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The Good Practice Exchange
Y Gyfnewidfa Arfer Da

Community Council Money

Tools, policy and guidance

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Who is involved?



There are over 740 local (community and town) councils in Wales. They spend about £35 million each year. Councils receive this money from fees, charges and council tax. Spending by individual councils varies from a few thousand pounds to several hundred thousand pounds. It is the responsibility of each council to manage its own money well and to safeguard its assets.

This guide helps you to look after your community council's money and assets.

Doing it right - the council and the clerk

The council is responsible for managing its money and assets. When doing so, the council must do it right.

The council decides how much council tax to raise. It also decides what charges it makes for the services it provides and how its money is spent. The law makes the council responsible for financial management and the system of financial checks and balances. The council must also make sure that its accounts are prepared and audited each year.

Councils must appoint a Responsible Financial Officer (RFO) to manage its finances. The RFO is usually but not necessarily the clerk. The RFO makes sure the accounts are kept properly.

Checking it's been done right - internal and external auditors

Internal and external auditors check that the council's arrangements are right.

The council appoints its own internal auditor who acts as one of the council's financial checks and balances. The internal auditor must be independent of the council's management and the other checks and balances. The internal auditor checks that the council's system of checks and balances is working properly. The internal auditor must report their findings to the council at least annually but may report on their work more frequently.

The Auditor General for Wales appoints external auditors for local councils. The external auditor makes sure that the council has effective financial checks and balances and prepared the accounts properly. The external auditor gives an opinion on whether or not the council properly completed its accounts.

Seeing it's been done right - the public

Members of the public and council tax payers, will want to see that their council has done the right things to manage their community money effectively.

The law allows the public to inspect the council's annual accounts and accounting records before the external audit. The public can also ask questions of the auditor and make an objection to something in the accounts if they wish to.

Managing community council money



Why must community councils comply with the law?

Community councils are statutory bodies. They can only act where they have a specific statutory power to do so. If they act outside these powers they are said to act ultra vires. The council is responsible for ensuring it acts within the law.

Why you should be interested?

The council - The council must ensure it acts within the law. It puts in place arrangements to ensure it conducts its affairs in accordance with the law and any relevant regulations.

The clerk - The clerk advises the council on legal, financial and administrative matters. The clerk makes the arrangements needed to ensure the council only does what it can legally do.

Internal and external auditors - Auditors consider if the council has adequate arrangements to ensure it complies with the law. Members of the public may contact auditors to highlight transactions that are unusual or may be unlawful.

Members of the public - Members of the public want to know the council uses its money and assets properly within the law. They may wish to exercise their statutory rights to ask questions or make an objection to an item in the council's accounts.

Why should community councils have financial checks and balances?

Every council must have financial checks and balances to protect its community money. These checks and balances will include procedures to receive money, make payments, record financial transactions and by its internal audit, to check that this is being done.

The type of financial checks and balances the council puts in place will depend on the size of the council and the range of services the council provides. Larger councils providing a wider range of services will need wider checks and balances than smaller councils. There are however, some checks and balances that each council must have.

Why you should be interested?

Councillors and the RFO are responsible for setting up the financial checks and balances. The council usually appoints the clerk as the RFO.

The law (the Accounts and Audit Regulations) requires the council to set up a system of financial checks and balances that is adequate and effective. The council's system must allow it to function on a day to day basis and to manage its financial affairs.

The Regulations also state that the RFO must decide on the council's behalf, the form of accounting records and controls that are in place.

Internal audit is a key part of the council's system of financial checks and balances. Internal auditors review the council's accounting records and financial controls.

External auditors will want to know that the council's system of checks and balances, including internal audit is effective.

The public will want to see that the council has properly managed, controlled and recorded its use of community money.

Why do community councils prepare accounts and have them audited?

The preparation of the annual accounts and the annual external audit is the end of the annual community money cycle. By law every council must prepare accounts each year. Most community councils prepare their accounts in an annual return. They must then make these accounts available for inspection by members of the public and have the accounts audited by their external auditor.

