

February 2020

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Financial Management and Governance – Community and Town Councils 2018-19



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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Introduction

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Introduction

In 2018-19, community and town councils have made progress to address some of the issues raised in my last report and the number of qualified audit opinions has fallen. However, there remains significant scope for improvement as too many councils still receive qualified audit opinions for multiple issues, and it was necessary for me to issue twelve reports in the public interest in 2019

- 1 There are some 735 community and town councils in Wales. As a tier of local government, they are elected bodies, with discretionary powers and rights laid down by Parliament to represent their communities and provide services for them. In some cases, these councils collaborate to 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 community councils.
- 2 Community councils can and do play a vital role in creating and sustaining a strong sense of community at local level. They can make a significant contribution to the social and economic development of their communities. However, to do so effectively, they must have good financial management and governance arrangements in place.
- 3 This is my eighth annual report summarising issues identified by external auditors during their statutory audit of community councils in Wales. The audit arrangements for community councils are designed for the following purposes:
 - a to enable me to discharge my responsibilities as the statutory auditor for community councils;
 - b to provide local residents with a reasonable level of assurance on the effective financial management and governance of their community council; and
 - c 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 community councils across Wales.

- 5 This report summarises the outcomes of audit work completed to 30 November 2019, two months past the statutory deadline for the publication of the 2018-19 audited accounts. As at 30 November 2019, only 537 out of 740 (73%) audits had been completed. This represents a deterioration from the same period for 2017-18 when 647 out of 740 audits (87%) had been completed. The reasons for non-completion are set out in more detail in **Part 2**
- 6 This report sets out in **Part 1**, an overview of the financial position of the sector highlights how councils can review the amounts raised from council tax payers.
- 7 **Parts 2 to 4** summarises the key findings from my audit work in 2019 and identifies several commonly occurring audit concerns across Wales. It is important that all councils consider these issues to ensure they address any deficiencies at an early stage.
- 8 **Part 5** sets out my future audit programme. This is informed by the issues that auditors identified in previous years and wider developments affecting community 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 community 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 two years and refers to my proposals for the overall audit arrangements from the 2020-21 audit onwards.
- 9 My overall conclusions from the 2018-19 audits are set out below.

Part 1

Community councils are managing more money but there is scope for some to review their budgets and the services they provide



- 1.1 Last year I reported that community councils across Wales are managing increasing sums of public money and that this is primarily raised from council tax payers. I noted overall, that income exceeds expenditure and councils are holding increasing sums in reserves but councils often fail to take these reserves into account when setting their budgets and precepts.
- 1.2 This section of my report provides some high-level analysis of the financial position of the sector and offers commentary on how councils can address some of the financial issues they face in the near future.

The total sum of money raised by community councils has risen again in 2018-19, driven by further increases in the precepts charged to council tax payers

- 1.3 The 734¹ town and community councils and their 6² joint committees covered by this report raised over £54.1 million income in 2018-19. Community councils raise income either through setting a precept, by charging for goods and services, by claiming grants or by disposing of long-term assets.
- 1.4 A precept is a peremptory order to the unitary authority to pay a specific sum of money to the community council. The amount of the precept is charged to the community's council tax payers and is paid in full to the community council.
- 1.5 Councils also raise funds by charging for goods and services provided by the community council. Charges may typically be made for:
 - use of village halls/community centres owned and managed by the community council;
 - burial fees where the community council is a burial authority;
 - hire charges for sports facilities; and
 - car parking charges.
- 1.6 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.

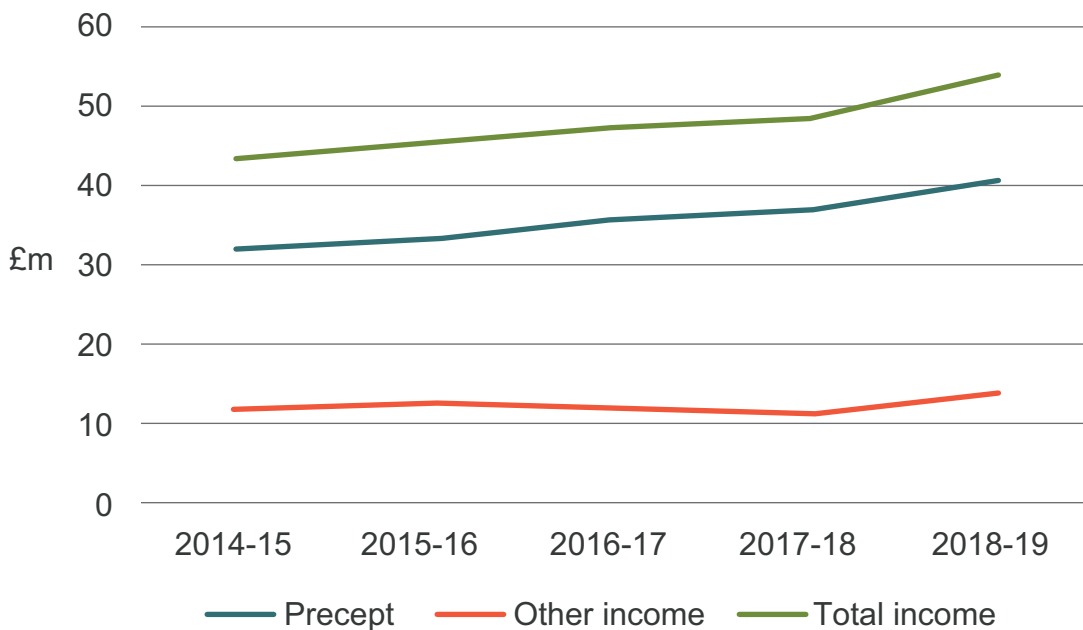
1 Excludes Llanelli Rural Community Council. Llanelli Rural Community Council is the largest community council in Wales and is subject to a different accounting arrangement.

2 The joint committees are all burial committees and spend a total of just over £231,000.

- 1.7 In total, community councils' income has increased by £5.6 million (11%) to £54.1 million in 2018-19 and by £10.7 million (23%) since 2014-15. The total precept charged to council tax payers across Wales increased by £3.6 million (10%) in 2018-19 and has increased by £8.7 million (27%) over the last five years.
- 1.8 Receipts from other sources has also increased in 2018-19 by £2.1 million from just under £11.5 million to just under £13.5 million. This includes over £925,000 of new borrowing in the year to finance specific projects.

Exhibit 1 – community council income 2014-15 to 2018-19

Community council total income has increased each year, from £43.4 million in 2014-15 to £54.1 million in 2018-19. The total precept increased by £8.7 million to £40.6 million over the last five years.



