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Joint Panel on Accountability and Governance **Practitioners' Guide**

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National Association of Local Councils

www.nalc.gov.uk/jpag

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INTRODUCTION

The Joint Panel on Accountability and Governance (JPAG) is responsible for issuing proper practices about the governance and accounts of smaller authorities. Its membership consists of sector representatives from the National Association of Local Councils (NALC), the Society of Local Council Clerks (SLCC) and the Association of Drainage Authorities (ADA). Together with stakeholder partners representing the Department for Levelling Up, Housing and Communities (DLUHC), the Department of Environment, Food and Rural Affairs (DEFRA), the Chartered Institute of Public Finance and Accountancy (CIPFA), the National Audit Office (NAO), and a representative of the external audit firms appointed to smaller authorities.

JPAG's members are as follows:

- Derek Kemp, National Association of Local Councils (chair)
- Phil Camamile, Water Management Alliance
- Alan Mellor, Society of Local Council Clerks
- Karen Daft, Association of Drainage Authorities
- Matthew Hemsley, Department for Levelling Up, Housing and Communities
- Paul Lambert, Department of Environment, Food and Rural Affairs
- Laura Deery, Chartered Institute of Public Finance and Accountancy
- Andrew Kendrick, National Audit Office
- Jane Sheridan, Smaller Authorities' Auditors Group
- Mike Attenborough-Cox, Smaller Authorities' Audit Appointments Ltd (independent member)

NALC provides the secretariat to the JPAG.

JPAG's terms of reference can be found in Section 6.

All queries should be sent to nalcmailbox@nalc.gov.uk.

FOREWORD

The Practitioners' Guide ('the guide') is issued by the Joint Panel on Accountability and Governance (JPAG) to support the preparation by smaller authorities in England of statutory annual accounting and governance statements found in the Annual Governance and Accountability Return.

This 2023 edition of the Guide applies in respect of financial years commencing on or after 1 April 2023. Thus the 'proper practices' laid down in Sections 1 and 2 of this edition of the Guide must be applied in the financial year ending 31 March 2024 and the Annual Governance and Accountability Return ('AGAR') for the year ending 31 March 2024 ('the 2024 AGAR') must be prepared in accordance with Sections 1 and 2 of this edition of the Guide. Note that the comparative figures (the figures for the year ended 31 March 2023 included in the 2024 AGAR) must be stated on the same basis as the figures for the year ending 31 March 2024.

The 'proper practices' in this edition of the guide may be applied in preparing the AGAR for the year ending 31 March 2023 but this is not mandatory. Again, comparative figures must be stated on the same basis.

In accordance with Section 6 of the Local Audit and Accountability Act 2014, an authority is a 'smaller authority' if the higher of the authority's gross income for the year and its gross expenditure for the year does not exceed £6.5m. For the purposes of the Accounts and Audit Regulations 2015, a smaller authority may also be referred to as a 'Category 2 authority'. This guide uses the term 'authority' to refer to all types of smaller authority. For the purposes of the Practitioners' Guide, this will include local councils (parish and town councils), parish meetings, internal drainage boards and 'other' authorities (including charter trustees, conservation bodies, port health authorities, harbour boards and crematorium boards).

Smaller authorities with no financial transactions meet their responsibility to produce accounts by completing Form 1 of the Annual Governance and Accountability Return.

Smaller authorities where the higher of gross income or gross expenditure was £25,000 or less, that meet the eligibility criteria set out in Regulation 9(3) of the Local Audit (Smaller Authorities) Regulations 2015, and that wish to certify themselves as exempt from a limited assurance review should complete Form 2 of the Annual Governance and Accountability Return.

All remaining smaller authorities should complete Form 3 of the Annual Governance and Accountability Return.

It is important to complete these returns on time and in line with the requirements set out here and in the AGAR.

Section 1, 2 and 3 of this guide represents the proper accounting and governance practices ('proper practices') referred to in statute. They set out for responsible financial officers the appropriate standard of financial and governance reporting for smaller authorities and are mandatory. Although a parish meeting is a relevant authority, there are some circumstances where legislative requirements differ. As a result, JPAG has agreed on the way in which proper practices set out in this Practitioners' Guide apply differently to parish meetings, and separate AGARs (suffixed PM) have been produced for this purpose:

a) The chair of the parish meeting should sign the Annual Governance and Accountability Return and Exemption Certificate where appropriate
b) It will be acceptable for parish meetings with no website to publish their notices on a noticeboard for a period of 14 days, as required by 22(5)(b)(ii) of the Accounts and Audit Regulations 2015, in relation to public rights and exemption from a limited assurance review.

Section 4 of the guide sets out the non-statutory best practice guidance relating to internal audit which authorities are required to consider.

Section 5 of the guide provides supporting information and practical examples to assist smaller authority officers to manage their governance and financial affairs and is not mandatory.

The guide is intended as a working tool for smaller authorities, providing not only the common 'rules' for completing an Annual Governance and Accountability Return for use by responsible financial officers, but also as a reference work for auditors, both internal and external, councillors, other officers, and the public to aid understanding of the Annual Governance and Accountability Return and the reporting on the smaller authority's governance and finances within it.

For this reason, the guide is written with the intention to be as widely accessible as possible to all users within the constraints of it also representing the appropriate standards for public reporting by smaller authorities.

JPAG is committed to a regular review of the guide to ensure that it remains fit for purpose for all smaller authorities in England. The guide is supported by the technical support teams at NALC, SLCC and ADA where you may address any questions about the content of the guide or suggestions for its improvement.

SECTION ONE — PROPER PRACTICES ANNUAL GOVERNANCE STATEMENT

Introduction

1.1 The Accounts and Audit Regulations 2015 require smaller authorities, each financial year, to conduct a review of the effectiveness of the system of internal control and prepare an annual governance statement in accordance with proper practices in relation to accounts.

1.2 This guide represents the proper practices in relation to accounts those smaller authorities need to follow in preparing their annual governance statement.

1.3 The purpose of the annual governance statement is for an authority to report publicly on its arrangements for ensuring that its business is conducted in accordance with the law, regulations and proper practices and that public money is safeguarded and properly accounted for.

1.4 Smaller authorities prepare their annual governance statement by completing Section 1 of the Annual Governance and Accountability Return. This is in the form of a number of statements, known as assertions, to which the authority needs to answer, 'Yes' or 'No'. This guide follows the order of Section 1 of the Annual Governance and Accountability Return and sets out the actions that authorities need to have taken either during the financial year or after the financial year-end to answer 'Yes' to each assertion.

1.5 The authority needs to have appropriate evidence to support a 'Yes' answer to an assertion, for example, a reference in a set of formal minutes.

1.6 If an authority is not able to respond 'Yes' to any assertion, it needs to provide an explanation to the external auditor on a separate sheet describing how the authority will address the weaknesses identified. These explanations must be published along with the completed AGAR.

1.7 To assist practitioners, a Pro-forma Annual Governance and Accountability Return is available alongside this guide.

Annual Governance Statement assertions

Assertion 1 — Financial management and preparation of accounting statements

We have put in place arrangements for effective financial management during the year, and for the preparation of the accounting statements. To warrant a positive response to this assertion, the following processes need to be in place and effective:

1.8 Budgeting — The authority needs to prepare and approve a budget in a timely manner before setting a precept or rates and prior to the commencement of the financial year. It needs to monitor actual performance against its budget during the year, taking

corrective action where necessary. A financial appraisal needs to be undertaken before the authority commences any significant project or enters into any long-term commitments.

1.9 Accounting records and supporting documents — All authorities, other than parish meetings where there is no parish council, need to appoint an officer to be responsible for the financial administration of the authority in accordance with section 151 of the Local Government Act 1972. Section 150(6) of the same Act makes the chair of a parish meeting (where there is no parish council) responsible for keeping its accounts. The authority needs to have satisfied itself that its Responsible Finance Officer (RFO) has determined a system of financial controls and discharged their duties under Regulation 4 of the Accounts and Audit Regulations 2015. The RFO needs to have put in place effective procedures to accurately and promptly record all financial transactions and maintain up to date accounting records throughout the year, together with all necessary supporting information. The accounting statements in Section 2 of the Annual Governance and Accountability Return need to agree to the underlying records.

1.10 Bank reconciliation — Statements reconciling each of the authority's bank accounts with its accounting records need to be prepared on a regular basis, including at the financial year-end and reviewed by members of the authority.

1.11 Investments — Arrangements need to be in place to ensure that the authority's funds are managed properly and that any amounts surplus to requirements is invested appropriately, in accordance with an approved strategy which needs to have regard to DLUHC's statutory Guidance on local government investments. If total investments are to exceed the threshold specified in DLUHC's statutory guidance at any time during a financial year, the authority needs to produce and approve an annual Investment Strategy in accordance with the DLUHC guidance.

1.12 Statement of accounts — The authority needs to ensure that arrangements are in place to enable the preparation of an accurate and timely statement of accounts in compliance with its statutory obligations and proper practices.

1.13 Reserves — The authority needs to have regard to the need to put in place a General Reserve Policy and have reviewed the level and purpose of all Earmarked Reserves. Supporting information on financial management and the preparation of accounting statements can be found in Section 5.

Assertion 2 — Internal control

We maintained an adequate system of internal control, including measures designed to prevent and detect fraud and corruption and reviewed its effectiveness.

To warrant a positive response to this assertion, the following processes need to be in place and effective:

1.14 Standing Orders and Financial Regulations. The authority needs to have in place standing orders and financial regulations governing how it operates. Financial regulations need to incorporate provisions for securing competition and regulating the way tenders are invited. These need to be regularly reviewed, fit for purpose, and adhered to.

1.15 Safe and Efficient Arrangements to Safeguard Public Money. Practical and resilient arrangements need to exist covering how the authority orders goods and services, incurs liabilities, manages debtors, makes payments, and handles receipts. Authorities need to have in place safe and efficient arrangements to safeguard public money. Where doubt exists over what constitutes money, the presumption is that it falls within the scope of this guidance.

1.15.1 Authorities need to regularly review the effectiveness of their arrangements to protect money. Every authority needs to arrange for the proper administration of its financial affairs and ensure that one of its officers (the RFO) has formal responsibility for those affairs (see paragraph 1.9 above).

1.15.2 Authorities need to ensure controls over money are embedded in Standing Orders and Financial Regulations. Section 150(5) of the Local Government Act 1972 required cheques or orders for payment to be signed by two elected members. Whilst this requirement has now been repealed, the 'two-member signatures' control needs to remain in place until such time as the authority has put in place safe and efficient arrangements in accordance with paragraphs 1.15.3 to 1.15.6 of this guide.

1.15.3 Authorities need to approve the setting up of, and any changes to, accounts with banks or other financial institutions. Authorities also need to approve any decisions to enter 'pooling' or 'sweep' arrangements whereby the bank periodically aggregates the authority's various balances via automatic transfers.

1.15.4 If held, corporate credit card accounts need to have defined limits and be cleared monthly by direct debit from the main bank account. Credit card balances are not acceptable reconciling items for bank reconciliation purposes.

1.15.5 The authority needs to approve every bank mandate, the list of authorised signatures for each account, the limits of authority for each account signature and any amendments to mandates.

1.15.6 Risk assessment and internal controls need to focus on the safety of the authority's assets, particularly money. Those with direct responsibility for money need to undertake appropriate training from time to time.

1.16 Employment — The remuneration payable to all employees needs to be approved in advance by the authority. In addition to having robust payroll arrangements which cover the accuracy and legitimacy of payments of salaries and wages, and associated liabilities, the authority needs to ensure that it has complied with its duties under employment legislation and has met its pension obligations.

1.17 VAT — The authority needs to have robust arrangements in place for handling its responsibilities regarding VAT.

1.18 Fixed Assets and Equipment — The authority's assets need to be secured, properly maintained, and efficiently managed. Appropriate procedures need to be followed for any asset disposal and for the use of any resulting capital receipt.
1.19 Loans and long-term liabilities — Authorities need to ensure that any loan or similar commitment is only entered into after the authority is satisfied that it can be afforded and that relevant approvals have been obtained. Proper arrangements need to be in place to ensure that funds are available to make repayments of capital and any associated interest and other liabilities.
1.20 Review of effectiveness — Regulation 6 of the Accounts and Audit Regulations 2015 requires the authority to conduct a financial year review of the effectiveness of the system of internal control. The review needs to inform the authority's preparation of its annual governance statement.
1.21 Supporting information on internal control can be found in Section 5.

Assertion 3 — Compliance with laws, regulations and proper practices

We took all reasonable steps to assure ourselves that there are no matters of actual or potential non-compliance with laws, regulations and proper practices that could have a significant financial effect on the ability of this smaller authority to conduct its business or on its finances.

To warrant a positive response to this assertion, the following processes need to be in place and effective:

1.22 Acting within its powers — All authorities' actions are controlled by statute. Therefore, appropriate decision-making processes need to be in place to ensure that all activities undertaken fall within an authority's powers to act. Authorities need to have robust procedures in place to prevent any decisions or payments being made that are ultra vires, i.e. that the authority does not have the lawful power to make. The exercise of legal powers needs always to be carried out reasonably. For that reason, authorities making decisions need always to understand the power(s) they are exercising in the context of their decision making.
1.23 General power of competence — An authority seeking to exercise a general power of competence under the Localism Act 2011 needs to ensure that the power is fully understood and exercised in accordance with the Parish Councils (General Power of Competence) (Prescribed Conditions) Order 2012.
1.24 Regulations and proper practices — Procedures need to be in place to ensure that an authority's compliance with statutory regulations and applicable proper practices is regularly reviewed and that new requirements, or changes to existing ones, are reported to members and applied. Authorities need to have particular regard to the requirements of the Accounts and Audit Regulations 2015.

1.25 Actions during the year — An authority needs to have satisfied itself that it has not taken any decision during the year, or authorised any action, that exceeds its powers or contravenes any laws, regulations, or proper practices.
1.26 Email management - every authority should have an email account that belongs to the council and to which the council has access – this ideally would be a .gov.uk or .org.uk address or could be an address linked to the council website.
1.27 Supporting information on compliance with laws, regulations and proper practices can be found in Section 5.

Assertion 4 — Exercise of public rights

We provided proper opportunity during the year for the exercise of electors' rights in accordance with the requirements of the Accounts and Audit Regulations.

In order to warrant a positive response to this assertion the authority needs to have taken the following actions in respect of the previous year's Annual Governance and Accountability Return:

1.28 Exercise of public rights. The authority provided for the exercise of public rights is set out in Sections 26 and 27 of the Local Audit and Accountability Act 2014. Part 5 of the Accounts and Audit Regulations 2015 requires the RFO to have published, including on the authority's website or another website:
- Sections 1 and 2 of the Annual Governance and Accountability Return;
- a declaration that the status of the statement of accounts is 'unaudited'; and
- a statement that sets out details of how public rights can be exercised, as set out in Regulation 15(2)(b), which includes the period for the exercise of public rights.

1.29 External Auditor's Review — A notice of the conclusion of the external auditor's limited assurance review of the Annual Governance and Accountability Return, together with relevant accompanying information, was published (including on the authority's website or other website) in accordance with the requirements of Regulation 16 the Accounts and Audit Regulations 2015.
1.30 A parish meeting may meet the publication requirements by displaying the information in question in a conspicuous place in the area of the authority for at least 14 days.
1.31 Supporting information on the exercise of public rights can be found in Section 5.

Assertion 5 — Risk management

We carried out an assessment of the risks facing this smaller authority and took appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required.

In order to warrant a positive response to this assertion, the authority needs to have the following arrangements in place:

1.32 Identifying and assessing risks — The authority needs to identify, assess and record risks associated with actions and decisions it has taken or considered taking during the year that could have financial or reputational consequences.
1.33 Addressing risks — Having identified, assessed and recorded the risks, the authority needs to address them by ensuring that appropriate measures are in place to mitigate and manage risk. This might include the introduction of internal controls and/or appropriate use of insurance cover.
1.34 Supporting information on risk management can be found in Section 5.

Assertion 6 — Internal Audit

We maintained throughout the year an adequate and effective system of internal audit of the accounting records and control systems.

