



Llywodraeth Cymru
Welsh Government

Guidance on

The Accounts and Audit

(Wales) Regulations 2014

February 2015

Welsh version

We have to prioritise our use of the finite translation resources available to the Welsh Government. Unfortunately, on that basis, we are unable to provide a Welsh version of this document. This is because other items have been given a higher priority rating and have thus taken precedence in the allocation of resources. The approach for setting priorities is set out in the Welsh Language Scheme for the Welsh Government prepared in accordance with section 78 of the Government of Wales Act 2006 and section 21 of the Welsh Language Act 1993 and in accordance with guidelines issued by the Welsh Language Board under section 9 of the Act.

Contents

- Introduction 4
 - Definition of a smaller relevant body 5
 - Definition of a larger relevant body 5

- Section A..... 7
 - The Accounts and Audit (Wales) Regulations 2014 as they apply to larger relevant bodies..... 7

- Section B..... 15
 - The Accounts and Audit (Wales) Regulations 2014 as they apply to smaller relevant bodies..... 15

Guidance on the Accounts and Audit (Wales) Regulations 2014

Introduction

1. This guidance has been produced following the making of the Accounts and Audit (Wales) Regulations 2014 and supersedes the previous guidance notes issued by the Welsh Government in April 2005 and March 2010.
2. The purpose of this guidance is to assist relevant bodies in their operation of the accounting regime under the Accounts and Audit (Wales) Regulations 2014 (the Regulations). The power to make the Accounts and Audit Regulations is contained in Section 39¹ and 58² of the Public Audit (Wales) Act 2004 (the 2004 Act).
3. The guidance is produced to accompany the Regulations and is not intended to be a part of the statutory framework in the same way that it would have been were it made under express statutory authority such as exists in Section 39 and 58 of the 2004 Act. It is instead an informal commentary and provides details of where generally recognised published codes setting out proper practice may be found. The guidance is intended to facilitate, or be conducive or incidental to the exercise of the aforementioned functions set out in the 2004 Act, and therefore Section 71 of the Government of Wales Act 2006 provides the appropriate statutory authority for its issue.
4. The interpretation of the Regulations or any other legislation is, of course, ultimately a matter for the courts. Where matters of statutory interpretation arise relevant bodies should obtain their own legal advice as necessary. It is felt that it would be helpful to bodies if the Welsh Government indicates the intention behind the drafting of some of the current Regulations. This guidance seeks to give such indication. It also seeks to give additional advice on the issue of proper practice and details of

¹ Section 39 of the 2004 Act allows the Assembly to make provision for

(a) the keeping of accounts

(b) the form, preparation and certification of accounts and statements of accounts

(c) the deposit of accounts of a body at the offices of the body or at another place

(d) the publication of information relating to the accounts and the publication of statements of accounts

(e) the exercise of electors rights of objection or inspection.

² Section 58 of the 2004 Act sets out the powers in Part 2 of the Act to make orders and regulations.

where generally recognised published codes setting out proper practices may be found.

5. The remaking of the Regulations has restructured the provisions to separate out provisions applying to smaller and larger relevant bodies in order that proper (accounting) practices relating to the annual accounts can be defined for those entities. To facilitate the division, definitions of a smaller and larger relevant body has been provided within the Regulations.

Definition of a smaller relevant body

6. The definition of a smaller relevant body has been provided to include;
 - i. a community council³
 - ii. a committee of a county or county borough council (including joint committee)
 - iii. a port health authority
 - iv. an internal drainage board or
 - v. a conservation board

7. To be classified as a smaller relevant body, the new Regulations provide that a body must have gross income or expenditure (whichever is higher) of not more than £2.5 million in the year of account or in either of the two preceding years.

Definition of a larger relevant body

8. The definition of a larger relevant body has been provided to include;
 - i. a county or county borough council
 - ii. a fire and rescue authority
 - iii. a national park authority
 - iv. a police and crime commissioner
 - v. a chief constable and
 - vi. a body which is listed in the definition of a smaller relevant body but does not meet the qualifying criteria (i.e. the £2.5m threshold)

9. The new Regulations also define proper practices for port health authorities as the 'Governance and accountability for Local Councils in Wales: A practitioners Guide 2011'.