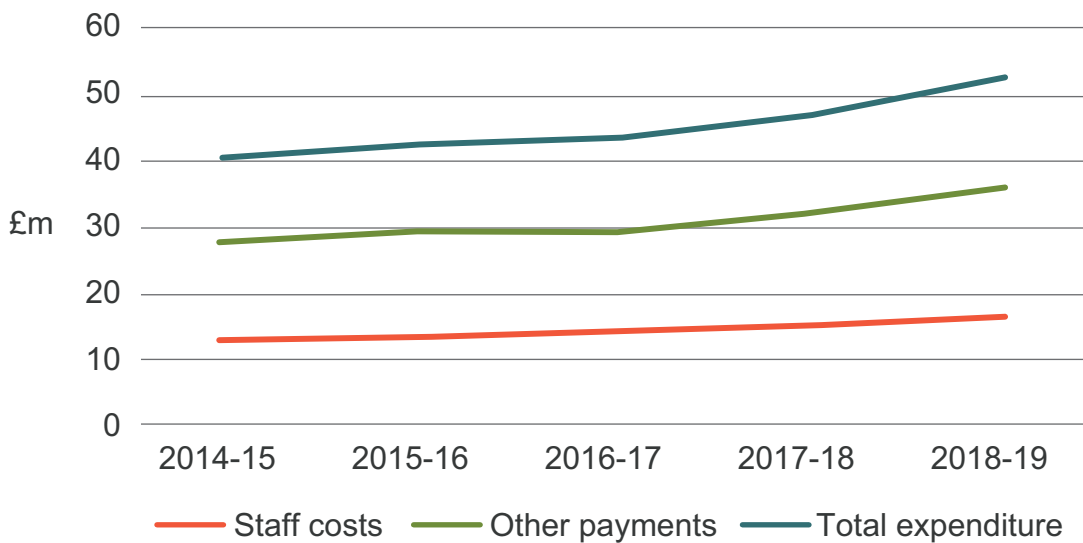
Source: Wales Audit Office analysis

Community councils' expenditure continues to increase due to increases in both staff costs and direct expenditure on goods and services

- 1.9 Community 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.
- 1.10 Overall, community councils' expenditure has increased by £5.7 million (12%) to £53.2 million during 2018-19 and by £12.2 million (30%) since 2014-15. Expenditure on both staff costs and other payments increased by £1.6 million (11%) and £4.1 million (13%) respectively in 2018-19 and by £3.8 million (30%) and £8.4 million (30%) respectively over the last five years.

Exhibit 2 – community council expenditure 2014-15 to 2018-19

Community council total expenditure has increased each year, from £40.9 million in 2014-15 to £53.2 million in 2018-19. Expenditure on staff costs increased by £3.8 million to £16.6 million and other expenditure on goods and services increased by £8.4 million to £36.2 million in the same period.



Source: Wales Audit Office analysis

Community councils' reserves have increased again in 2018-19 to £39.4 million. Whilst the rate of increase has declined, there remains a need for individual councils to review the balances they hold

- 1.11 Community councils may hold reserves and balances for many reasons such as for financing unforeseen expenditure or 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 capital receipts which may only be used to finance capital expenditure.
- 1.12 The sums held by community councils as reserves have increased by £0.7 million (2%) to £39.4 million during 2018-19 and by £9.3 million in total (31%) since 31 March 2014.

Exhibit 3 – community council reserves 1 April 2014 to 31 March 2019

Community council reserves have increased by £9.3 million over the last five financial years.

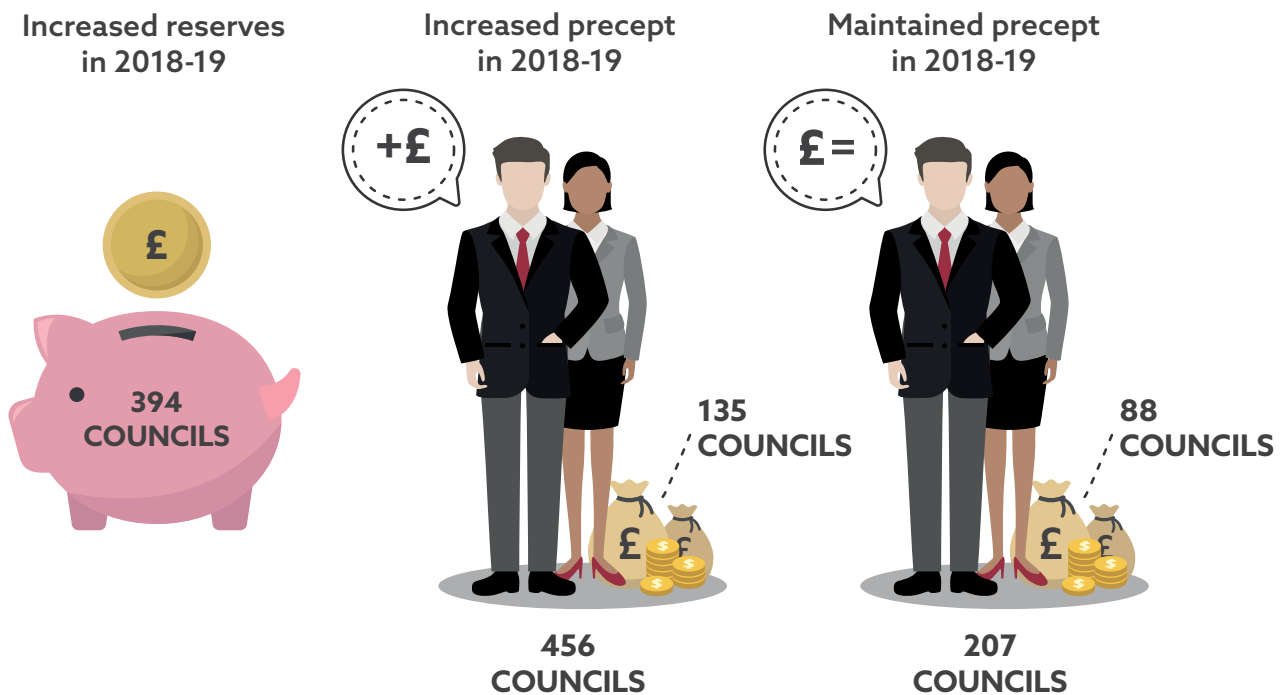


Source: Wales Audit Office analysis

- 1.13 In last year's report (on the 2017-18 accounts), I noted my concerns that councils often raise funds from council tax payers without having a clear purpose for the use of those funds. I have previously reported on the inadequacy of budget setting by too many community councils.
- 1.14 In 2018-19, 394 councils increased the sum of monies they held as reserves. 456 councils increased their precept and a further 207 maintained the precept at the same level as 2017-18. 135 of the 456 councils that increased the precept had balances as at 1 April 2018 greater than the 2018-19 precept and had realised a surplus of income over expenditure in 2017-18. 88 councils that maintained their precept at the same level as in 2017-18 had balances as at 1 April 2018 greater than the precept and had realised a surplus of income over expenditure in 2017-18. Many of these councils appear to be raising precept in excess of their needs.

