinion where the information contained in the accounts and/or the annual governance statement is inconsistent with the evidence provided for audit.

## Over 340 individual councils received a qualified audit opinion for 2017-18 compared with 170 in 2016-17 and this increase is mainly due to a lack of understanding of the statutory timetable for the accounts and audit

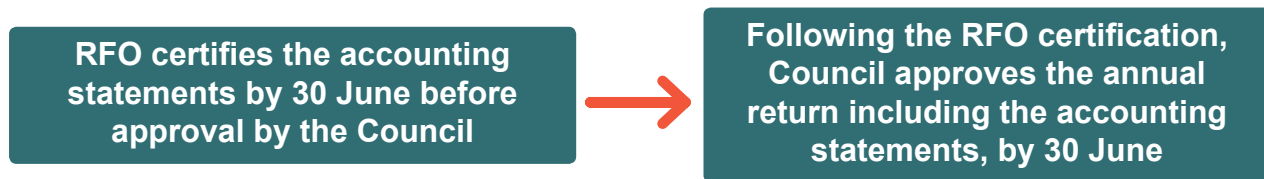
- 3.6 I issue an unqualified audit opinion when no matters come to my attention during the audit that suggest the council has failed to comply with statutory or regulatory requirements. My audit may also identify other matters that although they do not indicate a failure to comply with a statutory or regulatory requirement, need to be drawn to the attention of the council.
- 3.7 The most common issue that resulted in a qualified audit opinion was non-compliance with the Regulations related to the approval of the accounts and the arrangements for public inspection of the accounts. I have covered this issue in more detail in **Part 2** of this report.
- 3.8 Excluding the qualifications related to the accounts and audit timetable, the type of qualifications are broadly similar to 2016-17. In some cases, audit opinions are qualified for more than one reason. Examples of the recurring qualification matters include:
- Failure to comply with regulations for the preparation and approval of the accounting statements;
  - Weaknesses in budget setting and monitoring arrangements;
  - Non-compliance with statutory requirements to publish documents online
  - Failure to make appropriate arrangements for the taxation of payroll.

## 86 councils did not prepare and approve their annual accounting statements in accordance with the requirements of the Accounts and Audit (Wales) Regulations 2014 compared with 50 in 2016-17

- 3.9 As summarised in **Exhibit 10**, Regulation 15 of the Accounts and Audit (Wales) Regulations 2014 sets out the timetable for local councils to prepare and approve the accounting statements.

## Exhibit 10 – The statutory approval process for local council’s accounts

The Responsible Financial Officer (RFO) must certify the accounting statements before the Council approves the accounting statements and the annual governance statement.



3.10 Auditors identified that of those councils that have submitted accounts for audit, 86 councils did not adhere to this timetable for the 2017-18 accounts. It is likely that this figure will increase as the overdue accounts, referred to earlier, are submitted and the date of approval becomes known. This compares with 50 councils who did not comply with requirements for 2016-17.

3.11 Auditors identified cases where:

- the RFO only certified the accounting statements after the Council had approved the annual return; and
- either or both the RFO or the Council had failed to discharge their responsibilities by 30 June. In some cases, this was due to individual councils’ meeting cycles and could have been addressed by the council altering their normal meeting schedule.

## 86 councils made an inaccurate assertion that they had taken appropriate action on all matters raised in previous reports from internal and external auditors

- 3.12 At the end of each audit, auditors provide the councils with a detailed report setting out their audit findings and including recommendations for improvement. These reports and recommendations should be considered by the council and appropriate action taken.
- 3.13 For the 2017-18 audit, auditors reviewed progress against recommendations made in 2015-16 and 2017-17. Auditors reported that many councils had not addressed their recommendations and were still not complying with the statutory responsibilities regarding budget setting and payroll. Further detail on these matters are included in my earlier reports on the [2015-16 accounts](#) and the [2016-17 accounts](#).

## 24 councils have yet to make proper arrangements for online publication of documents as required by the Local Government (Democracy) (Wales) Act 2013

- 3.14 The Local Government (Democracy) (Wales) Act 2013 (the 2013 Act) requires every local council to make available their contact and membership details, and records of their proceedings via the internet. The 2013 Act also requires every council to publish their register of members' interests, public notices and audited accounts electronically. The changes introduced by the 2013 Act enhance accountability of local councils to their electorate.
- 3.15 Auditors identified 24 councils who either:
- do not have a publicly accessible website on which to publish the information required to be published; or
  - do not publish this information electronically despite having a website.