The accounts demonstrate to all interested parties, how the council has used its community money in the year and confirm that it has acted properly during the year. The audit is an additional check and gives an opportunity for local people to see that this is the case.

Why you should be interested?

The council — The law makes the council responsible for ensuring that its accounts are prepared, published and audited. Individual members will therefore take an interest in how the accounts are prepared and what information the accounts provide.

The clerk — Although it is the council's responsibility to prepare the accounts, in practice, it is usually the clerk who will do this for the council. The clerk will prepare the accounts and give them to the council for approval. The clerk will also be the first point of contact with the external auditor.

Internal auditors — Internal auditors check that the council prepared its accounts properly and that the accountants agree with the council's records.

External auditors — The external auditor performs his or her statutory responsibilities by the examination of the accounts or annual return and by responding to issues raised by members of the public.

Members of the public — The Public Audit (Wales) Act gives members of the public certain rights related to the accounts and the audit. Members of the public may inspect the accounts and the related records or contact the external auditor. It is important that the council allows them to exercise these rights.

Getting it right: the effects of weak arrangements



Weak arrangements can have an adverse effect of local councils. During our research, we identified cases where councils suffered losses. In each case the councils' arrangements needed to be improved. These examples set out the problems faced by the councils and identify improvements to the council's arrangements.

Setting the budget

What was the issue?

At the end of the financial year, Council A held reserves totalling almost four times its annual precept. These reserves were held in the form of bank deposits and investments.

What happened?

Over a period of years, the Council built up the reserves by spending less than its income each year. These reserves were held in the form of bank deposits and investments. The Council had no specific plans to use the money and simply let the surplus money accumulate.

What was/could be the impact?

Holding significant amounts of money in reserves exposes the Council to loss from theft or fraud.

Each year Councils must prepare a budget in order to set the precept for the year.

If they fail to take into account all relevant information, such as the money held in reserve, local electors might challenge the Councils actions. This could result in additional legal and audit fees.

What improvements should be made?

When setting the budget for the year, the Council should take into account the amount of money held in reserves.

The reserves should be reviewed to ensure the Council has firm plans to use the money for the benefit of the local community.

Preparing the accounts

What was the issue?

The Clerk to Council B did not submit two years' Annual Returns to the external auditor.

What happened?

The external auditor made numerous attempts to contact the Clerk and to obtain the Annual Return for audit. When the returns were eventually submitted they were up to four years late.

The annual returns were eventually submitted after the auditor required the Clerk and Chairman of the Council to appear before him to provide the annual returns and an explanation for the delay.

The auditor identified that:

- the Council had not prepared or approved its annual accounts for three years;
- the Council had not made any arrangements for local electors to exercise their rights under the Public Audit (Wales) Act 2004;
- the cash book made up by the Clerk was incomplete and inaccurate; and
- councillors had signed blank cheques in the cheque book provided for review.

What was/could be the impact?

Failure to prepare the annual accounts and to make arrangements for local electors are offences under the Accounts and Audit Regulations 2005. The Council did not have adequate financial systems and controls in place.

By signing blank cheques, the Council exposed itself to the risk of fraud. As a result of the extra work required by the auditor, the Council incurred significant additional audit fees.

What improvements should be made?

The Clerk and the Council should ensure that the annual accounts are prepared each year before 30 September.

If the accounts are not submitted for approval, the Council should:

- ask the Clerk for an explanation; and
- confirm the information provided with the external auditor.

The Council should review at least annually, the completeness and accuracy of the cash book as part of its review of internal controls.

Individual councillors must take responsibility for not signing blank cheques under any circumstances.

Payments to Councillors

What was the issue?

Council C did not understand the law about employing councillors. It paid an allowance to a councillor to act as the town clerk. This is not allowed by the Local Government Act 1972. The Council acted ultra vires.

What happened?

Following the retirement of the clerk, the Council asked a member to take on the role of clerk.

The Council proposed payment of a Special Responsibility Allowance (SRA). However, section 116 of the Local Government Act 1972 disqualifies councillors from employment in any paid office of the Council. The Local Authorities (Allowances for Members of Community Councils) Regulations 2003 do not allow payment of an SRA to a community councillor.