³ Community Council means a community or town council in accordance with section 27 of the Local Government 1972 Act.

10. This guidance has been separated into section A, which applies to larger relevant bodies and section B which provides guidance for smaller relevant bodies in Wales.

Section A

The Accounts and Audit (Wales) Regulations 2014 as they apply to larger relevant bodies

Regulation 5 – Responsibility for internal control and financial management

11. The Welsh Government wishes to emphasise that internal control, financial and risk management are corporate responsibilities which must be embedded in the processes of the relevant body as a whole.
12. A body is responsible, as part of its corporate responsibility, for internal control including the financial management, and risk management systems of the body. This is in line with best practice in the private sector and elsewhere in the public sector. The body should review at least once a year the effectiveness of its internal control systems and the findings must be considered by the body meeting as a whole or by a committee.
13. The regulation indicates the body or committee must approve a ‘Statement on Internal Control’ prepared in accordance with proper practices.
14. The Welsh Government accepts that relevant bodies will prepare an annual governance statement on internal control. However the Regulations cannot make reference to an Annual Governance Statement as to do so would exceed Welsh Ministers powers to make Regulations in relation to accounts. It should be noted that CIPFA’s *“Delivering Good Governance in Local Government: Framework”* is considered by the Welsh Government to best represent proper practices in relation to the statement of internal control which requires an annual governance statement to be produced.
15. The internal control statement as required by Regulation 5(4) is to accompany the financial statements, rather than being included with the accounting statements. This change makes clear it is not part of the statement on which the auditors’ opinion is given. But note that para 37 of the Auditor General’s Code of Audit Practice states: Auditors will provide assurance on the effectiveness of governance arrangements and, where appropriate, on other issues of public interest. To this end, auditors will:

review governance statements to confirm these are consistent with the audited financial statements and other information of which they are aware. The Welsh Government recommends the statement is published at the time the unaudited annual accounts are signed and dated by the responsible financial officer.

16. To allow greater emphasis to be placed on the statement of internal control the Welsh Government recommends it be presented to the body or committee for review no later than the meeting before that which will approve the annual accounts, (with approval at the same meeting).

Regulation 6(1) – Accounting records and control systems

17. This regulation indicates when responsible financial officers make their determinations on the accounting records, financial transactions and the accounting control systems; they do so, on behalf of the relevant body.
18. It also includes clarification that the Responsible Financial Officer (RFO) shall determine, on behalf of its body, the accounting records and control systems in accordance with his/her professional responsibilities and judgement on the application of best practice. This regulation clarifies that the responsible financial officer will ensure that the accounting records and control systems should accommodate any legal requirements of the relevant body.
19. Sections 21 and 22 of the Local Government Act 2003 (the 2003 Act) allow the Welsh Government to make provisions about the proper accounting practices to be followed by local authorities. This has been brought forward under the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 (SI No.3239 (W.319)) as amended. Proper practices for larger relevant bodies, for the purposes of Section 21(2) (of the 2003 Act) accounting practices defined by two Codes of Practice (as published for the relevant financial year), these are:
 - i. the Code of Practice on Local Authority Accounting in the United Kingdom, a Statement of Recommended Practice (the SORP) produced by the CIPFA/LASAAC Joint Committee - this title was applicable up to 31/3/2010 but was renamed after 1/4/2010 as the 'Code of Practice on Local Authority Accounting in the UK ("The CIPFA Accounting Code"); and

- ii. CIPFA's Best Value Accounting Code of Practice (BVACOP) - this title was applicable up to 31/3/2011 but was renamed after 1/4/2011 as the Service Reporting Code of Practice (SeRCOP).

20. The CIPFA Accounting Code sets out the accounting principles and practices required to prepare a statement of accounts. Regulation 10 requires the RFO to certify that the statement of accounts presents a true and fair view of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year. However, it is for the responsible financial officer to make appropriate decisions in accordance with his/her professional judgement, best and proper practices and the requirements of Regulation 6 about the accounting records and control systems of the body.

Regulation 7 – Internal audit

21. Reference in the regulations to proper internal audit practices has been removed as these have not been defined in legislation.