Exhibit 4 – community councils increased their precepts and reserves for 2018-19 despite generating a surplus in 2017-18

Over 390 councils increased their reserves in 2018-19 while over 220 councils maintained or increased their precept in 2018-19 even though they had generated a surplus in 2017-18 and held reserves at 31 March 2018 that exceeded the 2018-19 precept.



Source: Wales Audit Office analysis

1.15 Whilst reserves have continued to increase, it should be noted that the rate of increase has at least slowed compared to previous years. Consequently, there continues to be a need for individual councils to critically review the level of their reserve balances. This is especially likely to be the case at those councils that:

- have opening reserve balances that are greater than their precept;
- continually raise or maintain their precept year on year; and
- continually realise a surplus of income over expenditure.

1.16 In setting the budget and precept, community councils are legally required to take the value of funds held as reserves into account. Community councils must consider the level of reserves they hold and whether they plan to finance some or all of their expenditure from reserves or alternatively, whether they need to increase the precept to fund any additional services provided.

As unitary authorities continue to examine what services may be reduced at local level, there is scope for many community councils to re-examine their precept setting to address any 'affordability' issues that restrict their ability to provide services to their communities

1.17 The ongoing financial constraints faced by unitary authorities across Wales is resulting in significant pressures on local discretionary services. In many cases, the unitary authorities are seeking to transfer assets and services to the community councils in their areas. However, in many cases, community councils consider the provision of additional services to be problematic because of their own affordability issues.

1.18 I note above that the principal source of funds for community councils is the precept. Notwithstanding the significant differences in size of individual local councils, it is possible to compare how much councils raise via the precept by comparing the Band D council tax equivalent that the precept represents.

1.19 In 2018-19, Band D equivalent council tax charges arising from community council precepts across Wales range in value from nil to almost £170, with an average value of £34. The small number of councils that do not raise a precept have significant other sources of income e.g. car parks, halls and recreation facilities.

1.20 This variation indicates the wide scope of services offered by town and community councils across Wales. The smallest councils may only provide limited services such as small grants to community groups and commentary on planning applications. Larger councils may maintain public footpaths, undertake street cleaning, operate public conveniences, cemeteries and parks or provide tourist information.

- 1.21 It is important that councils do not raise more income through council tax than is necessary to deliver council services and administer their affairs, leading to ever increasing levels of reserves. However, it is equally important that councils have enough income to deliver services that meet the needs of their local community. This may not be the case at some smaller councils with low or below average Band D equivalent council tax charges.
- 1.22 Such councils should consider the current services they are providing and whether these meet the needs of their communities. They may wish to consider whether there are additional services that they can provide or contribute to the costs of providing locally. A modest increase in the Band D equivalent in absolute terms might be sufficient to allow the councils to fund additional services or to support existing services for their local communities. This increase should only arise after councils reflect on the services they currently deliver, the reserves that they hold and the financial impact of any proposed developments.

Case study

Community Council A – scope to review the local services provided and to raise precept for additional services or to support existing services

In 2018-19, Council A had opening reserves of £3,000. Its total income was £2,500 raised from precept that generated a £7.25 Band D equivalent council tax charge. Its total expenditure was £4,100 and its closing reserves were £1,400.

If Council A raised its precept such that it generated the all Wales average Band D equivalent of £34, its precept would have been £11,725. This represents a weekly cost of £0.65 per average Band D equivalent household.

The council may wish to review the services it currently provides to the local community and whether there are additional services that it might provide or if there are existing services that are at risk of termination that it could support. It would then need to consider the affordability of any proposed services in light of the impact on council tax bills.

Case study

Community Council B – need to review services provided with scope to reduce precept

In 2018-19, Council B held opening reserves of £19,170 and set a precept of £22,000. It received a small amount of other income of £834. During the year, the council spent £16,740. This meant that its reserves increased to £25,268.

The council should review the services it currently provides to the local community and whether there are additional services that it might provide or if there are existing, at risk services that it might support.

If it identifies no additional services that it may provide, the council should consider whether the existing services provided may be partially or wholly funded from reserves with a consequential reduction in the precept.

If additional services are needed, then the council may consider funding some of these services from its reserves. However, it should note that the reserves are a finite resource and cannot be applied indefinitely.

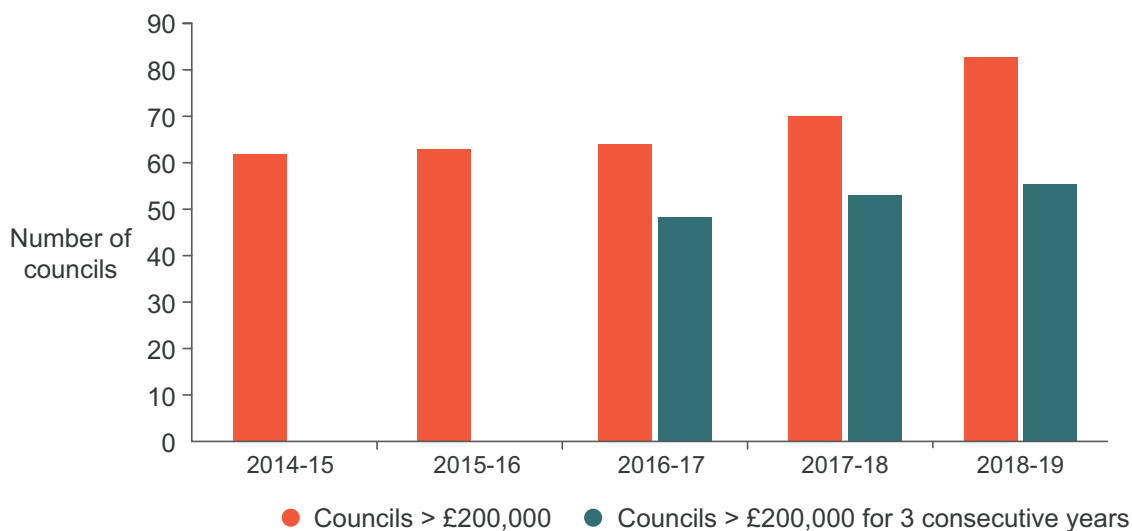
The number of councils meeting the threshold for the adoption of specific duties set out in the Well-being of Future Generations (Wales) Act 2015 continues to rise and 55 councils now pass the threshold of annual income or expenditure exceeding £200,000 for three consecutive years

1.23 The Well-being of Future Generations (Wales) Act 2015 requires councils with annual income or expenditure over £200,000 for three consecutive years or more to adopt specific duties in relation to local well-being plans.