## Auditors identified issues that require attention by the council but which did not result in an audit qualification, at 522 councils compared with 424 in 2016-17

- 3.16 Auditors will also report on other matters that have come to their attention during the audit. Councils should consider these matters so they can improve their internal arrangements in light of the comments made.
- 3.17 Auditors reported such matters to 522 councils in 2017-18 compared with 424 in 2016-17.

## Auditors identified issues in the accounting statements of 180 councils

- 3.18 All councils should ensure that the annual return is fully completed and checked before it is presented for audit. Additional audit costs are incurred when auditors need to send the annual return back to councils for correction or completion
- 3.19 The accounting statements required for local councils in Wales are simple both in structure and accounting requirements. Auditors reported issues with the accounting statements of 180 councils. This is significantly more than reported for 2016-17 (86) but comparable with 2015-16 (176).
- 3.20 In many cases, auditors reported that the comparative accounts for 2016-17 reported on the 2017-18 annual return had been amended from the 2016-17 accounts included on the 2016-17 annual return. In other cases, the accounts contained simple errors:
- arithmetic errors. In some cases, the accounting statements did not add up. Often this is because of the figures being rounded to the nearest pound. However, it is important that councils ensure that the accounting statements are correctly presented
  - incorrect treatment of unrepresented transactions. At the year end, there will often be timing differences between transactions being recorded in a council's cashbook and the transaction clearing through the council's bank account. As part of their year-end accounts preparation, councils will reconcile the cashbook to the bank statement. Under proper accounting practice, reconciling items are not adjusted for at the year end. Instead they are reversed if necessary in the following year. However, too many councils either amend the prior year or the current year accounts to remove the impact of uncleared transactions. This has the effect of misstating the accounting statements.

- exclusion of bank accounts and transactions. In some cases, poor record keeping by councils means that balances held in some bank accounts and transactions linked to those accounts are excluded from the accounting statements for the year. This results in understatements of the council's balances and misstatement of its income and expenditure for the year. The lack of internal control also puts at risk the funds held by the council.
- incorrect disclosure of asset values. Other common errors identified included the assets figure in the accounting statements not agreeing with the asset register or in year additions being excluded from the accounting statements, comparative figures being amended and thereby not agreeing to the prior year's audited accounts, cost and income misclassifications as well as rounding and arithmetic errors.
- inappropriate inclusion of charitable funds. A small number of councils had included charitable fund bank accounts and transactions in the accounting statements which is a breach of their trustee fiduciary duties. This results in the overstatement of council balances and misstatement of income and expenditure for the year. It also risks the inappropriate use of charitable funds for council purposes and vice versa.

### **Councils incorrectly apply section 137 of the Local Government Act 1972 as the statutory basis for expenditure when another, more appropriate power is available**

- 3.21 As statutory corporations, councils only have such powers to act as are conferred on them by statute. Section 137 of the Local Government Act 1972 empowers the council to spend up to a prescribed amount in any year for the direct benefit of their area or any part of it or all or some of its inhabitants. Where there is an existing specific statutory provision, that provision should be applied rather than s137.
- 3.22 Auditors identified 112 councils that applied s137 powers to items of expenditure when there was an existing relevant provision available.

## 270 councils did not complete the annual return fully before submission for audit

- 3.23 The annual return prepared by local councils is designed to be easy to complete and includes guidance on completing the return. Nevertheless, each year auditors identify that many councils do not complete the annual return fully.
- 3.24 All councils should ensure that the annual return is fully completed and checked before it is presented for audit. Additional audit costs are incurred when auditors need to send the annual return back to councils for correction or completion. Common issues identified in 2017-18 include:
- failure to enter the council's name on the annual return;
  - failure to enter on the return the date and/or signatures demonstrating approval of the return by the council; and
  - failure to respond to all assertions in the Annual Governance Statement.

## Auditors have again highlighted a need to develop the internal audit function and this is supported by the findings of my national study on internal audit in the sector

- 3.25 Internal audit forms an important part of the internal control arrangements that each council is required to have in place and review annually. In recent years, external auditors have commented on concerns related to internal audit arrangements across the sector including:
- incomplete or non-existent terms of reference for internal audit at 61 councils. The terms of reference are important for councils to understand the expected scope of internal audit's work.
  - although councils make an assertion in the annual governance statement that there is an adequate and effective internal audit in place, this assertion was made by 52 councils before internal audit had reported on their work. Councils should consider the adequacy and effectiveness of internal audit once they receive the internal auditor's report.
  - 23 councils did not receive a report from their internal auditor setting out the work undertaken and the findings from the audit.
  - conclusions reported by internal audit were inconsistent with evidence obtained from the council by external auditors.