What was/could be the impact?

The Council made unlawful payments and these payments were challenged by a local elector. As a result, the Council incurred additional audit fees.

What improvements should be made?

Before making a decision on a matter that the Council has not previously encountered, appropriate independent legal advice should be obtained.

Enquiries may be made to the legal department of the unitary authority for the area. Alternatively, where the Council is a member, advice may be sought from One Voice Wales.

Contracts and member interests

What was the issue?

Council D entered into a contract without complying with its own requirements set out in its standing orders and financial regulations.

Member's interests were not declared.

What happened?

The Council's financial regulations stated that tenders should be obtained before incurring items of expenditure over £1,000. Any exceptions to this rule must be approved by the Finance Committee. The Town Clerk was authorised to incur expenditure up to £1,000 without specific approval.

The Council invited quotations from three suppliers but two declined to submit a tender. The remaining supplier was a relative of the mayor.

A Council committee made up of the Mayor, the deputy Mayor and the Clerk made the decision to award the contract.

The Mayor only declared an interest after the Council awarded the contract.

The actual cost of the contract was over £1,000. No approvals were sought from the Finance Committee.

What was/could be the impact?

Breach of the Council's own rules for entering into a contract exposes the Council to challenge at the audit and through the courts. This could result in significant legal and audit fees.

The Mayor's failure to declare an interest was a breach of the Code of Conduct.

What improvements should be made?

Members must consider if they have an interest in any business being conducted by the Council. They must also declare these interests promptly in accordance with the Code of Conduct.

Recording assets

What was the issue?

Council E did not have a full record of all the assets it owned.

What happened?

The Council's fixed asset register did not contain full details of all the assets owned by the Council.

In some cases, assets were not listed in the register. In other cases, the following details were incomplete:

- the date the Council acquired the asset;
- the assets' current values and their values at date of acquisition; and
- the location of the assets.

What was/could be the impact?

The lack of full records meant that the Council:

- could not ensure its assets were protected from theft;
- was unable to demonstrate that it had adequate insurance cover in the event of the loss of the asset; and
- was unable to adequately plan for maintenance of its assets.

What improvements should be made?

The fixed asset register should be reviewed at least annually to ensure it is up-to-date and contains full information for each asset.

Monitoring income

What was the issue?

Council F provided staff time for the administration of a trust fund. The Council recharged the trust for a proportion of its staff costs. However, the recharge made to the trust fund was wrongly calculated.

What happened?

The staff cost recharge was understated by over £6,000.

The Council's budget monitoring process did not identify the mistake.

What was/could be the impact?

The Council's income for the year was understated by over £6,000.

The Council was at risk of losing this money.

What improvements should be made?

The Council should ensure that significant items of income are fully reported in the budget monitoring reports.

The calculation of the recharge should be independently checked after it's calculated.

Receiving income

What was the issue?

Council G owned a village hall but treated it as a separate entity managed by a sub-committee of the Council. The Council did not record any income from the hall.

What happened?

The Council incurred expenditure on maintaining the village hall. However, no income was recorded either from lettings or receipts from the use of the telephone installed at the hall.

Audit investigations identified that although income had been collected there was no system of control over the collection and recording of income.

The cheque book used for the hall bank account was found to contain pre-signed blank cheques.

What was/could be the impact?

The lack of adequate control over income and inadequate budget monitoring arrangements meant that the Council was unaware that over £2,000 of income had not been banked. The Council was unable to recover the money.

What improvements should be made?

The Council's financial regulations should require that all income is banked as soon as it is received.

The Council should have included the hall accounts within its overall internal financial control arrangements.

Monthly financial reports would then include details of income and expenditure related to the hall.

Council minutes

What was the issue?

Council H did not record in its minutes, the decision to award contracts.

What happened?

Following a tendering exercise, the Council awarded two three year contracts. It was able to provide evidence that it had carried out the tender exercise. However, the minutes did not record the contract award decision.

In addition, the Council could not locate a copy of either contract.

What was/could be the impact?