1.24 In 2018-19, 83 councils had income or expenditure of over £200,000. This number is steadily rising each year.

Exhibit 5 – community councils with annual income or expenditure exceeding £200,000

The number of community councils with annual income or expenditure exceeding £200,000 has increased to 83 in 2018-19 and 55 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

- 1.25 The Well-being of Future Generations (Wales) Act 2015 requires councils with annual income or expenditure over £200,000 for three consecutive years or more to adopt specific duties in relation to local well-being plans. 55 councils have income or expenditure exceeding £200,000 for each of the last three financial years and must now comply with requirements of the Act. [Appendix 1](#) includes a complete list of these councils.
- 1.26 These councils have a specific but limited duty to take all reasonable steps towards meeting the objectives included in the local well-being plan. They must publish a report for each financial year on the progress made in meeting the local objectives.
- 1.27 Those councils exceeding the £200,000 threshold in 2018-19 that have not done so for three consecutive years, also need to be aware of and plan accordingly for discharging these duties. It is likely that many town and community councils need to increase their awareness of the Act's duties that apply to them.

Part 2

Only 66% of all councils published their accounts by the statutory deadline of 30 September 2019



The 2004 Act and the 2014 Regulations set out clearly the statutory requirements for the preparation and audit of community councils' accounting statements

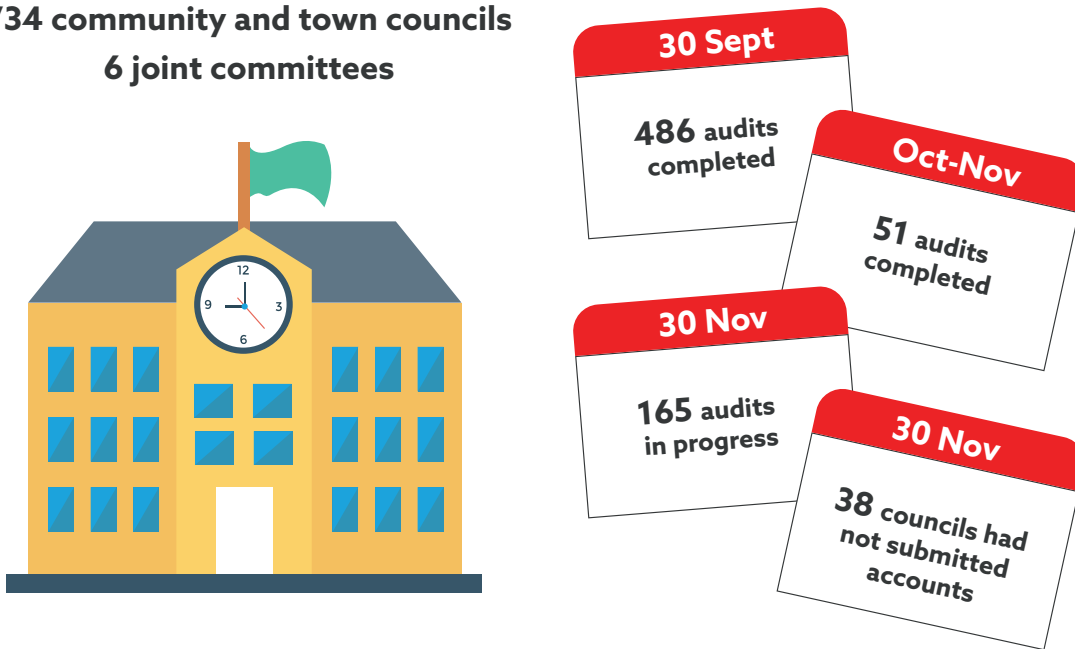
- 2.1 Section 13 of the Public Audit (Wales) Act 2004 (the Act) requires community councils to make up their accounts to 31 March each year and to have those accounts audited by the Auditor General.
- 2.2 The Accounts and Audit (Wales) Regulations 2014 (the Regulations) sets out the timetable for the 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 Both of these actions must be completed by 30 June following the end of the financial year.
- 2.6 Following approval of accounts, councils must submit the accounts to me for audit. They must then publish audited accounts by 30 September each year.

Only 486 audits (66%) were completed by the statutory deadline of 30 September and while by 30 November 2019, 537 audits (73%) had been completed, 38 councils (5%) had failed to provide accounts for audit

Exhibit 6 – completion of 2018-19 audits

Only 486 audits (66%) were completed by the statutory deadline of 30 September. A further 51 were completed in October and November 2019. Of the remaining 203 councils, 38 had not submitted accounts for audit.

734 community and town councils
6 joint committees



Source: Wales Audit Office analysis

- 2.7 Auditors are reporting ongoing difficulties with obtaining the annual returns for audit on a timely basis at many councils. In some cases, councils did not submit accounts for audit until the end of September. This means that the audit cannot be completed by the 30 September.
- 2.8 As at 30 November, 38 councils had not provided any accounts for audit. In some of these cases, this is due to prior year audits being incomplete. In a small minority of cases, the council's clerks have refused to provide accounts.
- 2.9 Due to the large scale of the backlog, staff at the Wales Audit Office are now undertaking audit work at those councils where the 2018-19 audits are incomplete.
- 2.10 As part of this work, auditors will identify the reasons for the delayed submission of accounts for audit. I will then consider how this should be reported to the individual councils and whether the issues identified should be drawn to the public's attention in a report in the public interest.

Part 3

The number of qualified audits has fallen but it is still too high at 218 councils