- 3.26 These councils will find it difficult to demonstrate that they have an adequate and effective system of internal audit in place and receive full value from that service.
- 3.27 In 2018, I carried out a national study on internal audit in town and community councils. The report setting out the findings from this study will be published on 17 January 2019.

## Part 4

In 2018, due to significant deficiencies identified during the audit, I exercised my statutory powers to issue reports in the public interest or to make written recommendations to eight councils in Wales



- 4.1 As part of the audit, I have a duty under the Public Audit (Wales) Act to consider whether, in the public interest, I should make a report on any matter which comes to my notice in the course of the audit, in order for it to be considered by the council, or brought to the attention of the public. I also have a statutory power to issue written recommendations to councils and require the councils to consider those recommendations in accordance with specific provisions within the Act. Where I exercise these powers, councils must consider the recommendations at a public meeting and publish their response to the report or recommendations.
- 4.2 Although these reports and recommendations are addressed to individual councils, there are usually lessons that can be applied to other councils across Wales. Therefore, I recommend that all councils consider the following issues and whether any of the issues raised may apply to them.

### **Town and community councils in Wales can learn lessons from the reports in the public interest issued at seven councils during 2018**

- 4.3 I normally expect that the publication of a report in the public interest to be an unusual occurrence. However, town and community councils are responsible for the management of public funds and where there are significant failures in financial management and governance at individual councils, I consider that it is important to draw these failures to the attention of the community that the councils serve.
- 4.4 In 2018, I published reports in the public interest at nine councils. Copies of these reports are published on the Wales Audit Office website at [audit.wales](http://audit.wales).

## Exhibit 11 – public interest reports issued in 2018

In 2018, the Auditor General issued reports in the public interest in relation to seven community councils

Public interest reports issued in 2018
<a href="#"><u>Whitford Community Council</u></a>
<a href="#"><u>Penally Community Council</u></a>
<a href="#"><u>Tirymynach Community Council</u></a>
<a href="#"><u>Llanwnnen Community Council</u></a>
<a href="#"><u>Glantymyn Community Council</u></a>
<a href="#"><u>Cadfarch Community Council</u></a>
<a href="#"><u>Llanbrynmair Community Council</u></a>

4.5 The reports I issued in 2018 highlight recurring issues including:

- long standing failures in financial management and governance including a failure to respond to issues previously identified during the audit;
- failure by the council to properly manage their clerk;
- failure by the clerk to prepare annual accounts and to deal with the auditor;
- incomplete accounting records maintained by the clerk;
- lack of payroll records and failure to properly administer PAYE taxation arrangements;
- loss of income arising from failures to reclaim VAT where the council was able to make a claim; and
- ineffective or non-existent internal audit arrangements.

4.6 Recommendations for improvement have been made to each council.

## Councils can also learn lessons from written recommendations issued under section 25 of the Public Audit (Wales) Act 2004

### Machynlleth Town Council

- 4.7 In 2016, the former appointed auditor disclaimed to provide an audit opinion on the accounts for the financial years 2009-10 to 2014-15 and issued a series of written recommendations to the Council. The auditor's findings were summarised in my report on Financial Management and Governance in Community Councils 2015-16. The 2015-16 report can be found on our [website](#).
- 4.8 During this period, the Council employed, as its clerk, the same individual referred to in the reports on Cadfarch, Glantwymyn and Llanbrynmair Community Councils, referred to in **Exhibit 11**. However, the Council appointed a new clerk in early 2018 and in the period since the former appointed auditor issued their written recommendations, the Council has made significant progress in addressing the deficiencies identified.
- 4.9 However, there remains scope for further improvement and therefore I issued further written recommendations in relation to the 2015-16 and 2016-17 accounts.
- 4.10 The 2015-16 accounts contained unresolved errors due to the deficiencies in records kept by the former clerk. Furthermore, the former clerk did not make the appropriate arrangements to prepare and certify the accounts in accordance with the Accounts and Audit (Wales) Regulations. The 2015-16 audit also identified that the Council did not maintain a website that would allow it to publish documents required to be published electronically by the Local Government (Democracy) (Wales) Act 2013. Consequently, written recommendations were made to the Council in June 2018 to address the ongoing issues.