In order to warrant a positive response to this assertion, the authority needs to have taken the following actions:

1.35 Internal audit — The authority needs to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes considering internal auditing guidance for smaller authorities.
1.36 Provision of information — The authority needs to ensure it has taken all necessary steps to facilitate the work of those conducting the internal audit, including making available all relevant documents and records and supplying any information or explanations required.
1.37 Non-statutory guidance on internal audit can be found in Section 4.

Assertion 7 — Reports from Auditors

We took appropriate action on all matters raised in reports from internal and external audit.

1.37. To warrant a positive response to this assertion, the authority needs to have considered all matters brought to its attention by its external auditor and internal audit and taken corrective action as appropriate.
1.38. Supporting information on reports from auditors can be found in Section 5.

Assertion 8 — Significant events

We considered whether any litigation, liabilities or commitments, events or transactions, occurring either during or after the year-end, have a financial impact on this smaller authority and, where appropriate have included them in the accounting statements.
To warrant a positive response to this assertion, the authority needs to have taken the following actions where necessary:

1.39. Significant events — The authority needs to have considered if any events that occurred during the financial year (or after the year-end), have consequences, or potential consequences, on the authority's finances. If any such events are identified, the authority then needs to determine whether the financial consequences need to be reflected in the statement of accounts.
1.40. Supporting information on significant events can be found in Section 5.

Assertion 9 — Trust Funds (local councils only)

Trust funds (including charitable). In our capacity as the sole managing trustee we discharged our accountability responsibilities for the fund(s)/assets, including financial reporting and, if required, independent examination or audit.

1.41. Where a local authority acts as a sole managing trustee for a trust or trusts, to warrant a positive response to this assertion the authority needs to have made sure that it has discharged all of its responsibilities with regard to the trust's finances. This needs to include financial reporting and, if required, independent examination or audit. This is notwithstanding the fact that the financial transactions of the trust do not form part of the authority's accounts and are therefore not included in the figures reported on Section 2 of its Annual Governance and Accountability Return (see paragraph 2.30 below).
1.42. Supporting information on trust funds can be found in Section 5.

Approval process

1.43. The authority needs to approve the annual governance statement by resolution of members of the authority meeting as a whole, in advance of the authority approving the accounting statements in Section 2 of the Annual Governance and Accountability Return. The Chair of the meeting and the Clerk need to sign and date the annual governance statement and a minute reference entered.

SECTION TWO — PROPER PRACTICES THE STATEMENT OF ACCOUNTS

Introduction

2.1. The Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015 require all authorities to prepare a statement of accounts for each financial year in accordance with proper practices. This guide presents the proper practices in relation to accounts that smaller authorities need to follow in preparing their annual accounts and follows the order set out in Section 2 of the Annual Governance and Accountability Return. To assist practitioners, a Pro-forma Annual Governance and Accountability Return is available alongside this guide.

2.2. For smaller authorities, the statement of accounts needs to be prepared in accordance with, and in the form specified in, any Annual Governance and Accountability Return required by these proper practices in relation to accounts. Smaller authorities with no financial transactions meet their responsibility to produce accounts by completing Form 1 of the Annual Governance and Accountability Return.

2.3. Section 2 of the Annual Governance and Accountability Return is a smaller authority's statement of accounts and takes the form of a summary income and expenditure account and a statement of balances. Where an authority's gross income or expenditure is not more than £200,000 for that year, or for either of the two immediately preceding financial years, the statement may take the form of a summary receipts and payments account.

2.4. An authority's statement of accounts needs to be in the form set out in Section 2 of the Annual Governance and Accountability Return. The figures entered in the relevant cells are the authority's receipts and payments for the year, or its income and expenditure, as appropriate. This guide assumes that most authorities maintain current records on a receipts and payments basis and convert these to income and expenditure at the year end, if necessary. Information and examples on the conversion process from receipts and payments to income and expenditure is provided in Section 5 and does not form part of proper practices.

2.5. All highlighted cells of the Annual Governance and Accountability Return need to be completed, including writing 'nil' or '0' in any cell that does not apply. Leaving cells blank may lead to questions by readers who may not be sure if the compiler intended a nil balance or whether an omission or error has occurred.

2.6. All figures in Section 2 of the Annual Governance and Accountability Return need to agree to the authority's primary accounting records. The RFO needs to be able to show how the figures in the Annual Governance and Accountability Return reconcile to those in the cashbook and other primary accounting records. Members need to see this reconciliation when they are asked to approve the statement of accounts in the Annual Governance and Accountability Return. Interested persons inspecting the accounts have a legal right to inspect the accounting records and all books, deeds,

contracts, bills, vouchers, receipts and other documents relating to those records, including this reconciliation.

2.7. The accounting statements present two years' accounts for the authority, side by side. The prior-year figures can be taken directly from the previous year's Annual Governance and Accountability Return or, if this is the first year of accounts, the prior-year figures will all be £0.

2.8. The figures for the preceding financial year are shown in the first column so that members, local electors, residents and other interested parties can easily see any significant changes that have occurred during the current year and help to set the context in which the accounts need to be viewed.

2.9. Where an error has been identified in the prior year's accounts, after the external auditor's review, which has resulted in the carried forward figure in Line 7 being amended, then the corrected figure needs to be carried forward to the current year's Annual Governance and Accountability Return. The authority must clearly indicate that the prior year column in the accounting statements is 'Restated' and inform the external auditor.

a) Authorities that change the basis on which their accounts are presented, i.e. from income and expenditure to receipts and payments (or vice versa), need to ensure that the comparative accounts in the Annual Governance and Accountability Return are shown on a consistent basis and are reported in Section 2 of the Annual Governance and Accountability Return by adding the word 'Restated' at the top of the prior year column and explained by means of a note to the auditor.

Treatment of amounts refunded/reimbursed

<u>Receipts and payments reporting</u>
Refund/reimbursement of amounts paid or received must always be reported gross in R & P reporting in the AGAR.

<u>Income and expenditure reporting</u>
Refund/reimbursement of amounts paid or received should only be reported net where the refund is paid to/received from the original payee/payer.
Refunds/reimbursements from third parties (e.g. insurance providers) should never be netted off but always reported gross.

2.10. Authorities that participate in joint arrangements/committees must ensure that their own accounting records fully and accurately reflect the authority's appropriate share of joint arrangement/committee reserves, income, expenditure, assets and liabilities. Detailed guidance is given in Section 5.

Accounting statements

Line 1 — Balances brought forward

2.11. This cell shows the opening figure for the summary of the smaller authority's annual accounts. It is the closing balance carried forward from the previous year's accounting statements – see paragraph 2.19 below. The amount in the current year cell in Line 1 should be the same figure as the 'balances carried forward' figure in the prior year column at Line 7.

Line 2 — Precept or rates and levies

2.12. For precepting authorities, this cell shows the total precept received or receivable in the year. For internal drainage boards this cell shows the total of rates and special levies received or receivable in the year. This cell should contain only the value of precepts or rates and levies received or receivable in the year. Any other receipts, including grants, are to be included in Line 3.

Line 3 — Total other receipts

2.13. This cell shows the authority's total income or receipts for the year, less the precept or rates and levies figure shown in Line 2. It will therefore include any repaid investments and loans, any monies borrowed to finance projects, proceeds from the sale of fixed assets, fees, charges, and grants such as council tax support grants.

2.14. Compilers of the accounting statements must exclude from the figure shown in Line 3 the value of any transactions recorded in the authority's accounting records arising from daily cash management activities. These transactions include transfers between bank current and deposit accounts and other short-term deposits. It is correct to record such transactions in the cash book for control and reconciliation purposes. However, they are not reported in the accounting statements because these transfers do not represent either receipts or payments or income or expenditure for the authority.

2.15a. 'Total other receipts' for the year should include the Community Infrastructure Levy passed to a local council under Regulation 59A of the Community Infrastructure Regulations 2010 and received by the authority, in the year in which it is received by the authority.

2.15b. 'Total other receipts' for the year should include all grants received by the authority, in the year in which they are received by the authority. Income should only be accrued for where receipt is 'reasonably certain', for example where a principal authority has confirmed in writing its intention to provide a grant.

Line 4 — Staff costs

2.15. This cell shows all the costs to the authority relating to the employment of its staff. Staff costs for the purpose of Line 4 include the gross salary of employees, employer's national insurance contributions, employers pension contributions, gratuities for employees or former employees and severance or termination payments to employees. The following are not staff costs for the purpose of Line 4; mileage and other travelling and subsistence allowances, "Homeworking allowance" that is, an allowance paid to cover the extra costs of working from home, the provision of work-related training, the reimbursement of childcare or other carers costs, the reimbursement of a staff members subscription to the Society of Local Council Clerks, the provision of office supplies such as laptop, scanner or stationery and consultants and agency staff. The definition of "staff costs" for the purposes of Line 4 may differ from what is, or is not, treated as taxable earnings by HMRC. In as much as this is a change of reporting basis, corresponding figures from the preceding year must be restated in a similar basis.

Line 5 — Loan interest/capital repayments

2.16. This cell shows the total of capital and interest payments made by the authority in the year. It includes repayment of loan principal, whether as part of a scheduled repayment plan or as a special payment, and interest arising from any borrowing including bank overdrafts and credit cards.
2.17. Authorities preparing income and expenditure accounts need to make a provision in their accounts for any accrued interest payable at the year-end in accordance with the terms of any loan. The accrued value of unpaid interest due would be shown in this cell.

Line 6 — All other payments

2.18. This cell shows the authority's total expenditure or payments made in the year, less the total of the specific expenditure amounts shown in Lines 4 and 5. It will include the costs of purchasing fixed assets and undertaking capital projects and the costs of providing day to day services. Payments made regarding investments and long-term loans need to be included, but not entries that result from daily cash management activities, such as transfers between bank current and deposit accounts or the making of short-term investments – see 2.12 above.

Line 7 — Balances carried forward

2.19. This cell shows the closing figure for the balances of the authority after all of its financial transactions has been accounted for. The cell value is calculated by adding the amounts in Lines 2 and 3 to the balances brought forward in Line 1 and then deducting the sum of the amounts in Lines 4, 5 and 6.

Line 8 — Total value of cash and short-term investments

2.20. This cell shows the actual value of the authority's cash and short-term investments in the form of cash held, current and deposit accounts plus any short-term investments. The figure should be equal to the corresponding figure in the authority's cash book(s).
2.21. Users of proprietary accounting software may choose to account for credit card transactions through a cashbook mechanism. Notwithstanding such arrangements, amounts owing on Credit Cards must not be included within Line 8, but are to be treated as creditors and thus included within the reconciliation between Lines 7 and 8.
2.22. Short-term investments, which mainly include deposit and savings accounts typically provided by banks, are those that display the following characteristics:
   a) are denominated in pounds Sterling;
   b) have a maturity of 12 months or less;
   c) the whole of the original sum invested can, from the time that the investment is made, be accessed for use by the authority without any reduction; and
   d) the authority has assessed the counterparty and is satisfied that the original sum invested is not subject to unreasonable risk.
2.23. For authorities preparing accounts on a receipts and payments basis, the figure in Cell 8 will be the same as that shown in Cell 7. For other authorities a statement needs to be prepared to explain the difference by reference to the adjustments that have been made to convert the accounts to an income and expenditure basis, particularly accounting for debtors, creditors, and provisions. Further information and examples on converting accounts from receipts and payments to income and expenditure are provided in Section 5.
2.24. The authority will need to reconcile this figure to its year-end bank account statements and submit the reconciliation to the external auditor. Further information on bank reconciliations can be found in Section 5.

Line 9 — Total fixed assets plus long-term investments and assets

2.25. This cell shows the value of all the fixed assets and long-term investments the authority owns. It is made up of its fixed assets and long-term investments. The term fixed assets mean the property, plant and equipment used by the authority to deliver its services. A long-term investment arises where the authority invests money in anything other than a short-term investment.

2.26. Authorities need to maintain a register of the fixed assets, long-term investments and other non-current assets that they hold.

2.27. The value of the cell at Line 9 is taken from the authority's asset register which is up-to-date at 31 March and includes all acquisition and disposal transactions recorded in the cash-book during the year. Long term loan assets should be included at the amount originally advanced, less any subsequent repayments. Authorities need to apply a reasonable approach to asset valuation which is consistent from year to year. Where an authority changes its method of asset valuation it will need to restate the prior year's figure in line 9 of the AGAR.

2.28. Further information on fixed assets and long-term investments can be found in Section 5.

Line 10 — Total borrowings

2.29. This cell shows the outstanding capital balance of all borrowings from third parties at the end of the year, including all loans but excluding bank overdrafts. Authorities need to maintain a record of all borrowings and similar credit arrangements entered into, other than temporary bank overdrafts. Further information can be found in Section 5.

Line 11 — Disclosure note re trust funds (local councils only)

2.30. Cell 11a requires a local council only to answer 'yes' or 'no' to whether it acts as sole trustee for, and is responsible for managing, Trust funds or assets The council then needs to ensure that the accounting statements in Section 2 of the Annual Governance and Accountability Return do not include any Trust transactions or balances (see paragraph 1.41 above) and confirm this statement with a yes or no response at cell 11b. Where cell 11a is answered No then it would be anticipated that cell 11b would be answered N/A.

Signature of responsible finance officer

2.31. Notwithstanding who prepared the statement of accounts, it is the responsibility of the authority's RFO to certify it as either presenting fairly the financial position of the authority or properly presenting its receipts and payments, as the case may be. In so certifying the RFO confirms that proper practices have been followed in preparing the statement of accounts.

Signature of chair

2.32. After the RFO has signed the statement of accounts, the members of the authority meeting as a whole need to consider it and approve it by resolution. Alongside the

RFO's certificate, the person presiding at the meeting at which the statement of accounts is approved needs to confirm, by signing and dating the statement at the bottom of Section 2 of the Annual Governance and Accountability Return, that the accounts have been approved by the authority in accordance with the Accounts and Audit Regulations 2015.

2.33. The authority needs to ensure that the accounting statements are signed by the RFO and approved by the authority, by the latest date in order for the RFO to comply with the duty to commence the period for the exercise of public rights so that it includes the first ten working days of July.

Accompanying information

2.34. There is no provision in the Annual Governance and Accountability Return (AGAR) for additional notes to explain and expand on the figures shown in the accounting statements. To address this, authorities need to provide the following accompanying information to the external auditor, where Form 3 of the AGAR is subject to review by the external auditor.

Explanation of variances

2.35. Authorities need to understand the changes in income and expenditure from year to year and their significance. The RFO needs to produce an explanation of significant variances in annual levels of income, expenditure and balances shown in Section 2 of the Annual Governance and Accountability Return that provides a sufficiently detailed and meaningful analysis and explanation of the reasons for the change.

Bank reconciliation

2.36. The year-end bank reconciliation (see paragraph 1.10 above) needs to be provided to the external auditor together with the Annual Governance and Accountability Return and other accompanying documentation.

2.37. The external auditor may request that other information is provided to support their review of the Annual Governance and Accountability Return. The authority needs to comply with any such requests.

2.38. Supporting information on completion of the accounting statements can be found in Section 5.

Certificate of exemption

2.39. Where an authority meets the criteria for certifying itself exempt in the year of account to which the AGAR relates and wishes to certify itself exempt from a limited assurance review, it needs to complete the Declaration of No Accounts and Certificate of

Exemption in AGAR Form 1 or Certificate of Exemption in AGAR Form 2 following a meeting of the authority after 31 March; return a copy of the exemption certificate to the external auditor by 30 June and publish a copy on the authority's website before the 1 July immediately following the financial year end.

SECTION THREE — PROPER PRACTICES IN ACCOUNTS FOR A SMALLER AUTHORITY

Introduction

3.1. Regulation 8(1) of the Local Audit (Smaller Authorities) Regulations 2015 allows smaller authorities with annual turnover exceeding £25,000 to decide to prepare a statement of accounts and be audited as if it were a relevant authority that is not a smaller authority. This is defined in the Regulations as a 'full audit authority'.

3.2. For the purposes of the Accounts and Audit Regulations 2015, a full audit authority is treated as a Category 1 authority.

3.3. Regulation 7 of the Accounts and Audit Regulations 2015, requires a Category 1 authority to prepare a statement of accounts in accordance with the regulations and proper practices in relation to accounts. Regulation 5 requires a Category 1 authority to prepare an annual governance statement in accordance with proper practices in relation to accounts.