The Local Government Act 1972 requires councils to prepare minutes for all meetings. The minutes should provide brief details of the business conducted at each meeting. The minutes should be signed by the person presiding at the meeting.

By failing to record the decision, the Council has broken the requirements of the Act and its decisions could be open to challenge by other parties.

The failure to keep a copy of the contract would make it difficult for the Council to enforce the terms of the contract or to monitor performance of the contractor if that became necessary.

What improvements should be made?

The clerk should ensure that the minutes address all the items of business discussed at each meeting.

Councillors should ensure that they consider both the completeness of the minutes as well as the accuracy before approving the minutes as an accurate record.

The Council must retain copies of all legally binding contracts that it enters into.

Weak controls and fraud

What was the issue?

Weaknesses in governance allowed a Clerk to defraud two community councils of in excess of £33,000.

What happened?

The clerk stole this money by falsifying documents. This highlighted the Council's general lack of financial control. Specific problems included:

- the Council did not review the bank reconciliations prepared by the clerk; and
- the Council did not receive or review budget reports on a regular basis.

What was/could be the impact?

The Council incurred losses of over £33,000 over five years.

What improvements should be made?

To ensure the proper administration of public funds, the members should:

- be clear about their legal responsibilities for the stewardship of Council funds and the maintenance of Council documents;
- be clear about the clerk's responsibilities;
- ensure there is a sound financial control environment, including authorisation of payments;
- insist on the proper reporting of the Council's financial position and performance at each council meeting; and
- ensure that bank reconciliations are reviewed and counter-signed at each Council meeting.

Preparing for the audit

What was the issue?

The clerk of Council J did not provide the external auditor with all the information required for the audit.

The notice of audit prepared by the clerk did not comply with the legal requirements of the Public Audit (Wales) Act 2004.

What happened?

The clerk did not provide the external auditor with all the information required for the audit. The year end bank statements and standing orders and financial regulations were withheld.

The auditor established that the clerk had not prepared and advertised the notice of audit in accordance with the Accounts and Audit Regulations 2005 (as amended). The notice did not allow enough time for local electors to inspect the accounts before the audit. The Council therefore failed to comply with the law and make arrangements for local electors to exercise their rights.

What was/could be the impact?

The Council had to re-advertise the notice of audit. The auditor charged additional audit fees for dealing with these issues.

What improvements should be made?

To ensure the proper administration of public funds, the members should:

- be clear about their legal responsibilities regarding the provision of documents for audit;

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- be clear about the public's rights at audit;
 - be clear about their legal responsibilities regarding the advertising of the notice of audit;
 - make sure that the Council has met its legal responsibilities; and
 - make sure that the external auditor is provided with all the information required for the audit.

Keeping records

What was the issue?

Council K's accounting records and financial control systems failed to comply with the requirements of the Accounts And Audit Regulations 2005 (as amended). The Council did not prepare its annual accounts for over two years. No records were kept of council meetings.

What happened?

There was no schedule or records kept of any council meetings. The Council was unable to demonstrate that any payments had been approved.

The council did not maintain its cash book during this time and was unable to provide supporting documentation for any payments it made. The Council did not record any income from its hall and also failed to make payments for important bills such as utilities and tax and national insurance payments to HM Revenue and Customs (HMRC).

The Council also failed to prepare and approve the statement of accounts within the statutory timeframe.

The Council did not appoint an internal auditor. These issues only came to light during the external audit.

What was/could be the impact?

As a result of these failures, the Council had credit withdrawn by suppliers, risked having its utilities disconnected and suffered penalties of over £500 imposed by HMRC for non payment of relatively small bills.

The external auditor undertook significant amounts of additional work and charged a significant additional audit fee.

What improvements should be made?

To ensure the proper administration of public funds, the members should:

- be clear about their legal responsibilities for the stewardship of council funds and the maintenance of council documents;
- be clear about the clerk's responsibilities;
- ensure that Statements of Accounts are prepared in accordance with legislation;

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- ensure there is a sound financial control environment, including authorisation of payments and income records;
 - insist on the proper reporting of the Council's financial position and performance at each council meeting;
 - ensure that they have an effective system of internal audit to comply with legislation; and
 - ensure that the Council deducts the correct income tax and national insurance contributions.