## Part 5

The 2018-19 and 2019-20 town and community council audits will continue to focus on areas where auditors identify scope for improvement in council's arrangements and during this period, I will review my audit approach to ensure it remains fit for purpose



## My audit programme for 2018-19 to 2020-21 will continue to focus on areas where there is scope for local councils to improve their financial management and governance

- 5.1 Since 2015-16, all councils have been required to complete and provide evidence to support the assertions made in a two-part annual governance statement set out in the annual return.
- 5.2 The objective of the new audit arrangements introduced for 2015-16 is to examine and assess the effectiveness of local councils' governance arrangements over a period of five years. The programme focuses on recurring themes identified as part of the annual audit cycle and are intended will help councils to improve their arrangements, where required, over time. **Exhibit 12** sets out the current proposed timetable for future governance themes. Councils should note that these may change if significant issues arise from the annual audits.

### Exhibit 12 – Future governance themes

My proposed audit programme for future governance themes for local councils is as set out below although this may change if further issues emerge.

2018-19	2019-20	2020-21
Compliance with Standing Orders Delegation to committees	Arrangements for making payments	Employment of staff Well-being of Future Generations

## Compliance with standing orders

- 5.3 Standing orders are the written rules of a local council. They are used to confirm a council's internal organisational, administrative and procurement procedures and procedural matters for meetings. Under the Local Government Act 1972, every local council must have standing orders for the procurement of contracts.
- 5.4 In recent years, auditors have regularly reported that:
- some councils have not adopted any standing orders;
  - in many cases, standing orders were adopted a long time ago and no longer reflect the way in which individual councils conduct their business; and
  - although councils may have adopted up to date standing orders, they do not comply with the standing orders.
- 5.5 Where councils do not comply with their standing orders, there is a risk that transactions that arise from such breaches may be unlawful.
- 5.6 Therefore, as part of the 2018-19 audit, auditors will seek to establish if:
- councils have up to date standing orders; and
  - if councils comply with their standing orders in relation to expenditure.

## Establishment of committees

- 5.7 Under section 102 of the Local Government Act 1972, councils can delegate the exercise of certain functions to committees of members. Where this is the case, the council must delegate specific responsibilities to the committees.
- 5.8 External auditors have reported that in some cases, committees lack formal delegated terms of reference and may incur expenditure without appropriate authority from the council to do so. Where committees make decisions and act without authority from the council, they may act 'ultra vires' and incur unlawful expenditure.
- 5.9 Therefore, for the 2018-19 audit, auditors will examine each council's committee structure and establish if each committee has been properly established with appropriate terms of reference.

## In 2019, the current audit arrangements will be reviewed to determine if they remain fit for purpose with any resulting changes to the arrangements expected to be introduced for the 2020-21 audit of accounts

- 5.10 The current audit arrangements were introduced for the audit of the 2015-16 accounts. The arrangements were developed in response to concerns of systemic deficiencies in the sector's arrangements for financial management and governance. The current audit arrangements include a five-year programme of work to assist all councils to develop their own arrangements to ensure they meet their statutory duties and meet best practice requirements.
- 5.11 The 2017-18 audit is the midway point of the current arrangements and therefore, it is appropriate to take stock of the progress made by the sector and to consider if the current audit arrangements are fit for purpose. The arrangements can be considered fit for purpose if they are sufficient to allow me to discharge my responsibilities under the Public Audit (Wales) Act 2004 and provide an appropriate level of assurance to users of the accounts.
- 5.12 As part of the review of the audit arrangements, the following strands of evidence will be considered:
- the outcomes of external audit work for the period 2015-16 to 2017-18 as reported in my annual reports on Financial Management and Governance in the sector;
  - reports in the public interest issued to town and community councils since 2015;
  - reports and written recommendation issued under section 25 of the Public Audit (Wales) Act 2004, issued since 2015; and
  - the outcome of my national study on the role of internal audit in the sector.
- 5.13 This review will be completed in 2019 and I propose to consult on the outcome of the review and any changes to the audit arrangements late in 2019. Any changes to the audit arrangements arising from the review are expected to be implemented for the 2020-21 audit.