3.4. The proper practices in relation to accounts for a full audit authority are set out in this guidance issued by JPAG.

Proper practices – statement of accounts

3.5. JPAG recommends that a full audit authority should follow the proper accounting practices found in UK GAAP (FRS 102) issued by the Financial Reporting Council (unless modified by this guide).

3.6. Alternatively, a full audit authority may adopt as proper practices the Code of Practice on Local Authority Accounting in the UK issued by CIPFA/LASAAC.

Proper practices – annual governance statement

3.7. JPAG recommends that a full audit authority should follow Delivering Good Governance in Local Government: Framework, published by CIPFA and SOLACE in 2007 and its subsequent addendum, published in 2012, which provides an updated example annual governance statement. A full audit authority may also wish to refer to Delivering good governance in local government: A guidance note for English authorities, published by CIPFA/SOLACE in 2012, which is intended to assist authorities in reviewing their governance arrangements and can be used in conjunction with the Framework and the addendum.

3.8. Alternatively, a full audit authority may use the annual governance statement in Section 1 of the Annual Governance and Accountability Return (see Section 1 of this guide and the pro-forma Annual Governance and Accountability Return available alongside this guide).

SECTION FOUR — BEST PRACTICE GUIDANCE FOR INTERNAL AUDIT

Introduction

4.1. This section intends to provide members and officers of smaller authorities as well as those offering to provide internal audit services to such authorities, details of the legal framework, regulations and guidance to be followed.

4.2. Smaller authorities are required by the Accounts and Audit Regulations 2015 to 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.

4.3. The public sector internal audit standards have not been applied to smaller authorities. The information in this section is therefore guidance and should be considered by smaller authorities in undertaking a best practice effective internal audit.

4.4. It is not the purpose of either internal or external audit to detect or prevent fraud. However if internal auditors identify concerns as part of the review, they may wish to contact the authority's external auditor who are a 'prescribed body' under the Public Interest Disclosure Act.

4.5. It is not the role of any internal auditor to complete Section 1 or Section 2 of the AGAR, that is the responsibility of the authority.

Selecting and appointing an internal audit provider

4.6. In addition to ensuring the appointed internal auditor has relevant knowledge of the public sector, there are two key principles an authority must follow in appointing an internal audit provider: independence and competence.

4.7. There are various ways for an authority to source an internal audit service, for example:

- Purchasing an internal audit service from a local firm or specialist internal audit practice with an understanding of the local government legal framework
- Purchasing an internal audit service from a principal local authority
- Engaging a competent internal auditor with sufficient organisational independence to undertake the role
- Appointing a local individual or a member of a panel of individuals administered by a local association affiliated to NALC, SLCC or ADA.

4.8. There is no requirement for a person providing the internal audit role to be professionally qualified, however essential competencies to be sought from any internal audit service should include:

- understanding basic book-keeping and accounting processes; where an authority exceeds the £200,000 threshold, this understanding must include accrual accounting and balance sheets

- understanding the role of internal audit in reviewing systems rather than undertaking detailed checks that are more appropriately the responsibility of management
- awareness of relevant principles and practice of financial and other risk management
- understanding proper practices in relation to governance and accounting requirements within the legal framework and powers of smaller authorities, as set out in Sections 1 and 3 of this guide (knowledge of which is a prerequisite)
- awareness of the most recent model Standing Orders and model Financial Regulations as published by NALC and how they are adopted by authorities
- awareness of the relevance of VAT and PAYE/NIC rules as applied to the authority
- for larger authorities, a clear understanding of the risks and controls associated with 'cut off' procedures, particularly with respect to revenue-generating activities

Independence

4.9. Independence requires the absence of any actual or perceived conflict of interest. It means that whoever carries out the internal audit role does not have any involvement in, or responsibility for, the financial decision making, management or control of the authority, or for the authority's financial controls and procedures.

4.10. A current or recent authority member, who cannot demonstrate independence from decisions in the year to be audited, cannot be its internal auditor. Similarly, it would not be appropriate for any individual or firm with a personal connection to a member or officer of the authority to be appointed. Conflicts of interest must be avoided, such as in cases where an external provider of accounting software or services to the authority, also offers internal audit services through an associate company, firm or individual.

4.11. There is no requirement to rotate auditors but the independence of the appointed person or firm should be reviewed every year with regard to; personal independence, financial independence, and professional independence.

Competence

4.12. Evidence as to competence might include letters of recommendation from other similar authorities.

Engagement

4.13. Every authority should ensure that they have a letter of engagement which would normally include:

- roles and responsibilities
- audit planning and timing of visits

- reporting requirements
- rights to access to information, members and officers
- period of engagement
- remuneration
- any other matters required for the management of the engagement by the authority

4.14. Most internal auditors will have professional indemnity insurance cover which provides both the authority and the person or firm engaged, with protection and assurance.

Planning and oversight

4.15. It is a matter for the authority to determine how best to meet the statutory requirement for internal audit, having regard to its size, scope of services and complexity of financial arrangements.

4.16. Authorities should, at least annually, carry out a review of the effectiveness of their overall internal audit arrangements. It should be designed to provide sufficient assurance for the authority that standards are being met and that the work of internal audit is effective. Authorities should judge the extent and scope of the review by reference to their own individual circumstances.

4.17. As with any review, it should be evidence based.
Wherever possible this should be gathered throughout the year.
Sources may include:

- previous review and action plan
- annual report by internal audit
- other reports from internal audit, including internal audit plan, monitoring reports, and the results of any investigations
- any reports by the external auditor
- the results of any other external reviews of internal control

4.18. As part of the review the internal auditor should produce a report to the authority highlighting areas for improvement or development. An action plan should be produced setting out the areas of improvement required, any proposed remedial actions, the members or officers responsible for delivering improvement, and the deadlines for completion of the actions.

4.19. Internal auditors should be aware of the National Audit Office guidance to external auditors regarding the additional work expected in respect of authorities with income or expenditure in excess of £2,000,000

Internal Audit Checklist

4.20. The following sets out the basic requirements for conduct of an effective internal audit review of an authority's financial and governance records and controls facilitating the completion of the Internal Audit Report in an authority's Annual Governance and

Accountability Return (AGAR). The detail is not exhaustive but aims to provide Proper Officers and internal auditors with a basic guide to the controls that should ideally be in place and physical checks/testing that should be applied. Where records examined include personal detail, such as in the case of staff salaries, allotment records and detail of hall hirers on invoices, care should be taken to ensure compliance with the requirements of the General Data Protection Regulations (GDPR).

4.21. Internal auditors should also, as part of the overall check on the authority's governance arrangements, review all full authority and committee minutes (and supporting papers) to gain an overview of the authority's financial and governance controls, monitoring that no actions of a potentially unlawful nature are being considered or any such decisions have been taken and that approval of all minutes is in accordance with the legislation.

This particular facet does not align to an individual section of the internal audit report in the AGAR but serves to give a degree of high-level indication as to the effectiveness of an authority's overall controls and decision-making process.

AGAR certificate reference	Internal Audit action for expected controls
A. Appropriate accounting records have been properly kept throughout the year. AND I. Periodic bank account reconciliations were properly carried out during the year.	● Ensure the correct roll forward of the prior year cashbook balances to the new financial year ● Check a sample of financial transactions in cashbooks to bank statements, etc: the sample size dependent on the size of the authority and nature of accounting records maintained ● Ensure that bank reconciliations are prepared routinely, are subject to independent scrutiny and sign-off by members ● Verify the accuracy of the year-end bank reconciliation detail and ensure accurate disclosure of the combined cash and bank balances in the AGAR, section 2, line 8. ● Where the authority has bank balances in excess of £100,000 it has an appropriate investment strategy.
B. This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT appropriately accounted for.	● Review the procedures in place for acquisition of formal tenders and quotes, ensuring they are in line with the SOs and FRs which should be based on the latest version. ● Ensure that consistent values are in place for the acquisition of formal tenders between SOs and FRs (frequently different limits are recorded in the two documents) ● Review the procedures for receipt of invoices,

	agreement of invoice detail and confirmation of goods /services delivery and approval for payment: ideally, a suitably designed certification stamp should be in place providing for evidencing of these checks and payment authorisation ● Check that there is effective segregation between the writing of cheques or the setting up of online payments, and physical release of payments ● Check that VAT reclaims are prepared and submitted in a timely manner in line with the underlying records and in accordance with current HMRC requirements ● Where debit / credit cards are in use, establish the total monthly and individual transaction limits and ensure appropriate controls over physical security and usage of the cards are in place
C. This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.	● Ensure that authorities have prepared, and formally adopted, at least once annually, an appropriate and comprehensive register of assessed risks, both regular and ad hoc ● Ensure that appropriate levels of insurance cover are in place for land, buildings, public, employers' and hirers' (where applicable) liability, fidelity / employees (including councillors) liability, business interruption and cyber security ● Ensure that appropriate arrangements are in place for monitoring play areas, open spaces and sports pitches: such reviews should be undertaken by appropriately qualified external inspectors or, if by officers or members, that they have received the appropriate training and accreditation ● Review the effectiveness of internal control carried out by the authority
D. The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.	● Ensure that the full Authority, not a committee, has considered, approved and adopted the annual precept for the coming year in accordance with the required parent Authority timetable ● Ensure that current year budget reports are prepared and submitted to Authority / Committees periodically during the year with appropriate commentary on any significant variances ● Review the budget performance either during the year or

	at the financial year-end seeking explanations for any significant or unanticipated variances ● Ensure that the Authority has considered the establishment of specific earmarked reserves and, ideally, reviews them annually as part of the budget assessment process ● Ensure that the precept received in the accounts matches the prior year submission form to the relevant authority and the public record of precepted amounts
E. Expected income was fully received based on correct prices, properly recorded and promptly banked; and VAT appropriately accounted for.	● Review "Aged debtor" listings to ensure appropriate follow up action is in place ● Allotments: ensure that appropriate signed tenancy agreements exist, that an appropriate register of tenants is maintained identifying, that debtors are monitored. ● Burials: ensure that a formal burial register is maintained that it is up-to-date and that a sample of interments and memorials are appropriately evidenced, that fees have been charged at the correct approved rate and been recovered within a reasonable time: (Authorities should also acquire and retain copies of Burial / Cremation certificates) ● Hall hire: ensure that an effective diary system for bookings is in place identifying the hirer, hire times and ideally cross-referenced to invoices raised ● Leases: ensure that leases are reviewed in a timely manner in accordance with the terms of the lease and rents similarly reviewed appropriately at the due time ● Other variable income streams: ensure that appropriate control procedures and documentation are in existence to provide a clear audit trail through to invoicing and recovery of all such income ● Where amounts are receivable on set dates during the year, ensure that an appropriate control record is maintained duly identifying the date(s) on which income is due and actually received / banked
F. Petty Cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for	● A number of authorities are now running down and closing their petty cash accounts and using debit / credit cards for ad hoc purchases. Consequently, a "Not covered" response is frequently required in this area. ● Review the systems in place for controlling any petty

	cash and also cash floats (used for bar, catering, etc) ● Check a sample of transactions during the financial year to ensure appropriate supporting documentation is held ● Review the existence of evidenced periodic independent verification of the petty cash and any other cash floats held ● Ensure that VAT is identified wherever incurred and appropriate ● Physically check the petty cash and other cash floats held ● Where bar or catering facilities are in place, ensure that appropriate cashing-up procedures are in place reconciling the physical cash takings to the till "Z" total readings
G. Salaries to employees and allowances to members were paid in accordance with the authority's approvals, and PAYE and NI requirements were properly applied.	● Ensure that, for all staff, a formal employment contract is in place together with a confirmatory letter setting out any changes to the contract ● Ensure that appropriate procedures are in place for the payment of members allowances and deduction of any tax liability ● Ensure that, for a sample of staff salaries, gross pay due is calculated in accordance with the approved spinal point on the NJC scale or hourly rate, if off-scale, and also with the contracted hours ● Ensure that appropriate tax codes are being applied to each employee ● Where free or paid for software is used, ensure that it is up to date. ● For the test sample of employees, ensure that tax is calculated appropriately ● Check the correct treatment of Pension contributions ● For NI, ensure that the correct deduction and employer's contributions are applied: NB. The employers allowance is not available to councils but may be used by other authorities ● Ensure that the correct employers' pension percentage contribution is being applied ● Ensure that for the test sample, the correct net pay is paid to the employee with tax, NI and pension contributions correctly paid to the respective agencies.

H. Asset and investment registers were complete and accurate and properly maintained. This section/assurance should be extended to include loans to or by the authority	Tangible Fixed Assets: ● Ensure that the Authority is maintaining a formal asset register and updating it routinely to record new assets at historic cost price, net of VAT and removing any disposed of / no longer serviceable assets ● Physically verifying the existence and condition of high value, high risk assets may be appropriate ● Ideally, the register should identify for each asset the purchase cost and, if practicable, the replacement / insured cost, the latter being updated annually and used to assist in forward planning for asset replacement ● Additions and disposals records should allow tracking from the prior year to the current ● Ensure that the asset value to be reported in the AGAR at section 2, line 9 equates to the prior year reported value, adjusted for the nominal value of any new acquisitions and / or disposals ● Compare the asset register with the insurance schedule to ensure that all assets as recorded are appropriately insured or "self-insured" by the Authority Fixed asset investments: ● Ensure that all long-term investments (i.e., those for more than 12 month terms) are covered by the "Investment Strategy" and reported as Assets in the AGAR at section 2, line 9. Borrowing and Lending: ● Ensure that the authority has sought and obtained appropriate DMO approval for all loans acquired ● Ensured that the authority has accounted for the loan appropriately (i.e., recorded the full value of the loan. Any arrangement fee should be regarded as an admin expense) in the year of receipt ● Ensure that the combined principal loan repayment and interest for the year is correctly recorded in the AGAR at section 2 line 5 ● Ensure that the outstanding loan liability as at 31st March each year is correctly recorded in the AGAR at section 2, line 10 (value should be verified via the DMO website) ● Where the Authority has issued loans to local bodies, they should ideally seek signed indemnities from the

	recipient body, or their members, agreeing to underwrite the loan debt
J. Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cashbook, supported by an adequate audit trail from underlying records and, where appropriate, debtors and creditors were properly recorded.	Whilst IAs are not required to verify the accuracy of detail to be disclosed in the AGAR, this assertion, together with the expectation of most Authorities, effectively requires IAs to ensure that the financial detail reported at section 2 of the AGAR reflects the detail in the accounting records maintained for the financial year. Consequently, IAs should ● Ensure that, where annual turnover exceeds £200,000, appropriate records are maintained throughout the year on an Income and Expenditure basis to facilitate budget reporting in that vein ● Ensure that appropriate accounting arrangements are in place to account for debtors and creditors during the year and at the financial year-end
K. If the authority certified itself as exempt from a limited assurance review in the prior year, it met the exemption criteria and correctly declared itself exempt.	IAs should ensure that, all relevant criteria are met (receipts and payments each totalled less than £25,000) ● the correct exemption certificate was prepared and minuted in accordance with the statutory submission deadline ● that it has been published, together with all required information on the Authority's website and noticeboard
L. The authority publishes information on a free to access website / web page, up to date at the time of the internal audit in accordance with the relevant legislation	IAs should review the Authority's website ensuring that all required documentation is published in accordance with the relevant legislation.
M. The authority, during the previous year, correctly provided for the period for the exercise of public rights as required by the Accounts and Audit Regulations.	IAs should acquire / examine a copy of the required "Public Notice" ensuring that it clearly identifies the statutory 30 working day period when the Authority's records are available for public inspection. IAs may also check whether councils have minuted the relevant dates at the same time as approving the AGAR
N. The authority complied with the publication requirements for the prior year AGAR.	IAs should ensure that the statutory disclosure / publication requirements in relation to the prior year's AGAR have been met as detailed on the front page of the current year's AGAR.

O. Trust funds (including charitable) - the Council met its responsibilities as a trustee	● Confirm that all charities of which the council is a Trustee are up to date with CC filing requirements ● that the council is the sole trustee on the Charity Commission register ● that the council is acting in accordance with the Trust deed ● that the Charity meetings and accounts recorded separately from those of thee council ● review the level and activity of the charity and where a risk based approach suggests such, review the Independent Examiners report

Reporting on Internal Audit

4.22. The duties of internal audit relate to reporting on the adequacy and effectiveness of an authority's system of internal control. The minimum reporting requirement for internal audit to the smaller authority is met by completing the annual internal audit report on the Annual Governance and Accountability Return.