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

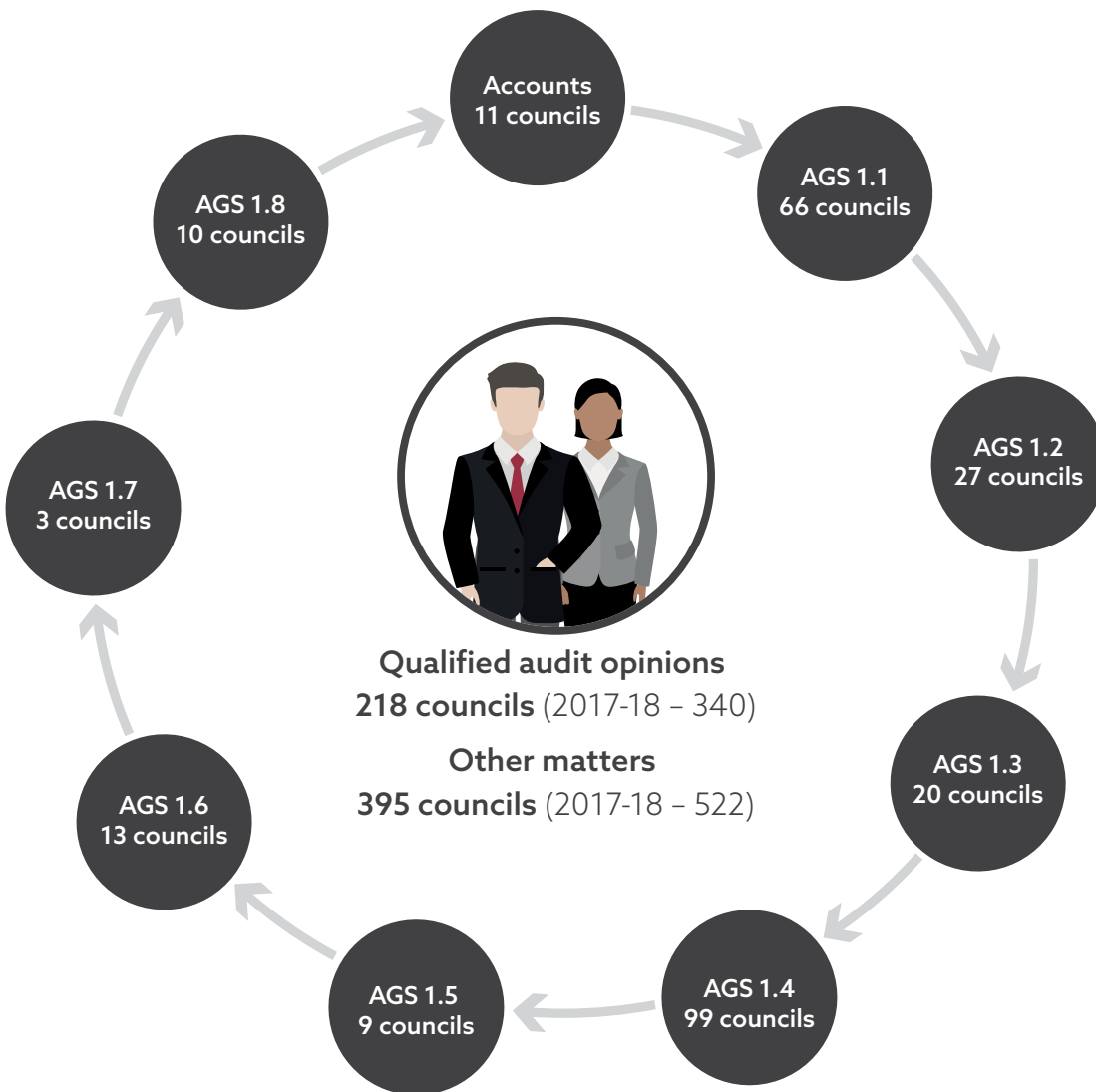
- 3.1 My audit approach for community councils is designed to discharge my responsibilities under the Public Audit (Wales) Act 2004.
- 3.2 Community councils prepare their accounts in the form of an annual return. The annual return includes:
 - the annual accounting statements made up to 31 March each year; and
 - an annual governance statement which sets out assertions in which the council confirms the arrangements it has in place to manage its finances. Details of the assertions made in the Annual Governance Statement are set out in [Appendix 2](#).
- 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 i.e. when the positive assertions made by the council are found to be incorrect.

As at 30 November 2019, 218 community councils had received a qualified audit opinion for 2018-19 compared with 340 in 2017-18 and this 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. A qualification means that either the accounts have not been properly prepared or that one or more of the assertions made in the Annual Governance Statement are inappropriate. 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.
- 3.7 218 councils received a qualified audit opinion up to 30 November 2019. The number of qualified opinions is likely to rise as audit work on the outstanding councils is completed.
- 3.8 Excluding the qualifications related to the accounts and audit timetable, the nature of qualifications is broadly similar to 2017-18.
- 3.9 **Exhibit 7** summarises the relative frequency of qualifications issued by auditors. **Appendix 2** sets out what the Annual Governance Statement (AGS) assertions mean.

Exhibit 7 – qualified audit opinions 2018-19

218 community councils (30%) have received qualified audit opinions for 2018-19 compared to 340 (46%) in 2017-18 but the most common issue remains failure to make proper arrangements for electors to exercise their rights to inspect the accounts



Source: Wales Audit Office analysis

Auditors issued qualified audit opinions to 99 councils where their assertion that they had made proper arrangements for electors to exercise their rights to inspect the accounts was not supported by the evidence provided for audit

- 3.10 Local electors have the right under the Public Audit (Wales) Act 2004, to inspect community councils' accounts. This inspection arrangement is a long standing and important element of the framework by which community councils are held to account by the electorate. The procedures that councils must follow are set out by the Accounts and Audit (Wales) Regulations 2014. Councils must make the accounts available for inspection for 20 working days and must give notice of this period for at least two weeks before it commences.
- 3.11 The arrangements for inspection of accounts are closely tied to arrangements I make for electors to ask questions or to make objections to the accounts at audit.
- 3.12 The sector, as a whole, has had long standing difficulties in complying with the requirements of the Regulations. In many cases, this is due to a lack of understanding, in others it is an oversight. However, my audit teams identify that in some cases, the failure to comply is deliberate with some councils obstructing public inspection. Where this has been identified, auditors have required the council to restart the process.
- 3.13 As this has been a recurring theme, as part of my 2017-18 audits, I focussed on the arrangements councils were making. I reported last year that over 240 councils received qualified audit opinions in 2017-18 for non-compliance with their statutory duties in this area.
- 3.14 In order to support councils to meet their responsibilities, for the 2018-19 audit I specified a common date for the exercise of electors' rights to ask questions or make objections at audit. My auditors provided all councils with an audit notice setting out the dates from which councils should make their accounts available for inspection by electors and specified the date from which the inspection period should be advertised. I expected that almost all councils would comply with the statutory timetable for 2018-19.

- 3.15 Therefore, I am disappointed to note that despite having clear advanced notice of a consistent date, 99 councils failed to comply with the requirements of the Regulations. In most cases, the infraction was minor. For example, the notice period was for 12 or 13 days rather than 14 and the inspection period 17 to 19 days instead of 20 working days.
- 3.16 However, in other cases, councils did not place the notice advertising the inspection of accounts or significantly curtailed the inspection period.
- 3.17 In most cases, the councils that failed in 2018-19 also failed in 2017-18. I consider that these councils are failing to meet the basic accountability requirements that their communities should expect of them.
- 3.18 In my view, a significant breach of the statutory requirements adversely affects my ability to discharge my statutory responsibilities. Therefore, I will again set a common date for the exercise of electors' rights for the 2019-20 audit. Where a council does not comply with the statutory timetable in full, I will appoint another date for the exercise of electors' rights to ask questions or make objections. I will then require the councils to re-run the inspection period to allow electors sufficient opportunity to inspect the accounts. This will result in more work for the councils concerned and for the auditors.
- 3.19 I will also consider whether or not individual councils fail to meet the statutory requirements on a regular basis and if so, whether or not this is a matter that should be reported in the public interest.