## Appendices

Appendix 1 – Councils with income and expenditure exceeding £200,000

Appendix 2 – Audits incomplete as at 30 November 2018

Appendix 3 – Explanation of the statutory framework for common audit issues



# Appendix 1 – Councils with income and expenditure exceeding £200,000<sup>3</sup>

## Councils meeting the expenditure threshold 2015-16 to 2017-18

Abergavenny Town Council  
Aberystwyth Town Council  
Bangor City Council  
Barry Town Council  
Bay of Colwyn Town Council  
Beaumaris Town Council  
Blaenhonddan Community Council  
Brecon Town Council  
Bridgend Town Council  
Buckley Town Council  
Caernarfon Royal Town Council  
Caia Park Community Council  
Caldicot Town Council  
Carmarthen Town Council  
Chepstow Town Council  
Coedffranc Community Council  
Coedpoeth Community Council  
Connah's Quay Town Council  
Conwy Town Council  
Cwmaman Town Council  
Cwmbran Community Council  
Gwersyllt Community Council  
Haverfordwest Town Council  
Hawarden Community Council  
Holyhead Town Council  
Llandudno Town Council  
Llanedi Community Council  
Llanelli Rural Community Council<sup>4</sup>

<sup>3</sup> Where councils have not yet submitted accounts for audit, I have assumed that income and expenditure will be at the same level as prior years

<sup>4</sup> Included for completeness

## Councils meeting the expenditure threshold 2015-16 to 2017-18

Llanelli Town Council  
Llangennech Community Council  
Llannon Community Council  
Llantrisant Community Council  
Llantwit Fardre Community Council  
Llantwit Major Town Council  
Machynlleth Town Council  
Maesteg Town Council  
Milford Haven Town Council  
Mold Town Council  
Monmouth Town Council  
Neath Town Council  
Newtown and Llanllwchaiarn Town Council  
Pembrey & Burry Port Community Council  
Penarth Town Council  
Pontypool Community Council  
Pontypridd Town Council  
Porthcawl Town Council  
Prestatyn Town Council  
Rhosllanerchrugog Community Council  
Rhyl Town Council  
Rogerstone Community Council  
St Davids City Council  
Tonyrefail & District Community Council  
Welshpool Town Council  
Ystradgynlais Town Council

### **Councils meeting the expenditure threshold 2016-17 and 2017-18**

Abergele Town Council  
Builth Wells Town Council  
Denbigh Town Council  
Laleston Community Council

### **Councils meeting the expenditure threshold 2017-18 only**

Brackla Community Council  
Cefn Community Council  
Flint Town Council  
Holywell Town Council  
Kidwelly Town Council  
Llandybie Community Council  
Mumbles Community Council  
Neyland Town Council  
Offa Community Council  
Pembroke Town Council  
Pontardawe Town Council  
Pontyberem Community Council  
Talybont-on-Usk Community Council



## Appendix 2 – Audits incomplete as at 30 November 2018

### Annual returns not submitted for audit

**The following councils have failed to submit their annual return for 2017-18 to the auditor**

- 1 Blaengwrach Community Council
- 2 Cilcain Community Council
- 3 Clocaenog Community Council
- 4 Henryd Community Council
- 5 Llampumsaint Community Council
- 6 Llanelly Community Council
- 7 Llanfairpwll Community Council
- 8 Llanfrothen Community Council
- 9 Llanilar Community Council
- 10 Nantcwnlle Community Council
- 11 Newchurch and Merthyr Community Council
- 12 Pembrey & Burry Port Community Council
- 13 Pwllheli Town Council
- 14 Raglan Community Council
- 15 Rhosyr Community Council
- 16 St Donats Community Council
- 17 Wick Community Council

## Councils not communicating with auditors

**The following councils although having submitted the annual return for audit have not responded to the auditors' requests for further information, explanation or clarification**

- 1 Betws Garmon Community Council
- 2 Betws Gwerfil Goch Community Council
- 3 Bishton Community Council
- 4 Bro Machno Community Council
- 5 Brynchrug Community Council
- 6 Croesyceiliog & Llanyrafon Community Council
- 7 Cyfflliog Community Council
- 8 Derwen Community Council
- 9 Henllan Community Council
- 10 Leeswood Community Council
- 11 Llanaelhaern Community Council
- 12 Llanbedgrog Community Council
- 13 Llanbedr Dyffryn Clwyd Community Council
- 14 Llanberis Community Council
- 15 Llanfynydd Community Council
- 16 Llangwm Community Council
17. Llanrhaeadr Yng Nghinmeirch Community Council
- 18 Llanwnda Community Council
- 19 Llanysys Community Council
- 20 New Tredegar Community Council
- 21 Penmeanmawr Community Council
- 22 Pennal Community Council
- 23 St Arvans Community Council
- 24 Usk Town Council

## Prior year audit(s) incomplete

**The following councils have prior year audits remaining open and will be concluded once the prior year issues are resolved**