4.23. In most cases, particularly for larger authorities, an additional narrative report to the full council would be expected and then be published with the AGAR along with any comments from the external auditor.

4.24. Any narrative report should have conclusions that are compatible with the entries on the AGAR.

4.25. The annual internal report will inform the authority's response to Assertion 2 and Assertion 6 in the annual governance statement.

4.26. An authority should minute their review and actions planned from the outcomes of the AGAR tests and content of any narrative reports from Internal Auditors.

SECTION FIVE — SUPPORTING INFORMATION FOR OFFICERS

Introduction

5.1. Sections 1, 2 and 3 of this guide represent the 'proper practices' referred to in statute. They set out for smaller authority clerks and RFOs the appropriate standard of financial and governance reporting. They are mandatory.

5.2. Section 4 sets out best practice guidance relating to internal audit which smaller authorities are required to take into account.

5.3. This section contains information and practical examples to support Finance and Proper Officers in complying with proper practices to complete their Annual Governance and Accountability Return (AGAR) Form 2 or Form 3 submissions.

5.4. It cannot and does not set any mandatory requirements in respect of the AGAR. It does however include references to statutory requirements where appropriate.

5.5. General information about smaller authorities and their responsibilities can be found on the following websites; National Association of Local Councils, Society of Local Council Clerks and Association of Drainage Authorities.

5.6. In accordance with Section 6 of the Local Audit and Accountability Act 2014, an authority is a 'smaller authority' for a financial year if the higher of the authority's gross income for the year and its gross expenditure for the year does not exceed £6.5m for that year or either of the two previous years (three consecutive years). This section of the guide uses the term 'authority' to refer to all types of smaller authority.

5.7. Authorities whose activity puts them near the £6.5m limit should monitor their compliance needs during the year rather than waiting until the year end date.

Annual Governance Statement (AGS)

5.8. For all assertions, an authority should aim to be able to answer "Yes".
Where a "No" answer is required, supporting information and explanations will need to be published and provided to the external auditor to allow them to assess whether an 'other matter' or a 'qualification' is required.

5.9. Best practice and examples for each of the assertions in Section 1 of the AGAR are as follows

AGS Assertion 1 — Financial management and preparation of accounts

Accounting Records and supporting documents:

5.10. All authorities, other than parish meetings where there is no parish council, need to appoint an officer, the RFO, to be responsible for the financial administration of the authority in accordance with section 151 of LGA 1972.

5.11. The RFO is responsible for determining, on behalf of the authority, the form of its accounting records and supporting records and its financial control systems. The RFO must also ensure that the financial control systems are observed and that the accounting records of the authority are kept up to date.

5.12. The accounting records must contain entries from day to day of all sums of money received and expended by the authority and the matters to which its income and expenditure or receipts and payments relate; and a record of the assets and liabilities of the authority.

5.13. It is good practice for the accounting records to contain a record of income and expenditure in relation to claims made for contribution, grant or subsidy from a government department or other public body.

5.14. The financial control systems must include:

• measures to ensure that the financial transactions of the authority are recorded as soon as, and as accurately as, reasonably practicable

• measures to enable the prevention and the detection of inaccuracies and fraud, and the reconstitution of any lost records

• measures to ensure that risk is appropriately managed

• identification of the duties of officers dealing with financial transactions and division of responsibilities of those officers.

5.15. Books of account, manual or computerised, provide the basis for the accounting statements.

A good set of books will allow an authority to quantify at any time:

• the amounts that it has spent in the year, the income it has received and its financial commitments

• whether, in the light of this information, its spending plans for the rest of the year are still affordable

• the assets that it owns (for example, land, buildings, vehicles, investments, cash)

• the liabilities that it owes (for example, outstanding payments for goods/services, borrowings).

5.16. The record of the assets and liabilities of the authority required by regulation means in practice the asset and investment register and record of loans and other debts. This applies whether the council holds its records on a receipt and payments or income and expenditure basis.

Bank reconciliation:

5.17. The most important accounting record maintained by authorities will be the cash book which is a register of all the payments made and receipts taken in by the authority. Electronic payments and receipts are instant, but there can be considerable timing differences on cheques paid out and received. For this reason the bank statement alone is not a sufficient record.

5.18. It is a requirement of the current model financial regulations that bank reconciliations be prepared regularly, approved by members and signed as part of the regular minute record.

5.19. The year-end bank reconciliation is a key financial control as it will provide evidence to support the total cash and short-term investments balance shown in Line 8 in Section 2 of the authority's AGAR. As bank statements may be made up to different dates in the month, care should be taken, particularly at year-end, to ensure that the statement being reconciled includes balances as at 31 March.

5.20. Direct debits and standing orders should always be accounted for on the date they clear the bank. They should never appear on a bank reconciliation.

5.21. Electronic payments should only appear on the reconciliation if they have been scheduled for a date on or before that of the reconciliation in the banking system. Payments scheduled for after the reconciliation date remain creditors.

5.22. Unpaid invoices are trade creditors for I&E accounts or following year transactions for R&P accounts. They should not appear on the bank reconciliation.

5.23. A standard layout for a consolidated year-end bank reconciliation is below. Reconciliations may alternatively be provided for each individual account whilst ensuring that the total equates to Box 8.

Bank Reconciliation		As at 31 March 2022			
Authority Name					
Balance as per bank statement on 31 March 2022					
		Account No.		£	£
Current account	Mybank Plc	12345678		10,000.00	
Instant Access	Mybank Plc	24681357		3,000.00	
Savings account	Former Bld Society Plc	97538642		10,000.00	
Petty cash tin				100.00	
					23,100.00
Less uncleared cheques					
	154			-60.00	
	157			-350.00	
					-410.00
Add unbanked cash and income					
	Allotment fees			50.00	
					50.00
Accounting system cash book balance as at 31 March 2022					22,740.00
Prepared by	(Name of RFO)			on	
Approved by	(Minute reference of council approval)			on	

Budget setting:

5.24. The budget has two main purposes:
• It results in the authority setting the precept for the year (or rates and special levies for IDBs) and provides a basis for monitoring progress during the year by comparing actual spending and income against planned spending and income.
• The budget thus sets the legal limit of spending pre-authorised by the authority, as required by LGA 1972.

5.25. It is essential that authority members understand how the budget is put together and how it is used in the running of the authority. Reviewing the budget against actual expenditure at least quarterly gives members an early warning about the likelihood of a shortfall (or surplus) and helps them to decide what to do.

5.26. For larger authorities, it is prudent to develop a multi-year medium-term financial plan as well as the basic precept budget. This should include consideration of projected reserve levels, particularly of the general reserve.

5.27. The key stages in the budgeting process are

- decide the form and level of detail of the budget;
- review the current year budget and spending;
- determine the cost of spending plans;
- assess levels of income;
- bring together spending and income plans;
- provide for contingencies and consider the need for general and earmarked reserves;
- approve the budget;
- confirm and submit the precept or rates and special levies;
- review progress against the budget regularly throughout the year - at least quarterly in all but exempt authorities - including a year end projection and a clear minuted commentary of likely significant variances from the budget;
- virements (transfers between budget lines) are permitted but not required - they should be used to clarify the situation of the authority alongside budget variances arising from unforeseen circumstances.

Investments:

5.28. Most authority reserves are held in instant or notice bank accounts or other short-term investments (see paragraph 2.22 for a definition). Occasionally, circumstances necessitate authorities to make other types of investment, for example when saving for a future capital project or while deciding how to apply the proceeds of an asset sale or a donation.

5.29. In deciding whether it is appropriate to make long-term investments, the authority should follow the Ministry Guidance on local government investments.

Reserves:

5.30. As with any financial entity, it is essential that authorities have sufficient reserves (general and earmarked) to finance both their day-to-day operations and future plans.
5.31. Smaller authorities have no specific right to accumulate funds via the precept. All reserves should be reviewed and justified regularly (i.e. at least annually). It is good practice to transparently publish both the level and rationale of all reserves.

General reserves:

5.32. The general reserve of an authority comprises its cash flow and contingency funds to cover unexpected inflation, unforeseen events and unusual circumstances.
5.33. The generally accepted recommendation with regard to the appropriate minimum level of a smaller authority's general reserve is that this should be maintained at between three and twelve months of net revenue expenditure.
5.34. The reason for the wide range is to cater for the large variation in activity level between individual authorities. The smaller the authority, the closer the figure may be to 12 months expenditure, the larger the authority, the nearer to 3 months. In practice, any authority with income and expenditure in excess of £200,000 should plan towards 3 months equivalent general reserve.
5.35. In all of this it is important that each authority adopt, as a general reserve policy, the level appropriate to their size, situation, risks and plan their budget so as to ensure that the adopted level is maintained. Consideration of the minimum level of reserves requires not only consideration of level of income and expenditure but also the risks to that income.
5.36. Authorities with significant self-generated income (other than the precept or levy) should take into account situations that may lead to a loss in revenue as well as increased costs and adapt their general reserve accordingly.

Earmarked and other reserves:

5.37. None of the above in any way affects the level of earmarked and/or capital receipts reserves that an authority may or should hold.
5.38. There is, in practice, no upper or lower limit to EMR/CRRs save only that they must be held for genuine and identifiable purposes and projects, and their level should be subject to regular review and justification (at least annually and at budget setting), and should be separately identified and enumerated. Significant levels of EMRs in particular may give rise to enquiries from internal and/or external auditors.

AGS Assertion 2 — Internal control

Standing orders and financial regulations:

5.39. Model versions of Standing Orders and Financial Regulations are provided by NALC and ADA. Authorities should ensure that they are working from the latest model and that it has been appropriately adapted for their size and requirements. This should be reviewed and minuted annually.

5.40. Financial Regulations should include a limit for the purchase of goods and services above which three estimates or quotes should be invited from persons or firms competent to do the work. Standing Orders will state a higher value above which competitive tenders by sealed bid should be invited.

5.41. It is the responsibility of authorities to determine their own limits but they should not exceed the model except in the very largest authorities.

5.42. As far as possible, a fully priced official order should be sent to suppliers in advance of delivery of goods. Official orders both commit a supplier to a price and help prevent unauthorised credit being granted in the authority's name. Officers and practitioners should keep up to date with VAT Guidance issued by HM Revenue and Customs.

Safe and efficient arrangements to safeguard public money:

5.43. Accounts for payment - The payments process should always be carried out in accordance with the authority's Financial Regulations. All payments made since the last meeting should be reported to the next authority meeting. Members should never sign blank cheques or authorise funds transfers which are presented to them unsupported by the appropriate documentation.

5.44. Petty cash should be kept to a minimum and should not be used when a traceable payment method is available. Complete records of the receipts and payments should be maintained including VAT analysis, and regular reconciliation performed, and reported at each authority meeting.

5.45. Where a credit note or refund is issued to a customer or received from a supplier, the two amounts may be "netted off" to reduce the value of the original budget line (for example hall hire or equipment repairs). This 'netting off' only applies to accounts prepared using the income and expenditure method and not the receipts and payments method. The principle is, that in Receipts and Payments reporting, all transactions through Bank/Cash are reportable gross. Set off would only be appropriate where it occurs at the same time as original settlement, thereby only resulting in one Bank/Cash transaction for recording. Refunds received/paid after initial settlement always result in a second Bank/Cash transaction and thus should not be set off.

Where a refund is received from a third party (for example as part of an insurance claim) the transactions are not linked and may not be “netted off”.

5.46. Effective debt collection is an essential part of proper financial management. Authorities should ensure that invoices raised are paid promptly or that appropriate recovery action has been taken. Authorities whose records are kept on an R&P basis will not have a record of non payment in their accounts, but should note where it arises.

5.47. Irrecoverable debts should be written off, after full consideration of the possibilities for, and the likely costs of, pursuing the debt. Uncollectable amounts, including bad debts, should only be written off with the approval of members, or under delegated authority, by the RFO. The approval should be shown in the accounting records.

Employment:

5.48. Authorities are, by definition, employers. The clerk of any Local Council is always an employee if they are remunerated for the role. Authorities are required to be registered with HMRC

5.49. Authorities should pay particular attention to situations where contractors are engaged to carry out the authority’s services. Occasions may arise when contractors cease to be self-employed and become employees for tax purposes. Authorities should refer to HMRC’s Employment Status Indicator Tool for further information.

5.50. All employers are required by law to take out employers' liability insurance and decide the appropriate level of fidelity guarantee insurance. All cover should be risk-based and kept under constant review to make sure it adequately reflects changes in circumstances.

5.51. Authorities should have regard to guidance on employment matters issued jointly by NALC and SLCC, or by ADA.

VAT:

5.52. This can be a complex area and authorities are advised to refer to guidance issued by HMRC.

5.53. Smaller authorities with little self-generated income will most likely recover VAT using the VAT126 form.

5.54. Those authorities which are VAT registered, submitting quarterly returns, are, from April 2022, included within the MTD regulations. It would be expected that all such authorities are using HMRC compliant software to prepare their returns.

5.55. Authorities carrying out building projects or managing income generating properties need to ensure that they seek up to date advice about Opting to Tax and Partial Exemption each time they undertake a project.

Fixed assets and equipment:

5.56. An asset register is the starting point for any system of financial control over tangible assets as it:
• facilitates the effective physical control over assets
• provides the information that enables the authority to make the most cost-effective use of its capital resources
• supports the AGAR entry for fixed assets by collecting the information on the cost or value of assets held
• forms a record of assets held for insurance purposes.

5.57. The key information needed in the asset register is: date of acquisition, cost of acquisition, useful life estimate and location along with value held for investments.

5.58. Assets should be first recorded in the asset register at their actual purchase cost.

5.59. Assets that are either under construction or have not been brought into use should be included on the asset register only once complete and they benefit the community.

5.60. Obsolete assets that are no longer in use or are awaiting disposal should be clearly recorded as such.

5.61. Where an authority receives an asset as a gift at zero cost, for example by community asset transfer, it should be included with a nominal one-pound (£1) value as a proxy for the zero cost.

5.62. Assets that do not have a functional purpose or any intrinsic resale value (for example, a village pond or war memorial) are often referred to as ‘community assets’. Authorities should record community assets in the asset register in the same way as gifted assets.

5.63. The particular method of asset valuation is not specified in proper practices so authorities may use any reasonable approach to be applied consistently from year to year. The method of asset valuation adopted should be set out in a policy approved by the authority and recorded in the authority’s minutes and in the asset register.

5.64. For authorities covered by this guide, the most appropriate and commonly used method of fixed asset valuation for first registration on the asset register is at acquisition cost. This means that the recorded value of the asset will not change from year to year, unless it is materially enhanced.

5.65. Commercial concepts of depreciation, impairment adjustments, and revaluation are not required nor appropriate for this method of asset valuation.

5.66. The total value of an authority’s assets recorded on the asset register as at 31 March each year is reported at Line 9 on the authority’s AGAR. Authorities should be able to track and explain fully any changes in the asset register from year to year.

Loans and long-term liabilities:

5.67. Long-term loans will normally be associated with capital projects and these require borrowing approval before they can be arranged. For local councils, this is obtained by applying to the DMO through their county association. The process for IDBs to secure public works loans is similar to that of parish councils – they need to apply to the DMO after obtaining ministerial consent to borrow the money from the Defra Secretary of State, in accordance with S55 of the Land Drainage Act 1991.

AGS Assertion 3 — Compliance with laws, regulations and proper practices

Acting with its powers:

5.68. Authorities in England operate within a legal framework which provides them with the necessary statutory powers and authority to deliver local public services. Authorities and their clerks/chief executives/RFOs should always be aware of, and have regard to, the legal power they are exercising when deciding on any action including to spend public money.
5.69. Those councils eligible to apply the General Power of Competence (GPC) should ensure that it is clearly minuted.
5.70. Those without GPC should ensure that all activities are within their duties and powers.