Keeping the accounts

What was the issue?

Council L did not keep any records to support the accounts in the annual return for two years. The annual returns provided for the external audit were incomplete. The clerk resigned without ensuring the records were brought up to date.

What happened?

The clerk did not keep any accounting records in the form of a cash book. The Council had no record of any income or payments made and did not keep any bank statements. Although the annual returns had been completed, the accounts contained in the return could not be substantiated.

During the audit, the auditor required the Council to obtain copy bank statements and identified that the Council had no receipts or invoices to support any of its payments for two years.

The Council also committed an offence under the Regulations by not approving the Statements of Accounts for two years within the statutory timeframe.

What was/could be the impact?

The Council was unable to account for most of the payments it had made and therefore could not demonstrate proper stewardship of public funds.

The auditor issued a qualified audit opinion the Council incurred additional audit fees for the work involved.

What improvements should be made?

To ensure the proper administration of public funds, the members should:

- be clear about their legal responsibilities for the stewardship of council funds and the maintenance of council documents;
- be clear about the clerk's responsibilities;
- ensure that Statements of Accounts are prepared in accordance with legislation;

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- ensure there is a sound financial control environment, including authorisation of payments and the receipt of monies;
 - insist on the proper reporting of the Council's financial position and performance at each council meeting; and
 - ensure that they have an effective system of internal audit to comply with legislation.

Inaccurate accounts

What was the issue?

Council M sent an annual return to the external auditor that was incomplete and inaccurate. Audit enquiries raised doubt as to the employment status of the clerk.

What happened?

The annual return's entries for the previous years accounts did not agree to the previous year's annual return. Parts of the annual return had not been completed.

The Council treated its staff as self employed. The council had not however agreed this approach with HMRC. Because its staff was treated as self employed, the Council did not deduct PAYE and NI from salaries.

What was/could be the impact?

The Council could have incurred additional audit fees from the additional work the external auditor did as a result of the issues identified. The Council could have incurred a loss and penalties arising from the failure to deduct PAYE and NI.

What improvements should be made?

To ensure the proper administration of public funds, the members should:

- ensure that the Annual Return is properly prepared; and
- ensure that their community councils ascertain the correct employment status of their employees in order to deduct income tax and national insurance contributions properly.

Approving payments

What was the issue?

Council N did not keep full minutes of Council meetings. Specifically, budget reports were only partially recorded and the minutes were not signed by the Chair.

Payments were not authorised under a specific agenda item, nor had the Council relied on the appropriate powers when authorising a payment.

What happened?

The Council's minutes were not sequential or signed by the chair. Payments had been authorised under 'Correspondence' or 'Any other business'. Also, s137 of the Local Government Act 1972 had been used wrongly as justification for a payment.

Although the Council had conducted budgetary reviews during the year, not all had been minuted.

What was/could be the impact?

The Local Government Act 1972 requires councils to maintain meeting agendas and minutes. This is an important part of the safeguarding of public monies.

The failure to keep proper records exposed the Council to the risk of significant fraud. A major fraud at another Council was significantly helped by poor record keeping of minutes.

What improvements should be made?

To ensure the proper administration of public funds, the members should:

- be clear about their legal responsibilities for the maintenance of Council minutes;
- ensure that the authorisation of payments is made under a specific agenda item;
- ensure that payments are made under the appropriate legislation; and
- ensure budgetary control is carried out on a regular basis and minuted.

Income and contracts

What was the issue?

Council O could not show that it had complied with its standing orders and financial regulations when it awarded contracts. It did not keep proper receipts and had not agreed its' employees status with HMRC.

What happened?

The Council could not demonstrate it had met the requirements of its standing orders and financial regulations by asking for quotes or estimates before awarding letting contracts.

Income from hall lettings and burials were not recorded in a duplicate receipt book.

The Council had not deducted PAYE and NI from payments made to employees but had not agreed this with HMRC.