Although the accounting requirements for community councils are relatively simple, auditors issued qualified audit opinions at 11 councils for significant errors in the accounts and raised issues with the accounts at a further 70 councils

- 3.20 Community councils' accounts follow a simple structure. The most basic form of accounting, receipts and payments accounting, is undertaken at over 650 of the 740 bodies covered by this report. Receipts and payments accounting requires the body to record and report transactions as money is received or spent. The transactions are classified into one of five categories. The annual accounts are the totals of these categories.
- 3.21 Notwithstanding the simplicity of the accounting requirements, auditors qualified the accounts of 11 councils in 2018-19 (2017-18 – 10 councils). In addition, minor issues were identified by auditors at 70 councils (2017-18 – 180 councils).

3.22 Auditors identified the following issues in 2018-19:

- the council had not fully completed the accounts, eg excluding the value of assets owned and debts owed, by the council;
- the entries in the annual accounts are not fully supported by an adequate audit trail to reconcile the accounts and the cashbook;
- individual accounting entries have been incorrectly classified or have been inaccurately recorded;
- rather than resolving any anomalies, 'balancing' entries have been included in the accounts to ensure the annual accounts balance; and
- the accounts presented for audit are not arithmetically correct.

3.23 The significant reduction in issues identified by auditors is welcomed and demonstrates that councils are responding positively to issues raised in relation to the accounts. These issues are both easy to identify and to resolve.

66 councils incorrectly asserted that they made proper arrangements for effective financial management and to prepare and approve the annual accounts compared with 86 in 2017-18

3.24 The first assertion made by councils in the annual governance statement is that they have made proper arrangements for effective financial management and to prepare and approve the annual accounts. This means that the council has in place proper budget setting and monitoring procedures and prepares and approves its accounts in accordance with the Regulations.

3.25 Auditors identified a total of 66 councils that had made an inaccurate assertion. This compares with 86 councils who did not comply with requirements for 2017-18.

3.26 Auditors identified that of those councils that have submitted accounts for audit, 49 councils did not adhere to this timetable for the 2018-19 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.

3.27 As summarised in **Exhibit 8**, Regulation 15 sets out the statutory timetable for community councils to prepare and approve the accounting statements.

Exhibit 8 – the statutory approval process for community 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.



Source: Wales Audit Office analysis

3.28 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.

3.29 The reduction in the number of councils receiving qualifications related to the approval of accounts is to be commended. However, it must be recognised that the statutory timetable has been in place for many years and should be well understood by all councils. Councillors must take responsibility for requiring explanations from the clerks and chairs when accounts are not prepared in time to meet the statutory deadlines.

82 councils have failed to adopt standing orders for contracts as required by law and 39 councils did not comply with their adopted standing orders

3.30 The Local Government Act 1972 requires all councils to make standing orders covering contracts for the supply of goods or materials or for the execution of works. Standing orders must provide for securing competition and for regulating the way in which tenders or quotes are invited.

- 3.31 Standing orders may also be made to regulate councils' business and proceedings. Model standing orders are provided by One Voice Wales. Such standing orders provide rules for councils to follow and can be referred to when difficulties arise. When a council makes standing orders, it must comply with them.
- 3.32 In previous years, auditors have identified that many councils either do not have standing orders or fail to comply with them. Therefore, I made this an area of focus for the 2018-19 audit.
- 3.33 Auditors identified 82 councils that have failed to adopt standing orders. In addition, 39 councils were unable to provide sufficient evidence that they had complied with the standing orders they had established. In these cases, I conclude that the councils do not have adequate arrangements in place to secure value for money.
- 3.34 Inadequate standing orders or non-compliance with standing orders is a recurring theme arising at councils where I undertake more detailed and focussed audit work. Therefore, my future audit work will incorporate regular reviews of compliance with standing orders. Where I identify significant areas of non-compliance, I will consider whether it is appropriate to report publicly.

Over 100 councils received audit opinions that were qualified for more than one issue

- 3.35 Audit qualifications should be a rare occurrence. In most cases, I would not expect councils to receive audit opinions that are qualified on two or more grounds. In 2018-19, 101 councils (14%) (to 30 November) received audit opinions that were qualified on two or more grounds. 42 councils (6%) received audit opinions that were qualified for 3 or more issues.

Case study

The 2018-19 audit opinion for Council C was qualified on five grounds.

Case study

Council C – Audit qualifications 2018-19

The 2018-19 audit opinion was qualified for the following reasons:

- the accounts were misstated with significant errors in the amounts reported for the precept and year end cash balances
- the Council did not follow the statutory approval process set out in the Accounts and Audit (Wales) Regulations 2014
- the Council did not operate PAYE as required by the Income and Corporation Taxes Acts. This exposes the Council to the risk of HMRC imposing penalties
- the Council did not comply with the statutory requirements to advertise the audit and to provide an appropriate period for electors to inspect the accounts
- the Council has failed to adopt standing orders for contracts as required by the Local Government Act 1972 and therefore does not have appropriate arrangements in place to secure value for money

3.36 Those councils that receive qualified audit opinions for multiple issues are not meeting the basic standards of financial management and accountability that the public can rightly expect. These councils need to review their internal arrangements and take urgent action to address the weaknesses identified by the auditors.

This year the number of councils where auditors identify other matters arising that do not lead to qualified audit opinions, has reduced from 522 to 395

3.37 Auditors will also report on other matters that have come to their attention during the audit but which do not impact on the audit opinion. Auditors reported such matters to 395 councils in 2018-19 compared with 522 in 2017-18.

3.38 Councils should consider these matters so they can improve their internal arrangements in light of the comments made.

3.39 The common themes identified by auditors include:

- submitting incomplete annual returns – 304 councils. In most cases, the council has omitted to include dates and signatures.
- councils holding excessively high or low reserves – 95 councils. Auditors identified where councils hold high or low balances in relation to their annual budget and recommend that the council considers the level of its reserves when setting its budget. This is covered in more detail in section 1 of this report.
- issues with the arrangements to secure an adequate and effective internal audit. Typically, this includes the need to ensure there are proper terms of reference for the internal auditor.

3.40 I have addressed these issues in detail in my reports on the 2015-16 to 2017-18 audits. I recommend that where auditors have reported such issues in 2018-19, councils refer my earlier reports and consider what changes they need to make to remedy the issues identified by the auditors. [Appendix 3](#) provides links to these reports.

Part 4

There were significant problems at twelve councils that led to me issuing reports in the public interest in 2019



At each audit, I am required to consider whether I should issue a report in the public interest or make written recommendations

- 4.1 The Public Audit (Wales) Act 2004 requires me to consider whether during the course of my audit, I should make a report on any matter which comes to my notice in order for it to be considered by the council or brought to the attention of the public. I refer to these reports as reports in the public interest or public interest reports.
- 4.2 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. I refer to these as statutory recommendations.
- 4.3 Where I exercise these powers, councils must consider the reports and/or recommendations at a public meeting and publish their response to the report or recommendations.