22. The Welsh Government draws relevant bodies' attention however to the Public Sector Internal Audit Standards (PSIAS) which came into force on 1 April 2013 and are applicable to all public sector bodies in the UK. PSIAS include a definition of Internal Auditing and provides detail on the main areas where internal audit activity must contribute to improvement including governance, risk management and internal control.

23. The Welsh Ministers powers to make regulations under section 39 of the 2004 relate to a) the keeping of accounts b) form, preparation and certification of accounts c) deposit of accounts and d) exercise of rights of objection and inspection at audit of those accounts. Incorporation of the PSIAS and references to risk management and governance exceed the powers of section 39 and therefore cannot be specified in the regulations.

24. Regulations 7(3) & (4) provide the requirement for a larger relevant body to conduct a review of the effectiveness of its internal audit, at least once in each year, the findings of which must be considered by the body or committee as part of the system of internal control. The findings will be used to inform its statement on internal control as set out regulation 7(4) and may also be used as appropriate to inform the quality improvement and assessment process as set out in the Public Sector Internal Audit Standards 1300 to 1312.

Regulation 8 – Statement of accounts

25. Paragraph 19 of this Guidance explains that for the purposes of Section 21(2) of the 2003 Act, accounting practices for larger relevant bodies are defined by two Codes of Practice; the CIPFA Accounting Code and SeRCOP. Therefore in relation to this Regulation, the preparation of statements of accounts and the list of statements for larger relevant bodies' proper practice may be found in the Code. SeRCOP provides definition to the services and the costs of those services included in the statement of accounts.
26. A change to regulation 8(1) removes the requirement for the body to produce an Explanatory Foreword with the statement of accounts. This will allow the requirements for a management commentary to be stipulated by proper practices, namely the CIPFA Accounting Code. This Code is currently being reviewed with changes expected in the near future.

Regulation 9 - Declaration of remuneration notes

27. Remuneration reporting requirements comprise of 3 separate notes which must accompany the statement of accounts.
28. The first note is a note of the remuneration ratio which is defined in the regulations as the ratio of the remuneration of the chief executive to the median remuneration of all the body's employees. There is an expectation the chief executive would normally be the highest paid employee. As a point of clarification chief executive includes chief constable or the highest ranking officer in the relevant body. Where a chief executive officers post is only filled for part of the year the annualised remuneration should be used in the ratio calculation. This note is intended to illustrate the relationship between the highest and lowest paid employees and provides synergy between the regulations and the requirements for producing pay policy statements.
29. The second note relates to the disclosures on employee remuneration starting at £60,000. The scope of the note which records the number of employees with remuneration in bands of £5,000 starting from £60,000 **excludes** pension contributions. This note also **excludes** senior officers who are picked up in the third note.

30. The starting threshold of £60,000 sets the minimum legal requirement for disclosure. However, it is recommended that if the responsible financial officer considers that a lower starting threshold would provide more meaningful information for their body then it would be appropriate to start the disclosure at that point.
31. As a point of clarification an employee employed for fewer than the usual full time hours or engaged on a temporary basis for the relevant body concerned should still be included in note two if the grossed up remuneration exceeds £60,000.
32. The third note relates to the disclosure of the remuneration of ‘senior employees’ and ‘relevant police officers’ posts, by job title and defined categories **including** the contribution to the person’s pension. Where officers have a salary in excess of £150,000 they will be identified by *name* and *job title*.
33. The regulations define senior employee as an employee whose salary is £150,000 or more per year or an employee whose salary is £60,000 or more per year who falls within one of the following categories.
- a) A person employed to which section 2 of the Local Government and Housing Act 1989 (1989 Act) applies who;
 - i. has been designated as head of paid service
 - ii. is a statutory chief officer
 - iii. is a non-statutory chief officer
 - b) a person employed as head of staff to which section 4 of the 1989 Act does not apply or
 - c) a person with responsibility for the management of the body to the extent that the person has power to direct or control the major activities of the body (in particular activities involving the expenditure of money) whether solely or collectively with other persons.
34. The thresholds of £60,000 and £150,000 should be reduced pro rata for an employee or officer who is employed for fewer than the usual full time hours or on a temporary basis for the relevant body concerned.