What was/could be the impact?

By not obtaining quotes or estimates the Council was unable to demonstrate it received value for money from the suppliers of goods and services.

The Council was unable to demonstrate that the income it recorded from hall lettings and burials was complete. The lack of proper arrangements including the use of receipt books exposed the Council to risk of losses from fraud and theft.

Incorrect deductions of PAYE and NI can lead to penalties being imposed by the HMRC.

What improvements should be made?

To ensure the proper administration of public funds, the members should:

- ensure that quotes or estimates are obtained for all contracts;
- ensure that duplicate receipts are issued for all sources of income;
- ensure that receipts recorded from hall lettings and burials are reconciled to the hall lettings and burials records; and
- ensure that income tax and national insurance contributions are deducted correctly.

Minutes and the accounts

What was the issue?

Poor financial administration resulted in incomplete and inaccurate records.

What happened?

Council P did not retain any minutes for its meetings for three years. Therefore, it could not demonstrate that it had approved any payments in that period. The payments made by the Council were not supported by adequate documentation.

In addition the Council did not prepare its annual accounts for three years, and had not appointed an internal auditor.

What was/could be the impact?

The Council failed to comply with the Accounts and Audit Regulations 2005 (as amended), which require:

- the annual accounts to be prepared and approved within the statutory timeframe; and
- an adequate system of internal audit to be maintained.

The maintenance of meeting agenda and minutes is required by the Local Government Act 1972. A major fraud at another Council was significantly helped by poor record keeping of minutes and inadequate supporting documentation.

What improvements should be made?

To ensure the proper administration of public funds, the members should:

- be clear about their legal responsibilities for the maintenance of Council documents;
- be clear about the clerk's responsibilities;
- ensure that Statements of Accounts are prepared in accordance with legislation;
- ensure that the authorisation of payments is minuted;

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- insist on the proper reporting of the Council's financial position and performance at each council meeting; and
 - ensure that they have an effective system of internal audit to comply with legislation.

Recording payments

What was the issue?

Council Q's financial administration arrangements were poor. The financial records that were kept were incomplete and inaccurate.

What happened?

During the year, a number of payments were either not approved, recorded or supported by adequate documentation. The Council's failure to appoint an internal auditor meant that these issues were not identified until the external audit.

At the same time, the Council did not reclaim VAT for some payments and in other cases, did not have VAT invoices available.

The Council did not prepare any accounts for three years.

What was/could be the impact?

Due to the lack of adequate records, the Council was unable to recover the VAT on payments made.

The failure to ensure that all payments were reported to the Council for authorisation exposed the Council to the risk of fraud.

The failure to prepare and approve the Statement of Accounts within the statutory timeframe is an offence under the Accounts and Audit Regulations.

What improvements should be made?

To ensure the proper administration of public funds, the members should:

- be clear about their legal responsibilities for the stewardship of Council funds and the maintenance of council documents;
- be clear about the clerk's responsibilities;
- ensure that Statements of Accounts are prepared in accordance with legislation;
- ensure there is a sound financial control environment, including authorisation of payments;
- insist on the proper reporting of the Council's financial position and performance at each council meeting; and
- ensure that they have an effective system of internal audit to comply with legislation.

Self-assessment tool



Please click the image below to see the full Self-Assessment Tool.

Managing Community Council Money Self-assessment Tool

This self-assessment tool is divided into key areas for the effective management of community council money:

1. Members
2. Council meetings and minutes
3. Internal rules and financial control
4. Using the Council's powers
5. Budgets
6. Risk assessment
7. Internal audit
8. Income and payments
9. The external audit
10. Preparing for and publishing the accounts

Further guidance:

Welsh Government, The Good Councillor's Guide for Community and Town Councillors, 2012

<http://wales.gov.uk/docs/dsijg/publications/localgov/120806gcguideen.pdf>

Practitioners' Guide on Governance and Accountability for Local Councils, issued jointly by One Voice Wales and the Society of Local Council Clerks

<http://www.onevoicewales.org.uk/practitioners-guide/practioners-guide>