My public interest reports arise from focussed work to address risks highlighted by my audit teams

- 4.4 My normal audit work is designed to be proportionate to the size of community councils and the sums of public money that they manage. The audit process should be efficient and allow councils to publish audited accounts in accordance with the statutory timetable for councils.
- 4.5 My audit work on community councils focusses on an annual return completed by the councils and submitted for audit to either BDO or Grant Thornton. These two firms conduct the audit on my behalf. The annual return contains the annual accounting statements that the council is required by law to prepare and an annual governance statement which sets out how the council has managed its financial affairs.
- 4.6 The auditors refer individual councils to me when:
 - councils do not submit the annual returns within a reasonable timescale;
 - there are repeated difficulties with contacting or obtaining information needed for the audit, from the clerk to the council;
 - the audit team identify significant issues during their normal audit work; and/or
 - local electors exercise their rights to ask questions at audit or to make objections to the accounts.

4.7 In these cases, staff at the Wales Audit Office undertake detailed and focussed audit work to address the risks identified.

Town and community councils in Wales can learn lessons from the reports in the public interest issued to twelve councils during 2019

4.8 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.

4.9 I normally expect that the publication of a report in the public interest to be an unusual occurrence. In 2019 however, I published reports in the public interest to twelve councils as listed in [Appendix 3](#). Copies of these reports are published on the Wales Audit Office website at audit.wales.

4.10 The reports I issued in 2019 highlight recurring issues including:

- long standing failures in financial management and governance
- poor decision making leading to significant losses being incurred
- failure to comply with councils' own standing orders and financial regulations
- 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;
- ineffective or non-existent internal audit arrangements

4.11 Although auditors commonly identify aspects of these deficiencies across the sector, the public interest reports identify poor governance, financial management and decision making that are pervasive at individual councils. While these reports and recommendations are addressed to the individual councils, there are usually lessons that can be applied to other councils across Wales. I recommend that all councils consider the issues raised in the reports and whether any of the issues raised may apply to them.

Part 5

The 2019-20 audit is the final audit under the current arrangements and I would like to hear council's views on my proposed changes



My audit programme for 2019-20 and 2020-21 will focus on areas where previous audit work identified scope for community 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 audit arrangements introduced for 2015-16 is to examine and assess the effectiveness of community councils' governance arrangements over a period of five years. The programme has focussed on recurring themes identified as part of the annual audit cycle and was intended to help councils to improve their arrangements, where required, over time.
- 5.3 **Exhibit 9** sets out the current proposed timetable for future governance themes. **Appendix 4** sets out the full five year programme from 2015-16 to 2019-20.

Exhibit 9 – future governance themes

My 2019-20 audit will focus on councils' official records of its meetings. In 2020-21, I will focus on arrangements for the employment of staff and how councils deal with their responsibilities under the Well-being of Future Generations Act.

2019-20	2020-21
Records of meetings ³	Employment of staff Well-being of Future Generations Act
<p>Auditors will consider:</p> <ul style="list-style-type: none"> • Does the council keep appropriate minutes for all of its meetings • Do the minutes adequately record the decisions made • Does the council make appropriate arrangements for publication of the minutes 	<p>Auditors will consider:</p> <ul style="list-style-type: none"> • Does the council ensure that all staff have a contract of employment and/or details of their terms and conditions of employment • Does the council operate PAYE properly • (Where applicable) has the council met its obligations under the Well-being of Future Generations Act to publish reports on how it has contributed to the well-being objectives in its area?
<p>Councils will need to provide⁴ the following information:</p> <ul style="list-style-type: none"> • Confirmation of all meetings held during 2019-20; and • Copies of specified minutes or details of where the minutes can be accessed online. 	<p>Councils will need to provide⁴ the following information:</p> <ul style="list-style-type: none"> • Evidence that employees have contracts of employment and/or documented terms and conditions of employment • Evidence that pay is calculated in accordance with contracts • Evidence that it has operated PAYE in accordance with the law; and • The annual reports setting out how they contribute to the well-being objectives for the area (relevant bodies only)

Source: Wales Audit Office

³ My original intention was to examine councils' arrangements for making payments. However, a detailed review of payments is an integral part of my proposals for the future of community council audit. After discussion with sector representatives, I consider that it is appropriate to defer this review until 2020-21.

⁴ This is not an exhaustive list. Auditors may ask for additional information as they consider necessary.

- 5.4 Councils should note that the proposed review of Well-being of Future Generations responsibilities will be used to identify good practice within the sector. Relevant councils will be asked to provide a copy of their reports for the audit. The reports will then be reviewed in detail as part of a Good Practice Exchange project.
- 5.5 Councils will also need to be aware that my proposals may change if audit work in 2019-20 identifies recurring issues that require attention across the sector as part of the 2020-21 audit.

I encourage all interested parties to respond to my consultation on the future audit arrangements that will apply from the 2020-21 audit

- 5.6 The current audit arrangements are designed to be proportionate to the size of individual councils. However, my recent, focussed audit work has identified significant audit risks that the current audit arrangements do not address. I have concluded therefore, that the current arrangements are not adequate to meet my needs as Auditor General.
- 5.7 In order to address this issue, I propose changing the audit arrangements from 2020-21 onwards.
- 5.8 My proposed audit arrangements for community councils in Wales will include a three-year audit programme which is designed to meet my statutory responsibilities while providing a sufficient level of audit assurance at a reasonable cost.
- 5.9 I am running a six-week consultation with the sector (and the public) and welcome responses from all interested parties via an online survey, by email or by post. The consultation period will run from 6 February until 19 March 2020. The consultation paper and details of how to respond will be published on the Wales Audit Office website at <https://www.audit.wales/about-us/consultations>.
- 5.10 I would like to hear your thoughts on eight questions about the proposed audit arrangements. After considering the consultation responses, I will publish the final arrangements and host a Good Practice Exchange webinar in July 2020 to explain those arrangements.

Appendices

Appendix 1 – Councils meeting the Well-being of Future Generations Act threshold

Appendix 2 – Annual Governance Statement

Appendix 3 – Audit reports

Appendix 4 – Audit reviews 2015-16 to 2019-20



Appendix 1 – Councils meeting the Well-being of Future Generations Act threshold

Councils meeting the £200,000 expenditure threshold 2016-17 to 2018-19

Abergavenny Town Council

Abergele 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

Denbigh Town Council

Gwersyllt Community Council

Haverfordwest Town Council

Hawarden Community Council

Holyhead Town Council

Llandudno Town Council

Councils meeting the £200,000 expenditure threshold 2016-17 to 2018-19

Llanedi Community Council
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 2017-18 and 2018-19

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

Councils meeting the expenditure threshold 2018-19 only

Briton Ferry Town Council
Broughton Community Council
Cilybebyll Community Council
Cowbridge with Llanblethian Town Council
Ffestiniog Town Council
Glynneath Town Council
Gorseinon Town Council
Llandeilo Town Council
Llandrindod Wells Town Council
Llanfair Clydogau Community Council
Llangollen Town Council
Llanharan Community Council
Montgomery Town Council
Magor with Undy Community Council
Penyffordd Community Council
Ruthin Town Council
Tenby Town Council
Towyn & Kinmel Bay Town Council
Usk Town Council

Appendix 2 – Annual Governance Statement

In Annual Governance Statement the council makes a series of assertions about how it has managed its finances. Each council should be able to provide appropriate evidence to support a positive answer to an assertion.