Information on members’ allowances

35. Bodies in Wales are required under separate Regulations to provide information on the allowances paid to council members. In addition the CIPFA Accounting Code requires a disclosure on the total of members’ allowances in the statement of

accounts. The disclosure requirement for members' allowances is therefore encouraged as it supports transparency and accountability.

36. The Welsh Government remains of the view that good practice would require, as a minimum, relevant bodies indicate in a note to the statement of accounts where further information on members' allowances can be found. The aim of this is to inform electors that information is already available about allowances that may be of interest to them, and which would complement the information to accompany the statement of accounts provided under Regulation 9 on Declaration of remuneration.

Regulation 10 – Signing, approval and publication of statement of accounts

37. This regulation requires the Responsible Finance Officer to certify the statement of accounts present a true and fair view of the body's financial position at the end of the year, and the body's income and expenditure for that year. This should be undertaken at or before the 30 June of the relevant financial year. Consideration by the 'Audit committee' or Full Council is strongly suggested as good practice following the RFO certification of accounts. Whilst accounts will not be "approved" at this stage, ownership and scrutiny of the content following certification provides an important part of the governance process. As accounts do not need to be approved by the relevant body immediately following the certification stage there is then some flexibility around when scrutiny of the certified accounts can be done.

38. Where, extraordinarily, certification cannot happen before 30 June, action needs to be taken to publish a statement that clearly sets out the reasons why this has not happened before that date and agree a course of action to ensure this is done as soon as is practicable after 30 June. Additionally, in line with existing best practice, the regulations specify that certification of the accounts shall also be undertaken immediately before approval of the accounts and possibly a third time if the accounts are approved / published before the conclusion of the audit – see also Paragraph 41.

39. The date by which accounts must be approved by a larger relevant body (or a committee of the body) is 30th September. Effectively formal approval of accounts will be based on audited rather than unaudited accounts.

40. Immediately before the accounts are approved they will also be certified again by the RFO.

41. If unusually, the audit of accounts is not completed by the 30 September then the accounts are required to be certified a third time by the Responsible Finance Officer and approved a second time by the relevant body (or its relevant committee).
42. The requirement for the chair of the relevant committee or full council to sign the accounts at approval does not relate directly to or restrict the role of the responsible financial officer in certifying that the statement of accounts is a proper reflection of the body's financial position. It also does not relate to any determination made by the responsible financial officer under any other Regulation. The purpose of this requirement is to encourage members' 'ownership' of the accounts in line with other proposals aimed at promoting corporate responsibility and the proper stewardship of the relevant bodies' resources.
43. Where any material amendments are made to the accounts the RFO must report such changes to the relevant body (or committee of the body) before the accounts are approved. This will happen typically in any event, but is reflected in the regulations to confirm this practice.
44. The date by which its statement of accounts must be published by the relevant body is 30 September and must include publication on the body's website.
45. In addition to this, the Welsh Government recommends as good practice the requirement to 'publish' the statement of accounts should not mean merely the appearance of the accounts in the documents of meetings, committees or sub-committees of the body or providing copies to enquirers on demand. Good practice might include the following (or a number of the following) options:
- putting a copy in local libraries and in local or area offices;
 - placing a copy on a publicly accessible notice board;
 - publishing as a separate leaflet;
 - publication in a newspaper or as part of a newsletter.
46. Larger relevant bodies will themselves wish to consider the appropriateness of the publication arrangements they have in place. This will take into account the need to make information as widely available as practicable, but will also need to bear in mind local circumstances, including the size of the body, the resources available, the number of electors, and the existence of any local information networks.

47. It remains normal practice that the accounts are approved and the audit of the accounts concluded by 30 September. Irrespective of whether this is the case; the accounts must be published by this deadline.

48. If the audit has not been concluded by 30 September the published accounts must contain a clear statement that no opinion has been provided at that date.

Regulation 11 – Public inspection

49. The Accounts and Audit (Wales) Regulations 2014 has not increased the period of access of the accounts from the current 20 working days per year.

Regulation 12 – Notice of public rights

50. These provisions require relevant bodies to display certain notices by advertisement and on the body's website. Consideration was taken in respect of potential readers who do not have access to the internet and as such the requirement to publish a notice by advertisement in one or more local newspapers circulating in the area of the body has been retained.