Regulations and proper practices:

5.71. The Transparency Code for Smaller Authorities requires parish councils, internal drainage boards, charter trustees and port health authorities with an annual turnover not exceeding £25,000 to publish certain information set out in the code. This enables local electors and local taxpayers to access relevant information about the authority's accounts and governance.
5.72. Authorities with total turnover or expenditure between £25,001 and £199,999 are not covered by either transparency code, but are still subject to the requirements of the Freedom of Information Act.
5.73. Parish and town councils with annual turnover in excess of £200,000 should as best practice comply with the Local Government Transparency Code 2015.
5.74. Monitoring an authority's compliance with the relevant transparency code is not part of the external auditor's limited assurance review of the AGAR. It would however be expected that internal auditors would review this control area.

AGS Assertion 4 — Exercise of public rights

5.75. A key aspect of public accountability is provided for by rights given to the public to inspect the accounts and accounting records contained in the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015

5.76. The obligations of authorities are very specific, with key dates and periods of inspections laid out in legislation. These **must** be complied with and the details of the public's rights, as well as key parts of the AGAR must be published.

5.77. Publication is deemed to be made available on the authority's website. Website publication is a requirement. Posting on a noticeboard is in addition to a website.

5.78. Parish meetings **must** publish information on their noticeboard.

5.79. There is guidance to help authorities comply with the legal requirements, including support from external auditors' websites.

5.80. Proper practices and the flow charts in Section 6 include guidance for this area but the key points are:

- a 30 working day inspection period (this excludes weekends and public holidays), with accounts and supporting records being made available at reasonable times;
- the notice period should commence as soon as possible after approval of the accounts by the authority and must include the first 10 working days of July;
- the announcement of public rights should be as soon as practicable after the approval of the AGAR
- it must give at least one day's notice of commencement and be published together with sections 1 and 2 of the AGAR.

5.81. Assertion 4 in the AGS refers to the exercise of public rights during the year under review in respect of the prior year, not the period following the end of the year subject to AGAR submission.

5.82. By no later than 30 September the authority must publish the AGS, the statement of accounts and if it has received it, the external auditor's certificate and report. If the external auditor has not yet concluded and provided their final certificate and report, the authority will be issued an interim certificate which it should publish.

5.83. As soon as reasonably practicable, after the conclusion of the external audit, an authority must publish a statement

- that the audit has been concluded and that the accounts have been published;
- of the rights of inspection (under S.25 of LAAA) relating to the accounts, auditor's opinion and audit recommendations and
- the address and hours during which those rights may be exercised.

AGS Assertion 5 — Risk management

5.84. In order to warrant a positive response to this assertion, an authority must have appropriate arrangements in place. As a minimum, an authority must identify and assess risks, and address those identified risks by mitigating or managing them.

5.85. Appropriate arrangements will vary and need to be proportionate to the size and nature of the operations of an authority.

5.86. Smaller authorities should identify both financial and operational risks. The record should include controls/ mitigation and be formally reported and considered by the authority annually.

5.87. Larger authorities are likely to adopt more extensive procedures, which, whilst reflecting the basic principles above, may utilise a risk assessment matrix and undertake more extensive risk arrangements (eg a working party to consider risks) and/or a full risk register.

5.88. Risks are uncertain events or conditions (not just financial) that if they occur, will affect the authority's ability to achieve its objectives. The authority generally, and members individually are responsible for risk management.

5.89. Typical categories of risks include:

- financial – loss of money;
- security – fraud, theft, embezzlement;
- property – damage to property;
- legal – breaking the law or being sued;
- IT – failure of IT systems or misuse or data loss; and
- reputational – actions taken could harm the authority's public reputation.

5.90. Risks are unavoidable, but they need to be managed either by mitigation or controls such that they are tolerated, treated, transferred or terminated.

5.91. Insurance is a significant way of managing and reducing risks relating to property, cash and legal liability (amongst other things).

5.92. Authorities could use a simple risk assessment matrix as follows:

Priority of risk management				
Likelihood of occurrence	Highly Likely (score 3)	Medium (3 x 1)	High (3 x 2)	Very High (3 x 3)
	Possible (score 2)	Low (2 x 1)	Medium (2 x 2)	High (2 x 3)
	Unlikely (score 1)	Very low (1 x 1)	Low (1 x 2)	Medium (1 x 3)
		Negligible (score 1)	Moderate (score 2)	Severe (score 3)
		Impact		

5.93. A proforma risk assessment template that authorities can adapt for their own use is included in section 6.

AGS Assertion 6 — Internal audit

5.94. Section 4 of the Guide sets out the best practice guidance and needs to be considered by smaller authorities in undertaking an effective internal audit process.
5.95. Authorities should note that it is not part of the internal auditor's responsibility to review or 'sign off' the completed AGAR.
5.96. Internal audit report(s) should inform the authority's responses to Assertions 2 and 6 in the AGS.
5.97. Internal audit reports should therefore be made available and published to support and inform members considering the authority's approval of the AGS.

AGS Assertion 7 — Reports from auditors

5.98. Authorities will receive reports from both their internal and external auditors. An authority should consider the matters included in these reports and decide what action it needs to take to prevent recurrence of the issues raised. The consideration and decisions should be included in formal minutes.
5.99. External auditors are required to carry out their work in accordance with the Code of Audit Practice and supporting guidance issued by the National Audit Office.
5.100. Auditor Guidance Note 2 explains the procedures that auditors follow when undertaking limited assurance engagements at smaller authorities.
5.101. If an authority has not taken actions required in the previous year by the external auditor, they should answer 'No' to this assertion.

AGS Assertion 8 — Significant events

5.102. The authority needs to have considered if any events that occurred during the financial year (or after the year-end), have consequences, or potential consequences, on the authority's finances. If any such events are identified, the authority then needs to determine whether the financial consequences need to be reflected in the statement of accounts.
5.103. For authorities accounting on a receipts and payments basis, the review of significant events should cover events that occurred during the financial year to ensure that they have been included in the accounting statements where appropriate.
5.104. For authorities accounting on an income and expenditure basis, the review of significant events should also cover events that occurred after the financial year-end but before the accounting statements are approved by the authority.

AGS Assertion 9 — Trust funds (local councils only)

5.105. Certain local councils have powers to be appointed as trustee of local, usually charitable, trusts and fulfil this role as either custodian or managing trustee.

5.106. Charitable trusts in England are regulated by the Charity Commission which sets out minimum standards of accounting and audit requirements where these are not covered by the Trust Deed. The Charity Commission also requires annual reporting by registered charities.

5.107. The same requirements apply to charities that have re registered as CIOs (Charity Incorporated Organisations). Authorities need to make sure that all returns for all entities are correctly managed.

5.108. A CIC (Community Interest Company) is not a Charity.
Authorities undertaking projects and activities with CICs must be very clear about the separate legal framework that covers these bodies.

5.109. If the authority has disclosed that it is a sole managing trustee it must also complete the associated assertion in the annual governance statement.

5.110. Authorities should ensure that each trust or charity has its own bank account. Only amounts paid and received through that account should appear in the accounts of the charity.

5.111. If, exceptionally, the authority's bank account is used to receive monies intended for the trust or to pay for any expenditure on behalf of a trust (prior to recovery from the trust account), then these transactions, including any irrecoverable VAT, must be included in the AGAR of the authority as being its own receipts/income and payments/expenditure during the year and to the extent that they are yet to be recovered or paid over reconciled as debtor and creditor amounts.

5.112. Where, following legal advice, authorities are wholly managing the assets of a charity, a Memorandum of Understanding should be in place.

5.113. Meetings of the authority when it is acting as charity trustee must take place separately from those of the authority acting as the authority. Separate minutes must be kept. In order to avoid confusion, trust business should always be minuted separately from authority business. Separate notices and agendas for meetings should be issued.

5.114. Charity VAT is covered by VAT Notice 701 which is entirely separate from Notice 749 for smaller authorities. Advice should be sought if there is uncertainty.

5.115. The value of trust property must not be shown in the authority's books of account and on the AGAR as authority property. Trust assets held by the authority as custodian or managing trustee should, however, be recorded in the authority's asset register and identified there as 'charity assets held by the authority as trustee' with their value excluded from the total.

AGS confirmation — website

5.116. It is a requirement of the Freedom of Information Act that public bodies publish certain information on their website.

5.117. All local authorities, regardless of turnover, are covered by the FOIA.

5.118. The website address stated on the AGS is a requirement for all authorities.

5.119. Very small authorities, whether or not they are exempt from external audit, are required to comply with their Transparency Code.
Those authorities with receipts or payments over £25,000 are not required to comply with the Transparency Code(s) but should be aware that FOI requests and AGAR challenges are often linked to a perceived lack of transparency.

Accounting statements

Best practice and examples for each of the lines in Section 2 of the AGAR are as follows:

Reporting on income and expenditure basis

5.120. Current rules require authorities where the gross income or expenditure for the year (whichever is the higher) has exceeded the threshold of £200,000 for a period of three continuous years, to report their financial details on an income and expenditure (I&E) basis, from the third year onwards. Authorities operating below the £200,000 threshold have the option to report either on an income and expenditure basis or on a receipts and payments (R&P) basis.

5.121. For authorities with annual turnovers between £200,000 and £6.5 million the AGAR must be prepared on an I&E basis. In I&E accounts, the transactions for the year comprise all those instances in the twelve months where the authority has received economic benefits or given others economic benefits (irrespective of the year in which they are paid for).

5.122. Authorities producing I&E accounts with debtors, creditors and year end cut-off will generally operate their accounting system using proprietary accounting software. This will enable accurate tracking of transactions that straddle two accounting periods.

5.123. When preparing year-end adjustments, authorities need to take into account

- deciding on a level of materiality for adjustments – income and expenditure needs to be shown fairly, but excessive accuracy is not beneficial
- making sure that a record is retained of the adjustments that were made in preparing the income and expenditure accounts for the previous financial year
- examining entries in the cash book before 31 March for possible receipts in advance and prepayments and entries after 31 March for possible debtors and creditors
- examining invoices after 31 March for possible debtors and creditors
- considering whether the authority has any other obligations arising from events that took place before 31 March that mean it will not be able to avoid making a payment at some time after 31 March.

5.124. In I&E accounts the amounts of VAT collected from customers, paid to suppliers, and payable to, or repayable from, HMRC will be posted to a balance sheet account

which will result in a creditor due to, or debtor from, HMRC. In this situation, all entries on the AGAR will be net of VAT (goods value only).

5.125. If officers are unclear, they should seek advice at the time from membership bodies and professional advisers.

Reporting on receipts and payments basis

5.126. The R&P basis requires authorities only to consider their actual bank and cash transactions. The entries for the AGAR will usually be taken straight from the summary totals in the cash book

5.127. In R&P accounts, any VAT charged to customers and the VAT refund received from HMRC will be included in Line 3 (total other receipts).

5.128. The amount of VAT paid to suppliers and any paid to HMRC will be included in Line 6 (all other payments).

5.129. VAT reclaims submitted to HMRC but not received will not appear anywhere on the AGAR.

Joint committees and arrangements

5.130. Some authorities share responsibility for areas of operation such as Burial Grounds. Until 31 March 2015 these committees submitted their own AGAR and all transactions relating to them were excluded from the holding or other controlling authorities.

5.131. This has changed and now each authority is required to include the share of both receipts or income (line 3) and payments or expenditure (line 6) applicable to them according to the joint agreement percentage. It is not acceptable to net the amounts and include only a share of surplus or deficit.

5.132. This percentage may not be equal but should ensure that committee balances are reported in full between the authorities without duplication or omission. It may be beneficial to annually minute the share to ensure that electors and external auditors are informed.

5.133. Authorities also need to account for their share of the bank balance (in line 8) and the reconciliation figure in either earmarked reserves (line 7) or for those using an I&E basis as a debtor or creditor in the line 7 to line 8 reconciliation.

5.134. Joint arrangements are not bodies corporate and may not own assets, hold bank accounts in their own name, have employees or enter into any form of contract.

5.135. Fixed Assets of joint arrangements and committees should be included in the register of the holding or managing authority as at 1st April 2015, or that of the authority that purchased them subsequently.

5.136. All authorities in a joint arrangement need to communicate with one another. If an original formation document cannot be found, the constituent bodies need to make and record proper decisions about how the arrangement is set up and how the

income, expenditure, assets and liabilities are owned and accounted for in each participating body's AGAR.

5.137. An example of the accounting treatment is as follows (see next page):

Joint committee accounting						
		Large council AGAR I&E	65% share	Committee accounts 100%	35% share	Small council AGAR R&P
Line 1	Brought forward	506,500		10,000		63,500
Line 2	Precept	450,000	0	0	0	30,000
Line 3	Other income	163,000	13,000	20,000	7,000	7,000
Line 4	Wages	160,000	0	0	0	15,000
Line 5	Loan repayments	12,000				
Line 6	Other Payments	359,100	9,100	14,000	4,900	15,250
Non AGAR	Surplus / (deficit) for year			6,000		
Line 7	Carried Forward	588,400	3,900	16,000	2,100	70,250
Reconcile	Committee Creditor / debtor	10,400	3,900			
	Committee EMR				2,100	5,600
Line 8	Bank	598,800		16,000		70,250
Line 9	Fixed assets	4,000,000				150,000
Line 10	Borrowings	90,000				

AGAR Accounting Statements

AGAR Line 1 - Balances brought forward

5.138. This entry should always equal line 7 of the year before.

5.139. This entry should always agree with the final figure confirmed by the external auditor.

5.140. If for any reason (such as accounting basis change) it has been restated or adjusted, this should be noted and an explanation included with the variances.

5.141. Note that where entries are restated, comparatives must also be restated.

AGAR Line 2 - Precept or Rates and Levies

5.142. This entry should include only the precept or levy.
5.143. It should not include any grants or other receipts, even if they are received at the same time from the same source as the precept or levy.
5.144. If there is any doubt about the amount to be included, it should be cross referenced against the figures published by DLUHC.

AGAR Line 3 - Total other receipts

5.145. All receipts that are not the precept go in line 3. This will include grants, self generated income and sundry income. The total of lines 2 and 3 should agree to the total income on the cash book (R&P) or income summary (I&E).
5.146. Proceeds from the disposal of fixed assets by local councils are known as capital receipts and are subject to statutory controls. Such proceeds cannot be used for revenue purposes and can only be used for capital purposes - that is the purchase of fixed assets, the significant enhancement of fixed assets, the making of capital grants, or the repayment of long-term loans. Authorities should keep separate records so that they can demonstrate compliance with this requirement.
5.147. Where the total proceeds from the sale of a fixed asset is below a specified amount, currently £10,000, it is deemed to be de minimis and these requirements do not apply.
5.148. This does not affect the requirement to include such amounts in line 3 when they are received, but is necessary to ensure that the authority complies with the appropriate statutory provisions.
5.149. Proper practices in respect of any Community Infrastructure Levy ('CIL') passed to a local council are set out in Section 2.
5.150. Regulation 62A of the 2010 Regulations sets out special reporting requirements (separate from the AGAR) in respect of CIL receipts and expenditure. In addition, the principal authority may (but need not) recover CIL not spent by the local council within five years of receipt.
5.151. Local councils should therefore keep records of the date and amount of CIL receipts and account for expenditure on a 'first in, first out' basis. CIL and any grants received that are unspent at the year-end should be taken to an earmarked reserve.

AGAR Line 4 - Staff Costs

5.152. Every authority that has any paid officers or staff is required to be registered as an employer with HMRC. Parish Clerks in receipt of remuneration are always employees.

5.153. The amount in line 4 should comprise gross salary, employer's National Insurance, employer's pension contributions and any taxable allowances processed through the payroll.
5.154. Expenses paid to clerks who work from home that would go through line 6 if the council had an office (stationery, mileage etc) should not be included in line 4.
5.155. Payments for agency staff and other contractors should go into box 6.

AGAR Line 5 - Loan interest/capital repayments

5.156. For those authorities with no borrowing, £0 should always be entered in this line.
5.157. For those that have borrowed from the PWLB, the figure will be the capital and interest payments made in the year in accordance with the PWLB repayment schedule. For those authorities accounting under the income and expenditure basis, the amount in Line 5 should be adjusted for the impact of interest accrued (but not paid) at the respective year ends, if material.
5.158. Interest paid on assets held on leases and hire purchase agreements should also be included, but not operating lease fees.