Assertion	This means that the Council has
<p>1. We have put in place arrangements for:</p> <ul style="list-style-type: none"> • effective financial management during the year; and • the preparation and approval of the accounting statements. 	<ul style="list-style-type: none"> • Properly set its budget and monitored its performance against the budget • Maintained proper and up to date accounting records and supporting documents • Reconciled its accounting records to its bank accounts to confirm the completeness and accuracy of the accounting records • Prepared and approved its annual accounting statements in accordance with regulations
<p>2. We have maintained an adequate system of internal control, including measures designed to prevent and detect fraud and corruption, and reviewed its effectiveness.</p>	<ul style="list-style-type: none"> • Made proper arrangements and accepted responsibility for safeguarding the public money and resources in its charge. • Ensured that its assets are secured and properly managed • Ensured that it complies with its duties under employment legislation and has robust arrangements in place to ensure the validity of all payroll transactions • Reviewed the effectiveness of its internal control arrangements
<p>3. We have taken all reasonable steps to assure ourselves that there are no matters of actual or potential non-compliance with laws, regulations and codes of practice that could have a significant financial effect on the ability of the Council/Board/ Committee to conduct its business or on its finances.</p>	<ul style="list-style-type: none"> • Appropriate decision-making arrangements in place to ensure that all its activities fall within its statutory powers to act • Procedures in place to review its compliance with statutory regulations and that new or changed requirements are reported to members • Satisfied itself that it has not taken any decisions or authorised any actions that exceed its powers or contravenes laws, regulations or proper practices.

Assertion	This means that the Council has
<p>4. We have provided proper opportunity for the exercise of electors' rights in accordance with the requirements of the Accounts and Audit (Wales) Regulations 2014.</p>	<ul style="list-style-type: none"> • Made proper arrangements for the exercise of electors' rights in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Accounts and Audit (Wales) Regulations • Published a notice of conclusion of the prior year audit in accordance with the Accounts and Audit (Wales) Regulations
<p>5. We have carried out an assessment of the risks facing the Council/Board/Committee and taken appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required.</p>	<ul style="list-style-type: none"> • Identified, assessed and recorded risks associated with its actions and decisions that could have financial or reputational consequences • Made appropriate arrangements to mitigate or manage those risks • Recorded and reviewed the risks and the associated arrangements
<p>6. We have maintained an adequate and effective system of internal audit of the accounting records and control systems throughout the year and have received a report from the internal auditor.</p>	<ul style="list-style-type: none"> • Arranged for a competent person, independent of the financial controls and procedures, to give an objective view on whether these meet the needs of the body • Provided the internal auditor with all relevant documents and information • Received and considered a report from the internal auditor setting out the auditor's findings and recommendations
<p>7. We have considered whether any litigation, liabilities or commitments, events or transactions, occurring either during or after the year-end, have a financial impact on the Council/Board/Committee and, where appropriate, have included them on the accounting statements.</p>	<ul style="list-style-type: none"> • Considered whether any events have occurred during the year or after the year end that might have consequences on the council's finances • Reflected these consequences where appropriate to do so
<p>8. We have taken appropriate action on all matters raised in previous reports from internal and external audit.</p>	<ul style="list-style-type: none"> • Considered all reports received from both internal and external auditors • Identified and taken all appropriate action required to address deficiencies identified by the auditors

Appendix 3 – Audit reports

Reports summarising the outcomes of the audit of local councils are available on the Wales Audit Office website at audit.wales.

National reports
<u>Financial Management and Governance – Town and Community Councils 2017-18</u>
<u>Financial Management and Governance in Local Councils 2016-17</u>
<u>Financial Management and Governance in Community Councils 2015-16</u>
<u>Financial Management and Governance in Local Councils 2014-15</u>
<u>Internal Audit Arrangements at Town and Community Councils in Wales</u>

Public interest reports have been issued to twelve councils in 2019.

Reports in the public interest
<u>Bodorgan Community Council</u>
<u>Buckley Town Council</u>
<u>Connah's Quay Town Council</u>
<u>Cynwyd Community Council</u>
<u>Glynneath Town Council</u>
<u>Llanfairpwll Community Council</u>
<u>Llanfrothen Community Council</u>
<u>Llangristirolus and Cerrigceinwen Community Council</u>
<u>Maenclochog Community Council</u>
<u>Mumbles Community Council</u>
<u>Penmaenmawr Town Council</u>
<u>Rhosyr Community Council</u>

Appendix 4 – Audit reviews 2015-16 to 2019-20

The objective of the existing audit arrangements introduced for the 2015-16 audit has been to examine and assess the effectiveness of local councils' governance arrangements over a period of years. The reviews have focussed on recurring themes identified as part of the annual audit cycle and have been intended to help councils to improve their arrangements, where required, over a period of time.

Audit year	Area covered	Purpose
2015-16	<ol style="list-style-type: none"> 1 Calculation and approval of the budget and precept 2 Arrangements for monitoring finances 3 Terms of engagement for internal audit 	<ul style="list-style-type: none"> • To ensure that the council has properly prepared and approved its budget and precept and monitored its performance against the budget • To ensure that the council's internal auditor has appropriate terms of reference to provide an adequate and effective service
2016-17	<ol style="list-style-type: none"> 1 Management of payroll including arrangements to operate PAYE 2 Adoption of a Code of Conduct 	<ul style="list-style-type: none"> • To ensure that the council has made appropriate arrangements to operate PAYE • To ensure that the council has adopted and agreed to a Code of Conduct based on the national model
2017-18	<ol style="list-style-type: none"> 1 Consideration of reserves held by the council 2 Application of section 137 Local Government Act 1972 3 Payment of service gratuities 	<ul style="list-style-type: none"> • To ensure that the council has taken its reserves into account when setting its precept • To ensure that the council has made appropriate use of its discretionary power • To ensure that the council has identified the legal basis for any service gratuity arrangements it has in place
2018-19	<ol style="list-style-type: none"> 1 Adoption of and compliance with standing orders 2 Proper establishment of committees 	<ul style="list-style-type: none"> • To ensure that the council has established and followed rules on the letting of contracts • To ensure that the council has clearly defined the role, responsibilities and decision-making powers delegated to committees
2019-20	<ol style="list-style-type: none"> 1 Records of meetings 	<ul style="list-style-type: none"> • To ensure that the council has maintained proper records of the business conducted and decisions made at all council meetings including committee meetings

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