51. The Welsh Government requires larger relevant bodies to notify the local auditor that such notices have been given to electors.

Regulation 13 - Conclusion of audit

52. Following conclusion of the audit, notification by way of advertisement and on the body's website confirming this has taken place is required. The notification will also confirm that the statements of accounts are available for inspection and where the last approved statement of accounts can be found on the body's website.

53. The documents published following the conclusion of the annual audit will include the final approved accounts.

Section B

The Accounts and Audit (Wales) Regulations 2014 as they apply to smaller relevant bodies

Regulation 5 – Responsibility for internal control and financial management

54. The Welsh Government wishes to emphasise that internal control, financial and risk management are corporate responsibilities which must be embedded in the processes of the council as a whole.
55. A body is responsible, as part of its corporate responsibility, for internal control including the financial management, and risk management systems of the body. This is in line with best practice in the private sector and elsewhere in the public sector. The body should review at least once a year the effectiveness of its internal control systems and the findings must be considered by the members of the body meeting as a whole.
56. The regulation indicates the body must approve a ‘Statement on Internal Control’ prepared in accordance with proper practices.
57. The Welsh Government accepts that relevant bodies will prepare an annual governance statement in place of the statement on internal control. However this requirement cannot be made through the regulations as to do so would exceed Welsh Ministers powers to make regulations in relation to accounts. The Annual Return prepared each year by the Wales Audit Office (WAO) is considered by the Welsh Government to best represent proper practices in relation to the statement of internal control which includes the provision of an annual governance statement.
58. The internal control statement as required by Regulation 5(4) is to accompany the financial statements, rather than being included with the accounting statements. This change makes clear it is not part of the statement on which the auditors’ opinion is given. But note that para 37 of the Auditor General’s Code of Audit Practice states: Auditors will provide assurance on the effectiveness of governance arrangements and, where appropriate, on other issues of public interest. To this end, auditors will: review governance statements to confirm they are consistent with the audited

financial statements and other information of which they are aware. The Welsh Government recommends the statement is published at the time the draft annual accounts are signed and dated by the responsible financial officer.

59. To allow greater emphasis to be placed on the statement on internal control the Welsh Government recommends it be presented to the body as a whole for review no later than the meeting before that which will approve the annual accounts, (with approval at the same meeting).

Regulation 6(1) – Accounting records and control systems

60. This regulation indicates when responsible financial officers (RFO) make their determinations on the accounting records, financial transactions and the accounting control systems; they do so, on behalf of the body. This is to emphasise each body's 'ownership' of its financial management.

61. It also includes clarification that the RFO shall determine, on behalf of its body, the accounting records and control systems in accordance with his/her professional responsibilities and judgement on the application of best practice. This regulation clarifies the RFO will ensure the accounting records and control systems should accommodate any legal requirements of the body.

62. Sections 21 and 22 of the Local Government Act 2003 (the 2003 Act) allow the Welsh Government to make provisions about the proper accounting practices to be followed by local authorities. This has been brought forward under the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 (SI No.3239 (W.319)) as amended.

63. For smaller relevant bodies for the purposes of Section 21(2) (of the 2003 Act) proper accounting practices are defined as "Governance and accountability for local councils in Wales – A Practitioners' Guide (2011)" issued jointly by the One Voice Wales (OVW) and the Society of Local Council Clerks (SLCC).

64. For Internal Drainage Boards however the Accounts and Audit (Wales) Regulations 2014 define proper accounting practices as 'Governance and Accountability in Internal Drainage Boards in England: A Practitioners Guide 2006' as revised and issued jointly by the Association of Drainage Authorities and the Department for Environment, Food and Rural Affairs. These set out the accounting principles and practices required to prepare a statement of accounts for the financial position and transactions of the body.

Regulation 7 – Internal audit

65. Reference in the regulations to proper internal audit practices has been removed as these have not been defined in legislation. The need to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control remains.
66. The Welsh Government considers guidance on good practice for obtaining internal audit is already provided for smaller relevant bodies in the guides referred to in paragraph 63 above, issued by OVW/SLCC.
67. Although not a requirement the Welsh Government suggests it would be beneficial if the internal audit function is carried out by an independent, competent person.