AGAR Line 6 - All other payments

5.159. Every payment made by the authority that is not included in line 4 (wages) or line 5 (loan repayments) should be included in line 6.
5.160. Only payments made by the authority should be included in line 6 – payments made through the bank account of a charity or other body should never be included.
5.161. The total of lines 4, 5 and 6 should agree with the total movements out of the cash book (R&P) or the expenditure summary (I&E) for the year.

AGAR Line 7 - Balances carried forward

5.162. For an authority which prepares its AGAR on the R&P basis, line 7 will always equal line 8. There are no circumstances where they will differ.
5.163. Where an authority prepares its accounts on the I&E basis, the balance sheet total of reserves will not match the bank reconciliation due to debtors, prepayments, creditors and accruals.
5.164. A reconciliation between lines 7 and 8 should be prepared that will always agree to the accounting records.

AGAR Line 8 - Total value of cash and short-term investments

5.165. Short-term investments are defined in paragraph 2.22 of the guide.
5.166. Where an authority holds short-term investments such as deposit or savings accounts, all year-end balances must be reported in detail within the bank

reconciliation and be included in the sum of line 8. Auditors will seek to confirm these account balances from time to time.

5.167. The legal framework for Local Government investments does not categorise individual providers, but at present the CCLA LAPF is classified as a revenue investment.

5.168. If there is any uncertainty as to whether an account classifies as a short- or long-term investment, written advice should be sought in advance of the year-end.

AGAR Line 9 - Total fixed assets plus long-term investments and assets

Fixed assets:

5.169. The term 'fixed assets' mean property, plant and equipment with a useful life of more than one year used by the authority to deliver its services. Fixed assets are also known as non-current assets.

5.170. Fixed assets acquired in any year should be added to the asset register for management purposes. For accounting purposes, acquisitions and disposals of fixed assets should be treated as any other purchase or sale and recorded as part of annual payments or receipts, expenditure, or income.

5.171. Section 2 states that the value of the cell at line 9 is taken from the authority's asset register which is up to date at 31 March and includes all capital acquisition and disposal transactions recorded during the year.

5.172. If for some reason the authority decides that the basis of valuation should be changed, the change must be applied consistently to all relevant classes of fixed assets. In such an event, the value shown in line 9 for the previous year should also be changed to the new basis and clearly marked as 'RESTATED'.

5.173. The authority should provide a justification and explanation for the change in the basis of reporting, which should be recorded in the minutes of the authority. It is not expected that the basis would change more than once or possibly twice.

5.174. Where assets have been revalued either during the year or between the year-end date and the date of approval of the AGAR using an existing basis, the prior year will not need to be restated.

5.175. Assets sited on third party property remain assets of the authority. It is essential that authorities are in possession of documentary evidence of permission to site such assets on third party land. This evidence may consist of a formal lease or simply permission to occupy.

Long-term investments:

5.176. An authority may hold assets in the form of long-term investments. Long-term investments are defined in paragraph 2.25. On acquisition, long-term investments should be recorded in the cash book as expenditure and therefore appear as part of the total in line 6 (all other payments). Any asset created in this way should also be

recorded on the asset register at its purchase cost. At year-end the asset will also appear within the sum at line 9.

5.177. When an authority sells a long-term investment and returns the funds to the bank account, this is treated as income on the AGAR. Such realisations (other than from CCLA's LAPF) if exceeding £10,000, will constitute Useable Capital Receipts. Authorities undertaking such transactions should assess the annual turnover implications before carrying out the transaction.

5.178. Where an authority acquires an investment with a fixed maturity date (for example, a three-year savings bond), the investment should be accounted for as expenditure in the year (line 6) and as an increase in assets and long-term investment (line 9) until its maturity. At maturity, the total (gross) proceeds should be recorded as income in line 3 (total other receipts) and the asset removed from the register. A reinvestment should result from an affirmative decision (whether of council or delegated) and thus constitutes a new transaction.

5.179. Any transaction costs should be recorded as other expenditure in line 6. At maturity, the original acquisition value of the investment asset (which will remain unchanged over its term for the purposes of the AGAR) should be removed from the total in line 9.

5.180. Long-term investments should be recorded in the asset and investments register at original cost at acquisition (the purchase price) which for accounting purposes will remain unchanged until disposal. It is recognised that the market value of long-term investments may change over time; therefore, at each year end, the RFO should make a note in the asset register of the notional market value of each investment as at 31 March to inform readers.

5.181. Any real (crystallised) gain or loss compared to purchase cost will only ever be accounted for at the time of disposal when the total proceeds from the investment will be included in line 3.

5.182. Dividend or interest received should be included in line 3 once received into the bank account or added to the value in line 9 if reinvested.

5.183. When the authority has incurred expenditure by making a loan, grant or other financial assistance to a third party, this transaction should be recorded as an expenditure item in the cash book. Any loan or other repayable amount should be added to the asset and investments register.

5.184. The outstanding amount of any third-party loan at 31 March each year, excluding interest, should be reported in the sum of line 9.

5.185. Any repayment of a loan or part of it, or any interest received should be recorded as an income item in the cash book when received and reported in line 3. This receipt will also be reflected as an increase in line 7 (balances carried forward). Any repayments of loan principal must also be applied to reduce the amount of the loan outstanding on the asset and investments register.

AGAR Line 10 - Total borrowings

5.186. This figure will be the total amount outstanding at 31 March. If the balance includes PWLB loans, total PWLB borrowings at 31 March should agree with the published record.
5.187. The capital value of instalment finance, including HP or leases which have not been classed as borrowing by DLUHC, should not be included here.

AGAR Accompanying information

5.188. Authorities are required to provide to the external auditor certain supporting documentation for the accounting statements in section 2 of the AGAR, where the AGAR is subject to review by the external auditor.
5.189. Each external auditor will specify the information they require and the expected format and communicate directly with the authority. Officers should ensure that their contact details are up to date for this purpose.

Bank reconciliation:

5.190. The template included in this section is acceptable.
5.191. Authorities with more complicated affairs may wish to include more detail.

Explanation of significant variances:

5.192. 'Significant' is defined as "being worthy of attention".
A significant variance is one that would be of interest to the authority and to the public when looking at the figures in Section 2 of the AGAR. As per NAO AGN02, that is more than 15% or over £100,000.
5.193. The purpose of showing comparative values in financial statements is so that the reader can observe and note any changes in levels of activity from one year to the next. The absence of significant variances from one year to the next implies that the authority has continued to provide budgeted services at the same level and approximately at the same cost as previously.
5.194. The reason for providing the explanation of significant variances to the external auditor is to support the auditor's review of the figures in Section 2 and to demonstrate the authority's understanding of its accounts and their movements. Where there are significant differences, the external auditor may be concerned that the figures for the current year could be incorrect.
Authorities will be able to remove this doubt by providing clear and complete narrative and numerical explanations for the differences.
5.195. For example, it is a reasonable expectation that staff costs would rise each year only by the level of wage inflation. Thus, if the entry in line 4 had risen by around the RPI,

this could reasonably be assumed to be attributable to a cost of living increase. However, if the change was significantly higher, then the authority would need to explain the reason for the increase, to demonstrate that a mistake had not been made in recording staff costs.
If the explanation was that the authority had employed more staff or changed officer hours, this should be set out in a summary to be provided to the auditor.

5.196. Any change, or even the absence of change when one might be expected, can be considered as significant and the RFO should be prepared to explain any figure presented in the accounting statements.

5.197. Where the value in line 7 does not equal the value in line 8, this difference should be explained. This difference will only occur in cases where the authority's accounts are presented on an I&E basis.

5.198. In deciding what needs to be explained, authorities should think about noting the following:

- One-off items of spending or income from last year and this year
- Regular items of spending and income where the relevant activity has risen or fallen between the two years or where prices have not changed in line with inflation
- Items of spending and income that used to be regular but which were made for the last time last year and do not feature in the current year (ceased activities and facilities)
- Items of spending and income that were made for the first time in the current year and will be made regularly in future years (new activities and facilities).

5.199. As authorities have no legal powers to hold revenue reserves other than those for reasonable working capital needs, or for specifically earmarked purposes, whenever an authority's year-end general reserve is significantly higher than the annual precept or rates and special levies, an explanation should be provided to the auditor.

Exemption Certificate from External Audit

5.200. Where an authority meets the criteria and wishes to certify itself exempt from a limited assurance review, it will fill out Form 2 of the AGAR which includes the exemption certificate

5.201. The exemption certificate is subject to the same deadlines as all other parts of the AGAR and authorities claiming exemption must ensure that they have approved and published their full AGAR in accordance with the transparency code.

5.202. The exemption certificate is a summary of the figures in the main part of the AGAR. No netting off is permitted to reduce the balances to below the £25,000 limit. Where expenditure has been funded by items such as grants or donations, the receipts and payments may not be netted off.

5.203. Total annual gross income is the sum of lines 2 and 3.

5.204. Total annual gross expenditure is the total of lines 4, 5 and 6.

The importance of secure email systems and GOV.UK

5.205. All authorities except parish meetings must now have an official website. To comply with GDPR, councils should provide official email accounts for their councillors as well as for their clerk and other officers.

5.206. When choosing a domain name for the council's website and emails, many local council websites are appropriately making use of the official GOV.UK domain (for example, ourparishcouncil.gov.uk), with email addresses being linked to that domain.

5.207. Using a GOV.UK domain for your council website and email accounts demonstrates the council's official local government status. Members of the public are increasingly cyber security awareness, so a GOV.UK domain can also help to build trust, and credibility and visibly demonstrates authenticity. Many people will now reasonably expect a local council to have a GOV.UK domain name.

5.208. For the purposes of user management, councils should ensure that the proper officer can add and remove member and staff email accounts. Commercial 'dashboard' email and web systems offer centralised searching of all data contained within the system for effective compliance with GDPR Subject Access Requests and Freedom of Information Requests.

Merged or sub-divided authorities

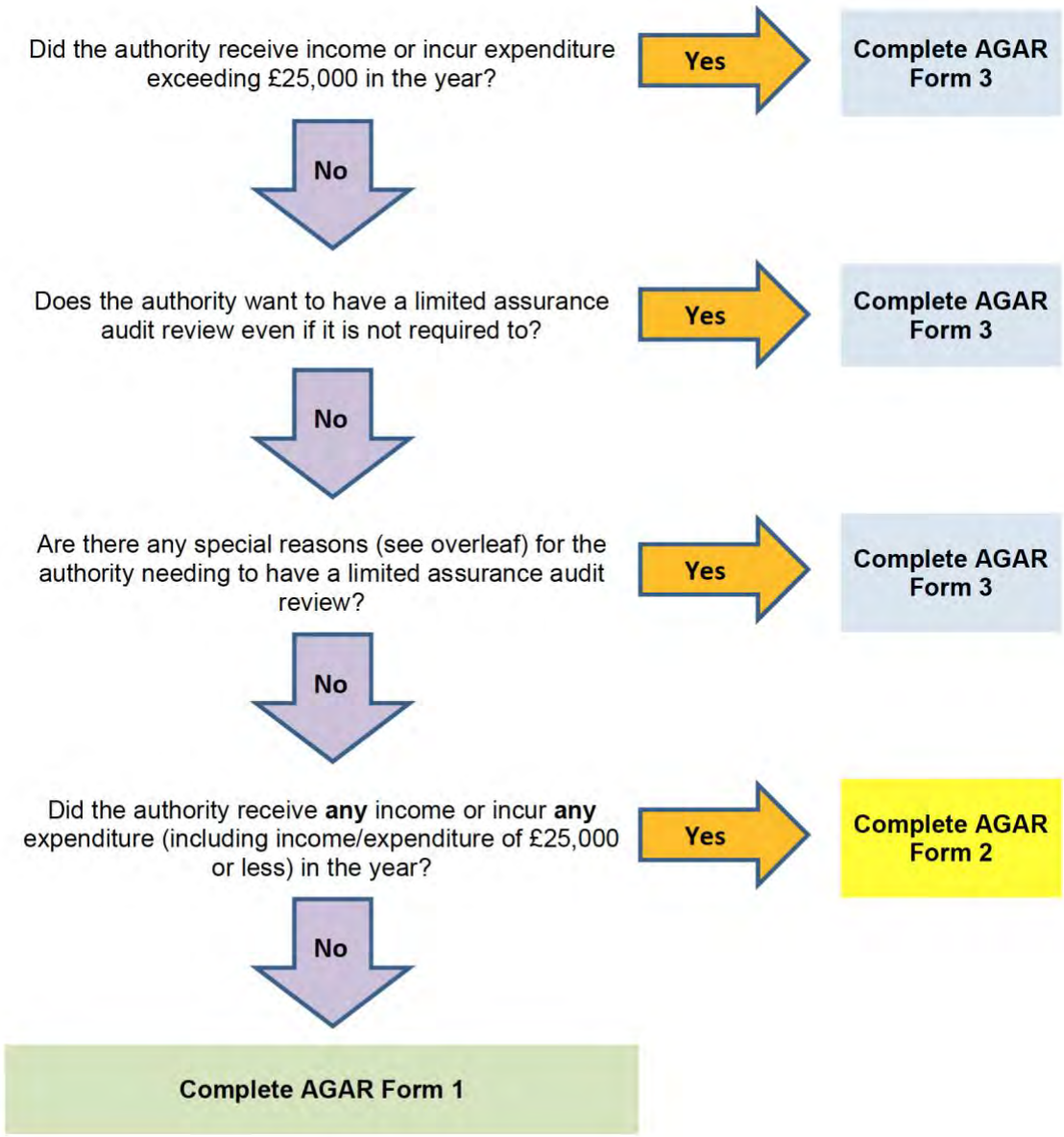
5.209. For information on reporting for merged or sub-divided authorities refer to the information on Combinations of Public Sector Bodies taken from CIPFA's "Code of practice on local authority accounting in the United Kingdom Guidance notes for practitioners' 2020/21." It is provided for guidance only and is not intended to be prescriptive in any way. Authorities should seek their own advice when considering such arrangements.

SECTION SIX — APPENDIX

Annual Governance Statements

Flow chart one — All other authorities

Annual Governance and Accountability Return



Please note that where an authority chooses or is required to complete AGAR Form 3 a fee will be payable

SPECIAL REASONS

If any of these statements is true, the authority must complete AGAR Form 3

1. The financial year is one of the first 3 years of the authority's existence;
2. In relation to the previous financial year, the external auditor:
    a. has issued a public interest report in respect of the authority or any entity connected with it;
    b. has made a statutory recommendation to the authority, relating to the authority or any entity connected with it;
    c. has issued an advisory notice under paragraph 1(1) of Schedule 8 to the Audit and Accountability Act 2014 ("the Act") (other than a notice that has subsequently been withdrawn);
    d. has commenced judicial review proceedings under section 31(1) of the Act; or
    e. has made an application under section 28(1) of the Act for a declaration that an item of account is unlawful (other than an application that has been withdrawn or in respect of which the court has refused to make the declaration); or
3. In relation to the previous financial year, the court has declared an item of account unlawful after a person made an appeal under section 28(3) of the Act.

AGAR Form 1 for authorities other than parish meetings with no income or expenditure

The authority must ensure that before 1 July its Chairman or Responsible Financial Officer (RFO):

1) completes the certificate of exemption and declaration of no accounts (Part 1a, page 2), including:
    a) a confirmation that no income was received nor expenditure incurred;
    b) a statement of annual gross income in the year (0);
    c) a statement of annual gross expenditure in the year (0);
    d) a statement of balances held as at 31 March;
    e) the Chairman's or RFO's signature;
    f) the date on which the certificate of exemption was signed;
    g) the date on which the certificate of exemption was approved (with minute reference);
    h) the Chairman's or RFO's name, address, telephone number and email address; and
    i) the name and address of the external auditor;
2) sends the completed certificate of exemption to the external auditor; and
3) publishes the completed certificate of exemption on a suitable website.