- 1 Abergele Joint Burial Committee
- 2 Abertillery & Llanhilleth Community Council
- 3 Bethesda Community Council
- 4 Bodorgan Community Council
- 5 Cadfarch Community Council
- 6 Cynwyd Community Council
- 7 Glantwymyn Community Council
- 8 Glynneath Town Council
- 9 Llanbrynmair Community Council
- 10 Llangristiolus Community Council
- 11 Llangynwyd Middle Community Council
- 12 Llantilio Pertholey Community Council
- 13 Llanwnnen Community Council
- 14 Maenclochog Community Council
- 15 Maesteg Town Council
- 16 Ogmore Valley Community Council
- 17 Penally Community Council
- 18 Rhigos Community Council
- 19 Tirymynach Community Council
- 20 Tywyn Community Council
- 21 Whitford Community Council
- 22 Ynysawdre Community Council

## **Audit issues to be resolved**

**The following councils have prior year audits remaining open and will be concluded once the prior year issues are resolved**

- 1 Aberporth Community Council
- 2 Ammanford Town Council
- 3 Beulah Community Council
- 4 Bontnewydd Community Council
- 5 Buckley Town Council
- 6 Builth Wells Town Council
- 7 Carreghofa Community Council
- 8 Chepstow Town Council
- 9 Clunderwen Community Council
- 10 Connah's Quay Town Council
- 11 Conwy Town Council
- 12 Criccieth Town Council
- 13 Faenor Community Council
- 14 Holyhead Town Council
- 15 Llancarfan Community Council
- 16 Llandyrnog Community Council
- 17 Llangefni Community Council
- 18 Llannor Community Council
- 19 Magor with Undy Community Council
- 20 Merthyr Mawr Community Council
- 21 Mumbles Community Council
- 22 Penbryn Community Council
- 23 Pistyll Community Council
- 24 Port Eynon Community Council
- 25 Prestatyn Community Council
- 26 Rhyl Town Council
- 27 Ruabon Community Council
- 28 Saltney Town Council
- 29 St Brides Major Community Council
- 30 Troedraur Community Council
- 31 Van Community Council

## Appendix 3 – Explanation of the statutory framework for common audit issues

### Approval of accounts and the exercise of electors' rights to inspect documents at audit

Section 30(1) of PAWA 2004 provides that an interested person may 'inspect the accounts to be audited'. [A copy of the Act can be found on the UK Government website.](#)

Regulation 15(2)(b) of the Accounts & Audit (Wales) Regulations 2014 requires a relevant body (council) to 'approve the accounting statements for submission to the auditor' following its consideration. [A copy of the Regulations can also be found on the UK Government website.](#)

Therefore, it is only accounting statements that have been approved that may be submitted to the auditor for audit. As such, the 'accounts to be audited', which are to be made available for inspection must first be approved by the council.

### Requirements to operate Pay As You Earn by councils

Employers do not need to register for PAYE if none of their employees are paid £116 or more a week, get expenses and benefits, have another job or get a pension. However, they must still maintain payroll records.

Otherwise there is an obligation for the employer to operate PAYE, which is confirmed in Sections 4 and 5 of the Income Tax Earnings and Pensions Act 2003 (ITEPA). [A copy of the Act can be found on the UK Government website.](#)

Section 684 of ITEPA is the authority for PAYE Regulations which deal with routine payments such as cash wages, salaries or pensions paid by UK employers or pension providers. The Income Tax (PAYE) Regulations 2003 (Statutory Instrument 2682/2003) set out in detail how the PAYE system will operate. The regulations assign responsibilities to employers:

- Regulation 21 provides 'On making a relevant payment to an employee during a tax year, an employer must deduct or repay tax in accordance...'
- Regulation 68 determines how much an employer must be pay to the HMRC for a tax period.
- Regulation 73 requires an employer to deliver an annual return to HMRC.

The Regulations place obligations upon an employer, not the employee or any agent or intermediary of an employer. Employers can use payroll agents, solicitors, accountants, etc to help them comply with their PAYE obligations but there is nothing in the legislation or PAYE Regulations which enables an employer to escape the legal responsibility to operate PAYE and it is the employer that HMRC will enforce an underpayment of PAYE against. There is no legislative provision that allows an employee to choose to pay tax through self-assessment as an alternative to the employer deducting tax under PAYE.

[A copy of the Regulations can be found on the UK Government website.](#)

Further [explanation is also available on the HMRC website.](#)



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