Regulation 14 - Accounting statements

68. Paragraphs 63 and 64 of this Guidance explains that for the purposes of Section 21(2) of the 2003 Act, accounting practices for smaller relevant bodies is defined as 'Governance and accountability for local councils in Wales – A Practitioners' Guide (2011)' and 'Governance and Accountability in Internal Drainage Boards in England: A Practitioners Guide 2006'. Therefore in relation to this Regulation, the preparation of accounting statements for smaller relevant bodies' proper practice may be found in these guides.

Regulation 15 – Signing, approval and publication of accounting statements

69. The Responsible Finance Officer should prepare accounts, and certify the financial position for the body at or before the 30 June of the relevant financial year.
70. The date by which the accounting statements must be approved is 30 June and requires consideration at a meeting of the body and cannot be further delegated to a committee of the body. The Regulations withdraw the option for smaller relevant bodies to give responsibility for the approval of the accounts to a committee or sub-committee of the body. The purpose of this requirement is to encourage members' ownership of the accounts, promoting corporate responsibility and the proper stewardship of the body's resources.

71. Approval of the accounting statements will be for submission to the auditor. If no further amendments are made to the accounts there will be no requirement for additional approval to take place following the audit. This has been introduced in recognition that the majority of accounts prepared for smaller relevant bodies are not subject to any changes during the audit process and to avoid unnecessary delays in publication.
72. Where, extraordinarily, certification and approval cannot happen before 30 June, action needs to be taken to publish a statement that clearly sets out the reasons why this has not happened before that date, and agree a course of action to ensure this is done as soon as is practicable after 30 June. The Welsh Government is of the view that this course of action should only be taken in exceptional circumstances as there should be regular reports on the production of the accounts to members meetings. Any concerns which lead to the RFO not being able to certify the accounts in preparation for passing onto the external auditors, should be extremely rare.
73. Where any amendments are made to the accounts the RFO must report such changes to the members and re-approval will be required from the members meeting as a whole. Immediately before the accounts are re-approved they will also be certified again by the RFO.
74. The date by which its audited statement of accounts must be published by smaller relevant bodies is 30 September and should not mean merely by reference in the documents of meetings.
75. The Welsh Government recommends as good practice that the requirement to 'publish' the accounting statements might include the following (or a number of the following) options:
- putting a copy in local libraries;
 - placing a copy on a publicly accessible notice board;
 - copying onto a website, where websites are available for community councils;
 - publishing as a separate leaflet;
 - publication in a newspaper or as part of a newsletter.

76. Town and community councils will, themselves, wish to consider the appropriateness of the publication arrangements they have in place. This will take into account the need to make information as widely available as practicable, but also take into account local circumstances, including the size of the relevant body, the resources available, the number of electors, and the existence of any local information networks.

77. It remains normal practice that the audit of the accounts should be concluded by 30 September. Irrespective of whether this is the case; the accounting statements must be published by this deadline.

78. If the audit has not been concluded by 30 September, the published accounts should contain a clear statement that no opinion has been provided at that date.

Regulation 16 – Public inspection of accounts

79. The Welsh Government appreciates the need to make the accounts and other documents accessible, may impose burdens on some relevant bodies, particularly smaller community and town councils. In seeking to minimise the burden, the Accounts and Audit (Wales) Regulations 2014 has not increased the period of access of the accounts from the current 20 working days per year.

Regulations 17 – Notice of public rights

80. These provisions require relevant bodies to display certain notices in conspicuous place or places in the area.

81. The Welsh Government requires smaller relevant bodies to notify the local auditor that such notices have been given to electors.

Regulation 18 - Conclusion of audit

82. Following conclusion of the audit, a notice must be displayed in the area of the body for at least 14 days confirming this has taken place. The notice will also confirm that the final accounting statements and auditors report are available for inspection.

83. The Welsh Government recommends good practice will include publication of the accounting statements and auditors report on the body's website where this option is available.

84. The documents made available for public inspection following the conclusion of the annual audit will include the final approved accounts.

Welsh Government
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