AGAR Form 2 for authorities (other than parish meetings) with neither income nor expenditure exceeding £25,000

The authority must ensure that before 1 July:

1) the certificate of exemption (page 3) is completed and includes:
   a) a statement of annual gross income in the year;
   b) a statement of annual gross expenditure in the year;
   c) the Chairman's and Responsible Financial Officer (RFO)'s signatures;
   d) the date(s) on which the certificate of exemption was signed;
   e) the date on which the certificate of exemption was approved (with minute reference);
   f) a contact telephone number and email address for the authority; and
   g) its website address;
2) the completed certificate of exemption is sent to the external auditor;
3) the internal audit report for the year (page 4) is completed, signed and dated by the internal auditor;
4) the annual governance statement (page 5: Section 1) is:
   a) completed;
   b) formally approved at a meeting of the authority, with date and minute reference inserted; and
   c) signed by the Chairman and Clerk;
5) summary accounting statements (page 6: Section 2) are
   a) completed;
   b) signed and dated by the RFO prior to being presented for approval;
   c) formally approved at a meeting of the authority with date and minute reference inserted; and
   d) signed by the Chairman; and
6) copies of:
   a) the completed certificate of exemption;
   b) the completed, signed and dated annual internal audit report;
   c) the completed, approved, dated and signed annual governance statement;
   d) the completed, approved, dated and signed summary accounting statements;
   e) an analysis of variances
   f) a bank reconciliation;
   g) notice of the period for the exercise of public rights; and
   h) other information required by Regulation 15 (2) of the Accounts and Audit Regulations 2015

   are published on the authority's website or another suitable website.

AGAR Form 3 for smaller authorities not seeking or not eligible for exemption from audit

The authority must ensure that, before 1 July:

1) the internal audit report for the year (page 3) is completed, signed and dated by the internal auditor;
2) the annual governance statement (page 4: Section 1) is:
   a) completed, with an explanation of any 'No' responses and a description of how the authority will address the weaknesses identified;
   b) formally approved at a meeting of the authority, with date and minute reference inserted; and
   c) signed by the Chairman and Clerk;

   and includes the authority's website address, where other information not forming part of the annual governance statement but required by the Transparency Codes may be found;
3) the accounting statements (page 5: Section 2) are
   a) completed;
   b) signed and dated by the Responsible Financial Officer (RFO);
   c) subsequently approved at a meeting of the authority with date and minute reference inserted; and
   d) signed by the Chairman; and
4) the authority's name is entered in the box at the head of the External Auditor Report and Certificate (page 6: Section 3) ; and
5) the RFO has set a date for the commencement of the period for the exercise of public rights;
6) copies of:
   a) the completed annual governance statement (Section 1), signed by the Chairman and Clerk;
   b) the accounting statements (Section 2) signed and dated by the RFO and Chairman;
   c) the External Auditor Report and Certificate (Section 3) showing the name of the authority only;
   d) a bank reconciliation as at 31 March;
   e) an explanation of any significant year-on-year variances in the accounting statements;
   f) notification of the period for the exercise of public rights;
   g) the Annual Internal Audit Report; and
   h) any other documents requested by the auditor

   are sent to the external auditor.
7) copies of:
   a) the completed annual governance statement (Section 1), signed by the Chairman and Clerk; and
   b) the accounting statements (Section 2) signed and dated by the RFO and Chairman

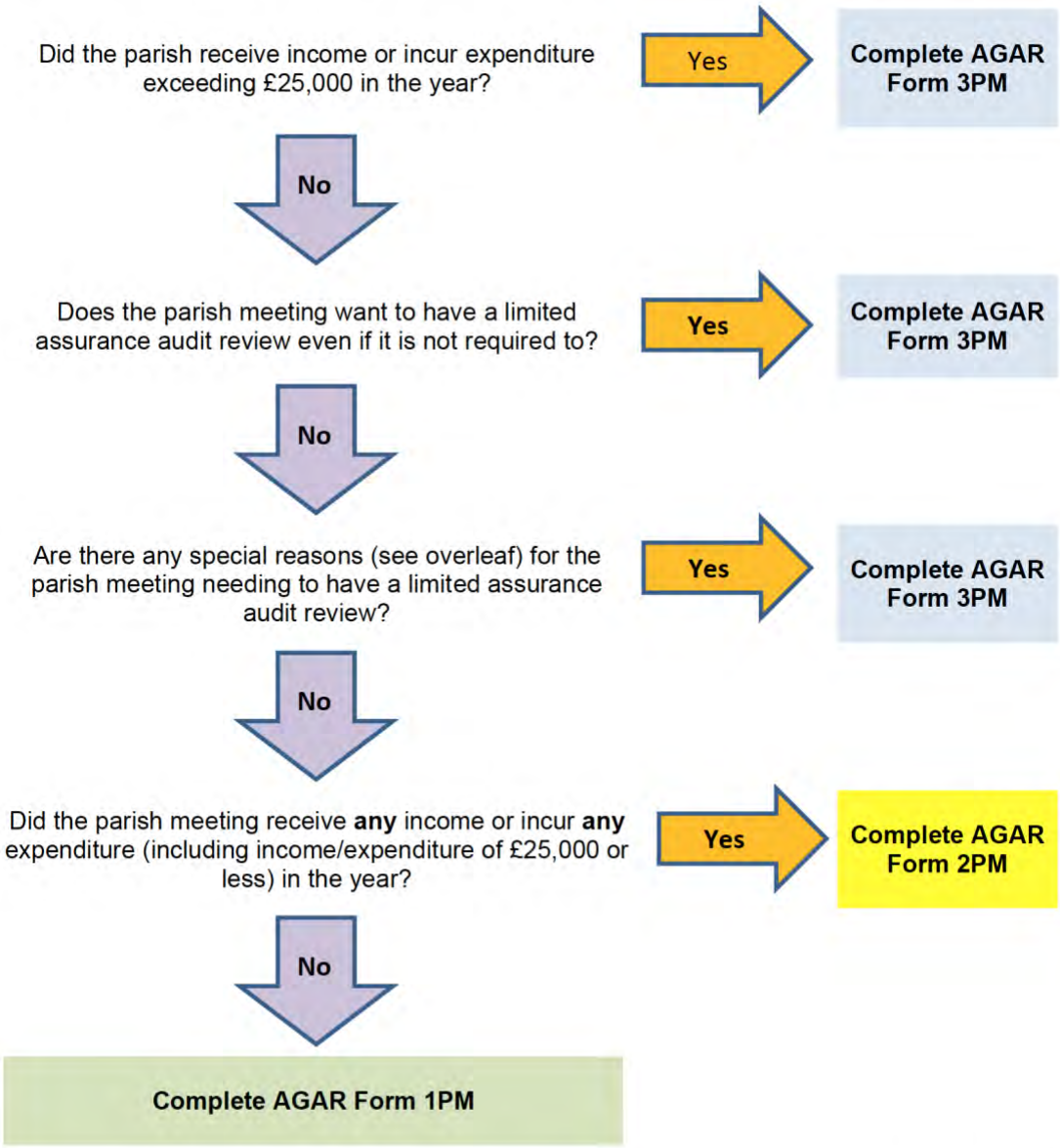
   are published on the authority's website or another publicly accessible website, together with:
   c) notice of the period for the exercise of public rights; and
   d) a declaration that the accounting statements are as yet unaudited.

Once the external auditor has completed and is able to give an opinion on the limited assurance review, the Annual Governance and Accountability Return including a completed Section 3 will be returned to the authority. The authority must then ensure publication on its website (or another suitable website) not later than 30 September of the complete Annual Governance and Accountability Return, comprising Sections 1, 2 and 3, including notice of the conclusion of audit and any amendments made to the accounting statements as a result of the limited assurance review.

Publication of the Internal Audit Report is also recommended.

Flow chart two — Parish meetings

Annual Governance and Accountability Return



Please note that where a parish meeting chooses or is required to complete AGAR Form 3PM a fee will be payable

SPECIAL REASONS

If any of these statements is true the parish meeting must complete AGAR Form 3PM

1. The financial year is one of the first 3 years of the parish's existence;
2. In relation to the previous financial year, the external auditor:
   a) has issued a public interest report in respect of the parish meeting or any entity connected with it;
   b) has made a statutory recommendation to the parish meeting, relating to the parish or any entity connected with it;
   c) has issued an advisory notice under paragraph 1(1) of Schedule 8 to the Audit and Accountability Act 2014 ("the Act") (other than a notice that has subsequently been withdrawn);
   d) has commenced judicial review proceedings under section 31(1) of the Act; or
   e) has made an application under section 28(1) of the Act for a declaration that an item of account is unlawful (other than an application that has been withdrawn or in respect of which the court has refused to make the declaration); or
3. In relation to the previous financial year, the court has declared an item of account unlawful after a person made an appeal under section 28(3) of the Act.

AGAR Form 1PM for parish meetings with no income or expenditure

Before 1 July the Chairman of the parish meeting must:

1) complete the certificate of exemption and declaration of no accounts (Part 1, page 2), including:
   a) a confirmation that no income was received nor expenditure incurred in the year;
   b) a statement of annual gross income in the year (0);
   c) a statement of annual gross expenditure in the year (0);
   d) a statement of balances held as at 31 March;
   e) the Chairman's signature;
   f) the date on which the certificate of exemption was signed;
   g) the Chairman's name, address, telephone number and email address; and
   h) the name and address of the external auditor;
2) send the completed certificate of exemption to the external auditor; and
3) ensure that a copy of the completed certificate of exemption is published on an appropriate website or placed on public display in the local area for a period of at least 14 days.

AGAR Form 2PM for parish meetings with neither income nor expenditure exceeding £25,000

Before 1 July the Chairman of the parish meeting must ensure that:

1) the certificate of exemption (page 3) is completed and includes:
   a) a statement of annual gross income in the year;
   b) a statement of annual gross expenditure in the year;
   c) the signature of the Chairman;
   d) the date on which the certificate of exemption was signed;
   e) the date on which the certificate of exemption was approved (with minute reference); and
   f) the telephone number and email address of the Chairman;
2) the completed certificate of exemption is sent to the external auditor;
3) the internal audit report for the year (page 4) is completed, signed and dated by the internal auditor;
4) the annual governance statement (page 5: Section 1) is:
   a) completed;
   b) formally approved at a parish meeting, with date and minute reference inserted; and
   c) signed by the Chairman;
5) summary accounting statements (page 6: Section 2) are
   a) completed;
   b) signed and dated by the Chairman as Responsible Financial Officer (RFO) prior to being presented for approval;
   c) formally approved at a parish meeting with date and minute reference inserted; and
   d) signed by the Chairman to certify that they have been approved; and
6) copies of:
   a) the completed certificate of exemption;
   b) the completed, signed and dated annual internal audit report;
   c) the completed, approved, dated and signed annual governance statement;
   d) the completed, approved, dated and signed summary accounting statements;
   e) an analysis of variances
   f) a bank reconciliation;
   g) notice of the period for the exercise of public rights; and
   h) other information required by Regulation 15 (2) of the Accounts and Audit Regulations 2015

   are published on an appropriate website or placed on public display in the local area for a period of at least 14 days.

AGAR Form 3PM for parish meetings not seeking or not eligible for exemption from audit

The Chairman of the parish meeting must ensure that, before 1 July:

1) the internal audit report for the year (page 3) is completed, signed and dated by the internal auditor;
2) the annual governance statement (page 4: Section 1) is:
   a) completed, with an explanation of any 'No' responses and a description of how the authority will address the weaknesses identified;
   b) formally approved at a parish meeting, with date and minute reference inserted; and
   c) signed by the Chairman;
3) the accounting statements (page 5: Section 2) are
   a) completed;
   b) signed and dated by the Chairman as Responsible Financial Officer (RFO);
   c) subsequently approved at a meeting of the authority with date and minute reference inserted; and
   d) signed by the Chairman to certify that they have been approved; and
4) the name of the parish meeting is entered in the box at the head of the External Auditor Report and Certificate (page 6: Section 3);
5) the Chairman as RFO has set a date for the commencement of the period for the exercise of public rights;
6) copies of:
   a) the completed annual governance statement (Section 1), signed by the Chairman;
   b) the accounting statements (Section 2) signed by the Chairman as RFO and certified by the Chairman as having been approved;
   c) the External Auditor Report and Certificate (Section 3) showing the name of the authority only;
   d) a bank reconciliation as at 31 March;
   e) an explanation of any significant year-on-year variances in the accounting statements;
   f) notification of the period for the exercise of public rights;
   g) the Annual Internal Audit Report; and
   h) any other documents requested by the auditor

   are sent to the external auditor.
7) copies of:
   a) the completed annual governance statement (Section 1), signed by the Chairman; and
   b) the accounting statements (Section 2) signed and dated by the Chairman as RFO and certified by the Chairman as having been approved

   are published or placed on public display in the local area for a period of at least 14 days, together with:
   c) notice of the period for the exercise of public rights; and
   d) a declaration that the accounting statements are as yet unaudited.

Once the external auditor has completed and is able to give an opinion on the limited assurance review, the Annual Governance and Accountability Return including a completed Section 3 will be returned to the Chairman of the parish meeting.

The Chairman must then ensure that, not later than 30 September, the complete Annual Governance and Accountability Return, comprising Sections 1, 2 and 3, including notice of the conclusion of audit and any amendments made to the accounting statements as a result of the limited assurance review, is published on an appropriate website or placed on public display in the local area for a period of at least 14 days.

Publication of the Internal Audit Report is also recommended.

Example Financial Risk Management template

A simple risk register might look something like this:

Happyville Town Council — Financial Risk Management Record

Risk area	Risk identified	Level of risk (H/M/L)	Management of risk	Action required	Review date
Section one: Areas where there may be scope to use insurance to help manage risk					
Property and contents owned by the council	Loss or damage	H	An up-to-date register of assets and investments	Review quarterly by council, annually by IA Check website list correct as of ****	
Damage to third party property or individuals	Public liability	H	Property maintenance and insurance cover	Insurance held with ****, renewal date of ****, reviewed by council on **** and by IA	
Consequential loss of income or the need to provide essential services following critical damage, loss or non-performance by a third party	Public liability	H	Annual review of risk and the adequacy of cover	Value of insurance ****, held with ****, reviewed annually by council on **** and by IA	
Loss of cash through theft or dishonesty	Fidelity guarantee	L		Level **** , who with ****, internal controls checked by council on **** and IA	
Legal liability as a consequence of asset ownership	Public liability	H	Property maintenance and insurance cover	Level of cover ****, renewal date ****, mtce schedule reviewed on ****, inspection regime by ****	
Section two: Working with others to help manage risk					
Security for vulnerable buildings, amenities or equipment		M		Inspection regime – councillors and paid inspectors reviewed ****,	

				reporting systems	
The provision of services being carried out under agency/partnership agreements with principal authorities	Standing orders and financial regulations dealing with the award of contracts	L		Reviewed quarterly by council annually (last on ****) by IA all partner's risk assessed and multiple quotes obtained and compared in minutes (check web entries clear)	
Banking arrangements, including borrowing or lending	Detect and deter fraud or corruption	L		Financial regs and IA review on ****	
Ad hoc provision of amenities/facilities for events to local community groups	Public Liability	L		Ask all for hirers insurance, financial regulation	
Vehicle or equipment lease or hire		L		Hire from reputable companies, monitor by council	
Trading units (leisure centres, playing fields, burial grounds, etc.	External contractors for maintenance	L		Or staff used – budget monitoring, employment law followed	
Professional services (architects, accountancy, design, etc.)	Standing orders and Financial regs deal with the awarding of contracts	L		County association for legal or use **** IA reviewed regularly, others based on best available advice reviewed ****	
Section three: Self-managed risk					
Proper financial records	In accordance with statutory requirements	L		Review quarterly by	

				Cllrs, annually by IA	
Business activities	Ensuring that they are within the legal powers of councils	L		IA review on receipt and at half year and regular reference to legislation and guidance	
Borrowing	Complying with restrictions	L		IA review and council checked on ****	
Employment law and Inland Revenue regulations	Ensuring that requirements are met	L		IA review and use bureau ****	
VAT	Ensuring that requirements are met under HMRC regulations	L		IA review and advice taken as needed from ****	
Annual precept	Ensuring adequacy within sound budgeting arrangement	L		IA review and budget published on web on ****	
Monitoring of performance		L		Councillors review budget and policies quarterly at dates ****	
Grants	Ensuring proper use of funds granted to local community bodies under specific powers, s137 or GPC	L		All grants based on approved form (last updated ****) and supporting information, minuted and checked by IA	
Council minutes	Proper, timely and accurate reporting of council business in the minutes	L		Posted on website for public to see With full agenda packs as per Transparency Code and IA review	

Rights of inspection		L		Website / policies updated ****	
Document control	Proper systems	L		Policies approved and published ****	
Register of Members' Interests and Gifts and Hospitality	In place, complete, accurate and up-to-date	L		IA and district council review web links checked ****	
Compliance with Transparency Code		L		Stay up to date with legislative changes most recent minute ****	

TERMS OF REFERENCE

1.1 The Joint Panel on Accountability and Governance (JPAG or 'the Panel') is established jointly by the National Association of Local Councils (NALC), the Society of Local Council Clerks (SLCC) and the Association of Drainage Authorities (ADA) for the purpose of preparing, maintaining, developing and issuing from time to time a Practitioners' Guide to proper practices to assist smaller authorities in England to prepare accounting and governance statements in the form of an annual return as set out in legislation, hereinafter referred to as the Annual Governance and Accountability Return.

1.2 JPAG's terms of reference are:

(i) To support NALC, SLCC and ADA in preparing, maintaining and publishing the Practitioners' Guide.

(ii) To keep under review, advise on the need for changes or updates, consult and, following due process, approve changes or updates to the Practitioners' Guide and Annual Governance and Accountability Return (except the auditor's report, which is determined by the NAO).

(iii) To support Smaller Authorities Audit Appointments Ltd (SAAA) in producing the Annual Governance and Accountability Return.

1.3 The preparation, maintenance and development of the Practitioners' Guide will focus in the main on the requirement for small bodies to meet statutory accounting and reporting requirements laid out in statute. In meeting its terms of reference in 1.2, JPAG will have regard to relevant UK Generally Accepted Accounting Practices ('UKGAAP') as adapted for public sector circumstances.

Due process for the preparation and maintenance of the Practitioners' Guide

2.1 JPAG shall keep under review the Practitioners' Guide. In particular it shall consider at least annually:

- Any implications for the Practitioners' Guide brought to its attention by any of the Panel members.
- Any developments in the public sector that suggest further guidance on accounting and related governance matters at smaller authorities is desirable.

2.2 At the behest of JPAG the Chair shall notify NALC, SLCC and ADA as soon as practicable of proposals to update the Practitioners' Guide and a planned timetable.

2.3 Drafting of the Practitioners' Guide, or any changes to the Practitioners' Guide, is overseen and approved by JPAG. The process should ensure the participation of representatives of each of the Panel members, external auditors of smaller authorities, relevant government departments and independent outsiders on behalf of the wider public interest as required.

2.4 JPAG may, as circumstances require, establish sub-groups to consider individual issues or tasks. These sub-groups shall conduct their meetings in accordance with

terms of reference set by the Panel. The sub-groups may, where necessary, invite appropriately qualified experts to join their sub-group subject to the terms of reference for the sub-group.

2.5 JPAG shall conduct its proceedings in an open way and follow due process:

- Before publishing any Practitioners' Guide, or any significant changes to the Practitioners' Guide, JPAG shall invite comment by means of a published exposure draft and invitation to comment explaining the proposals.
- The period for responses shall be at least six weeks. NALC, SLCC and ADA shall issue the exposure draft and invitation to comment, which may include publication on a relevant website or websites, and publicise the consultation among their practitioners.
- In addition, the Panel shall also inform external auditors of smaller authorities and relevant government departments about the consultation.

2.6 The invitation to comment included with exposure drafts shall state that comments will be regarded as capable of being placed on the public record, unless confidentiality is requested, so that NALC, SLCC and the ADA can publish comments or summaries of comments.

2.7 The Practitioners' Guide is recognised by relevant government departments as the authoritative source for smaller authorities in England on proper practices for accounting and governance and in preparing an annual return. It is intended to be written as a complete single-source document that does not require further interpretation. JPAG is therefore not responsible for reviewing or approving any further guidance or application notes issued by any other body, individual or organisation.

2.8 Within the Practitioners' Guide, JPAG may include additional information and examples that are not proper practices within the meaning set out in statute. Any such content must be clearly identified within separate sections of the Practitioners' Guide.

Composition

3.1 The members of JPAG are:

- the chair (see section 4 below)
- 1 nomination each from NALC, SLCC and ADA;
- 1 nomination each from DLUHC, DEFRA, the NAO and CIPFA; and
- 1 additional nomination from NAO for a representative of external auditors for smaller authorities.

3.2 One member of the Panel shall be appointed as vice-chair.

3.3 The Panel may elect to co-opt up to two further independent members; such co-options to be agreed by the members of the Panel listed at 3.1 by a simple majority vote.

Chair

4.1 The chair is selected by JPAG from nominations received from NALC, SLCC and ADA. It is not mandatory for any nominee to be a member of the nominating body and once appointed the chair shall act independently of any nominating body.

4.2 The appointment is for a fixed-term renewable of 3 years with a maximum term of 6 years.

4.3 The chair is not an office of profit and carries no remuneration.

Support functions

5.1 JPAG will determine, from time to time, the key delegated functions that include, inter alia:

- JPAG governance and secretarial arrangements — maintaining Terms of Reference; membership issues including appointments; arranging meeting dates and venues; servicing meetings including preparing and distributing papers, taking minutes and dealing with related correspondence; and maintaining any website.
- The Practitioners' Guide — managing and coordinating the revision and update cycle and associated consultations; and arranging for publication by the sector bodies.
- The Annual Governance and Accountability Return — SAAA is responsible for designing, managing and coordinating the annual review and producing the Annual Governance and Accountability Return in line with the Practitioners' Guide and the Accounts and Audit Regulations, consulting JPAG members, submitting to JPAG for approval in accordance with paragraph 1.2(ii), arranging and paying for the distribution of the annual governance and accountability return to the audit firms for onward distribution to smaller authorities.
- Technical support — Technical queries from practitioners, audit firms and government departments will be, in the first instance, directed to the appropriate body (NALC, SLCC, ADA, NAO, DLUHC or DEFRA). Where the appropriate body is unable to provide a definitive response, it will then refer the matter to the JPAG Chair or a sub-group of JPAG set up for that purpose in accordance with section 2.4 herein. The JPAG Chair or sub-group will keep a record of all issues raised and, where the requirements of the Practitioners' Guide are not explicit, agree on a common recommended approach to be communicated to JPAG members and included in proposals for the next update to proper practices. Where the issue concerns public inspection rights, the appropriate body will direct any audit queries from the general public to the NAO's Guide to Electors Rights publication (Local authority accounts: a guide to your rights), and, if appropriate, to the SAAA website, which provides contact details for any opted-in smaller authority's independently appointed external auditor. The bodies will refer any accounting queries from the general public to the Practitioners' Guide.

5.2 JPAG may reasonably remunerate work for delegated functions, which, if approved by SAAA, will be paid for by SAAA.

Panel appointments

6.1 Appointments to JPAG are made by nomination from:

- NALC for the NALC nominee
- SLCC for the SLCC nominee
- ADA for the ADA nominee
- NAO for the NAO nominee and the nominee to represent an external auditor's view
- CIPFA for the CIPFA nominee
- DLUHC for a technical smaller authority accounting nominee
- DEFRA for a technical smaller authorities/IDBs accounting nominee and are subject to the governance arrangements of those bodies. All nominations are personal to the individuals concerned – substitutions for particular meetings may only be made with the consent of the Chair which shall not be unreasonably withheld.

6.2 The Panel may invite other persons to attend meetings of the Panel or its sub-groups on an ad-hoc (non-voting) basis to advise on specific issues or projects, or as observers.

Conduct of meetings

7.1 As noted in paragraph 2.5, JPAG shall conduct its proceedings in an open way and follow due process.

7.2 Members and observers must not use their position for personal gain in either business, political or social relationships. Therefore, a member or observer who has, or maybe perceived to have, such a personal interest in a particular matter under consideration should declare that interest and withdraw from all discussions relating to it. In addition, members should take no part in any vote on such a matter.

7.3 Each meeting of JPAG shall allow its members and observers the opportunity to declare any interest that is relevant to the issues discussed at the meeting.

7.4 The minutes of the JPAG meeting shall be agreed by the Panel members as soon as possible after the meeting and may be published by agreement of the Panel.

Panel meeting frequency and agendas

8. 1 JPAG will meet as required but as a minimum twice per year. Meetings are scheduled in advance but may be changed by agreement. Additional meetings may be held by agreement. Meetings may be arranged to be held virtually by consensus.

8.2 Work between meetings is progressed through delegated functions, agreement by electronic communication, meetings of groups progressing specific items, and in consultation with the chair.

Quorum

9.1 A quorum for meetings is five members and must include a member from two of the three NALC, SLCC and/or ADA organisations. A quorum may include members attending by telephone or video conference.

9.2 Non-quorate meetings may discuss and formally note matters for future report to the next meeting of the Panel, but have no executive authority. Urgent decisions, at the chair's discretion, should be dealt with by correspondence with members.

COMPLETING THE AGAR: A STEP-BY-STEP GUIDE

A. All authorities (other than parish meetings)

AGAR Form 1	Between 1 April and 30 June		Before 1 July
For authorities with no financial transactions	**STEP 1**	A meeting of the authority is held	The authority publishes the Declaration of No Accounts and Certificate of Exemption
	STEP 2	The Declaration of No Accounts and Certificate of Exemption is completed, approved by the authority and signed by the Chairman or RFO	
	STEP 3	The authority sends the Declaration of No Accounts and Certificate of Exemption to the External Auditor	

AGAR Form 2	Between 1 April and 30 June			Before 1 July
For authorities wishing to declare themselves exempt	**STEP 1**	The Accounting Statements (Section 2) are prepared and signed by the RFO		The authority publishes: a) the Annual Internal Audit Report; b) the Annual Governance Statement; c) the Accounting Statements; d) an analysis of any significant year on year variances; e) a bank reconciliation as at 31 March; f) a copy of the Certificate of Exemption; g) details of the arrangements for the exercise of public rights; and h) the name and address of the External Auditor
	STEP 2	A meeting of the authority is held at which:		
		STEP 2.1	The Annual Internal Audit Report is received and noted	
		STEP 2.2	The Annual Governance Statement (Section 1) is approved	
		STEP 2.3	The Accounting Statements (Section 2) are approved	
		STEP 2.4	The Certificate of Exemption is approved	
	STEP 3	Following approval, the Chairman and Clerk of the meeting sign the Annual Governance Statement and the Chairman signs the Accounting Statements		
	STEP 4	The RFO sets the commencement date for the exercise of public rights		
	STEP 5	The Certificate of Exemption is signed by the RFO and Chairman		
	STEP 6	The authority sends the Certificate of Exemption to the External Auditor		

<table>
<tr><th>AGAR Form 3

For authorities unable to declare themselves exempt or requesting a limited assurance review</th><th colspan="3">Between 1 April and 30 June</th><th>Before 1 July</th><th>Before 1 October</th></tr>
<tr><td rowspan="8"></td><td>STEP 1</td><td colspan="2">The Accounting Statements (Section 2) are prepared and signed by the RFO</td><td rowspan="8">The authority publishes:
a) the Annual Internal Audit Report (recommended but not mandatory);
b) the Annual Governance Statement;
c) the Accounting Statements;
d) a declaration that the accounts are as yet unaudited;
e) details of the arrangements for the exercise of public rights; and
f) the name and address of the External Auditor</td><td rowspan="8">The authority publishes:
a) notice of the conclusion of the audit;
b) the Annual Governance Statement (including any amendments as a result of the limited assurance review);
c) the Accounting Statements (including any amendments as a result of the limited assurance review); and
d) the External Auditor Report and Certificate</td></tr>
<tr><td rowspan="4">STEP 2</td><td colspan="2">A meeting of the authority is held at which:</td></tr>
<tr><td>STEP 2.1</td><td>The Annual Internal Audit Report is received and noted</td></tr>
<tr><td>STEP 2.2</td><td>The Annual Governance Statement (Section 1) is approved</td></tr>
<tr><td>STEP 2.3</td><td>The Accounting Statements (Section 2) are approved</td></tr>
<tr><td>STEP 3</td><td colspan="2">Following approval, the Chairman and Clerk of the meeting sign the Annual Governance Statement and the Chairman signs the Accounting Statements</td></tr>
<tr><td>STEP 4</td><td colspan="2">The RFO sets the commencement date for the exercise of public rights</td></tr>
<tr><td>STEP 5</td><td colspan="2">The authority sends to the External Auditor:
a) the Annual Internal Audit Report;
b) the Annual Governance Statement;
c) the Accounting Statements;
d) an analysis of any significant year on year variances;
e) a bank reconciliation as at 31 March;
f) details of the arrangements for the exercise of public rights; and
g) any other information that the auditor has specifically requested.</td></tr>
</table>

COMPLETING THE AGAR: A STEP-BY-STEP GUIDE

B. Parish meetings (where there is no parish council)

AGAR Form 1PM	Between 1 April and 30 June		Before 1 July
For parish meetings with no financial transactions	**STEP 1**	A parish meeting is held	The Chairman either publishes or places on public display the Declaration of No Accounts and Certificate of Exemption
	STEP 2	The Chairman completes the Declaration of No Accounts and Certificate of Exemption	
	STEP 3	The Chairman sends the Declaration of No Accounts and Certificate of Exemption to the External Auditor	

AGAR Form 2PM	Between 1 April and 30 June			Before 1 July
For parish meetings wishing to declare themselves exempt	**STEP 1**	The Accounting Statements (Section 2) are prepared and signed by the Chairman		The Chairman either publishes or places on public display: a) the Annual Internal Audit Report; b) the Annual Governance Statement; c) the Accounting Statements; d) an analysis of any significant year on year variances; e) a bank reconciliation as at 31 March; f) a copy of the Certificate of Exemption; g) details of the arrangements for the exercise of public rights; and h) the name and address of the External Auditor
	STEP 2	A parish meeting is held at which:		
		STEP 2.1	The Annual Internal Audit Report is received and noted	
		STEP 2.2	The Annual Governance Statement (Section 1) is approved	
		STEP 2.3	The Accounting Statements (Section 2) are approved	
		STEP 2.4	The Certificate of Exemption is approved	
	STEP 3	Following approval, the Chairman signs the Annual Governance Statement and Accounting Statements		
	STEP 4	The Chairman sets the commencement date for the exercise of public rights		
	STEP 5	The Chairman signs the Certificate of Exemption		
	STEP 6	The Chairman sends the Certificate of Exemption to the External Auditor		

<table>
<tr><th>AGAR Form 3PM

For parish meetings unable to declare themselves exempt or requesting a limited assurance review</th><th colspan="3">Between 1 April and 30 June</th><th>Before 1 July</th><th>Before 1 October</th></tr>
<tr><td rowspan="8"></td><td>STEP 1</td><td colspan="2">The Accounting Statements (Section 2) are prepared and signed by the Chairman</td><td rowspan="8">The Chairman either publishes or places on public display:
a) the Annual Internal Audit Report (recommended but not mandatory);
b) the Annual Governance Statement;
c) the Accounting Statements;
d) a declaration that the accounts are as yet unaudited;
e) details of the arrangements for the exercise of public rights; and
f) the name and address of the External Auditor</td><td rowspan="8">The Chairman either publishes or places on public display:
a) notice of the conclusion of the audit;
b) the Annual Governance Statement (including any amendments as a result of the limited assurance review);
c) the Accounting Statements (including any amendments as a result of the limited assurance review); and
d) the External Auditor Report and Certificate</td></tr>
<tr><td rowspan="4">STEP 2</td><td colspan="2">A parish meeting is held at which:</td></tr>
<tr><td>STEP 2.1</td><td>The Annual Internal Audit Report is received and noted</td></tr>
<tr><td>STEP 2.2</td><td>The Annual Governance Statement (Section 1) is approved</td></tr>
<tr><td>STEP 2.3</td><td>The Accounting Statements (Section 2) are approved</td></tr>
<tr><td>STEP 3</td><td colspan="2">Following approval, the Chairman signs the Annual Governance Statement and Accounting Statements</td></tr>
<tr><td>STEP 4</td><td colspan="2">The Chairman sets the commencement date for the exercise of public rights</td></tr>
<tr><td>STEP 5</td><td colspan="2">The Chairman sends to the External Auditor:
a) the Annual Internal Audit Report;
b) the Annual Governance Statement;
c) the Accounting Statements;
d) an analysis of any significant year on year variances;
e) a bank reconciliation as at 31 March; and
f) details of the arrangements for the exercise of public rights.</td></tr>
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