



# Financial Management and Governance – Lessons from Audit for Community and Town Councils in Wales

2019-20 to 2023-24

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

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# Report summary

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## Introduction

### **Community and town councils play a pivotal role in local life but their effectiveness depends on sound financial management and governance**

- 1 There are around 735 community and town councils in Wales functioning as the first tier of local government in Wales. Community councils are made up of elected members and they have discretionary powers and rights laid down by Parliament. In some cases, these councils collaborate to provide services through joint committees established for specific services, usually burial services. Currently, there are five such joint committees in Wales. Collectively, this report refers to these bodies as community councils.
- 2 Community councils play a vital role in fostering strong, vibrant communities and supporting local development. However, their impact hinges on sound financial management and governance. Community councils are subject to a wide-ranging system of accountability that incorporates public reporting and annual accounts in addition to the normal election cycle.
- 3 This report highlights some of the challenges community councils face and the resources available to all councils to help them meet those challenges.

## **My external audit is an essential part of the overall accountability framework for community councils**

- 4 My responsibilities for the audit of individual community councils are set out in the Public Audit (Wales) Act 2004 (the 2004 Act) and the Accounts and Audit (Wales) Regulations 2014 (the 2014 Regulations).
- 5 In summary, the 2004 Act and the 2014 Regulations place the following responsibilities on councils and the Auditor General:
  - a council must make up its accounts to 31 March each year. These accounts are to be certified by the council's responsible finance officer (RFO) and approved by the Council by 30 June. The Council must submit the accounts to the Auditor General. The accounts must be accompanied by a statement on internal control.
  - the Auditor General must audit the accounts and provide an opinion on the accounts. In addition, the Auditor General must consider whether there are any matters arising at audit that should be reported publicly.
- 6 My audit arrangements for community councils are designed to meet my statutory duties under the 2004 Act and to provide assurance that is proportionate to the size of individual councils and the risk to the public purse. The audit is based on a key principle that those who raise and spend local taxes should be held accountable for the use of those local taxes. Further details of the audit process are set out in **Appendix 1**.

## **My audit work continues to identify significant challenges for community councils in Wales**

- 7 The 2004 Act sets out my responsibilities as Auditor General for the audit of community council accounts. These include:
  - Sections 17 and 23: general duties to ensure that the accounts have been properly prepared, to provide an opinion on the accounts and to satisfy myself that the council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources;
  - Section 22: duty to consider whether, in the public interest, I should make a report on any matter which comes to the Auditor General's notice in the course of the audit; and
  - Sections 30 and 31: duty to make arrangements for electors to ask questions or make objections to the accounts.
- 8 Since 2011-12, I have published reports summarising my audit findings across the sector and highlighting significant weaknesses in financial management and governance. In addition, Audit Wales staff have attended and spoken at various conferences and sector meetings to explain our findings and how councils can address the issues arising. However, despite these efforts, too many councils still fail to meet the basic standards that are expected of those responsible for managing public funds.
- 9 In response to the large number of errors/issues identified in previous year audits, I introduced new audit arrangements in 2021-22. Therefore, the 2023-24 audits mark the end of the first three-year cycle set out in these arrangements. I have completed a large proportion of the 2023-24 audits and, therefore, it is appropriate to look at my audit findings and to draw conclusions for the sector as a whole. The key findings from my audit work are set out below and covered in more detail in the remainder of this report.

## Key findings

- 10 In recent years, unitary authorities have sought to transfer assets and services to community councils. These increasing responsibilities mean that there is an ever-growing need to ensure that community councils have in place sound systems of internal control, financial management and governance.

### **COVID-19 had a significant impact on community councils in Wales including the submission and audit of accounts**

- 11 The 2019-20 accounts marked a turning point for community councils. COVID-19 significantly disrupted councils' activities and contributed to lengthy delays and even non-submission of accounts for audit. These issues continue, with over 70 councils not submitting their 2023-24 accounts for audit by 31 December 2024.
- 12 Some councils have simply stopped submitting accounts. In many cases, this has arisen because clerks have resigned or retired, and the new clerks have not been informed of the need to submit accounts for audit.
- 13 Often, councils do not inform my team of changes in clerks and, therefore, we do not hold up-to-date contact information, and the annual audit notices do not reach the new clerks.
- 14 In some cases, clerks do not submit accounts until they have received the previous year's audited accounts back from my audit team.
- 15 It is important that all councils familiarise themselves with the statutory requirements for accounts and audit. One Voice Wales have prepared a document to help councils entitled **Timetable of Financial Actions**.
- 16 The pandemic coincided with the transfer of responsibility for the completion of audits from external audit firms to Audit Wales and led to the delayed introduction of the new audit arrangements. Significant delays in submission of accounts for audit and deficiencies in the quality of information submitted have, alongside the impact of COVID-19 on Audit Wales' operations, contributed to an ongoing backlog of audit work that is only now being cleared.

## **The sector continues to grow and manages ever increasing sums of public money**

- 17 I previously reported how the sector as a whole is raising local taxes that exceed its annual expenditure. This trend has continued over the last four years and was exacerbated by the impact of COVID-19 and the lockdown arrangements that extended through 2020 and 2021.
- 18 Overall expenditure has also increased over the last four years and, following a significant fall in 2020-21, recovered to pre-COVID-19 levels during 2021-22, before increasing further.
- 19 In my previous reports, I expressed concern that councils were not acting in accordance with relevant law that governs how they are to raise local taxes. My analysis of the sector's financial position over the last four years suggests that many councils continue to raise excessive sums in local taxes.

## **My audit findings identify ongoing issues within the sector that have not been properly addressed**

- 20 My previous reports highlighted recurring issues across the sector. I identified these issues following a limited procedures audit approach. Since 2021-22, my more in-depth audit work has confirmed that these issues have not been properly addressed by the sector. This report identifies the ongoing and systemic issues within the sector related to financial management and governance.
- 21 An increasing number of councils submit annual returns that have not been prepared in accordance with proper practices, such as by providing accounts that are arithmetically incorrect or incomplete. For the 2023-24 audits, approximately 30% of councils submitted accounts that did not add up. This has contributed to an overall increase in the number of qualified audit opinions I have issued.
- 22 One of the most frequent qualification issues identified by auditors involves councils not publishing information they are legally required to do so.



- 23 My auditors have also found that it is increasingly difficult to verify transactions, as the accounting records provided by councils are often inadequate, incomplete and fall far below my expectations. As accounting records are poor, it is becoming ever more common that councils are unable to demonstrate how decisions have been made and how they have secured value for money.

**In some cases, I identified issues at individual councils that I considered necessary to report in a more public manner**

- 24 In most cases, I summarise my audit findings and any recommendations in an audit report attached to the council's annual return. However, in some cases, councils have lost significant sums of money which, in my view, could have been prevented if councils addressed the systematic issues. In these cases, I consider it appropriate to issue a more extensive report and for the report or the recommendations to be considered by the council at a full meeting, and for the council to provide a written response.
- 25 Since January 2020, I have issued such reports to 23 councils across Wales.

## Councils should be aware of the extensive guidance available to help them

- 26 One Voice Wales and the Society of Local Council Clerks (SLCC) publish Governance and Accountability for Local Councils in Wales: A Practitioners' Guide (the Practitioners' Guide). The Practitioners' Guide is recognised as proper accounting practice by the Welsh Government's Guidance on the Accounts and Audit (Wales) Regulations 2014.
- 27 The Practitioners' Guide describes how councils should maintain accounting records and prepare their annual accounts. It also describes how councils can implement a system of internal controls and explains the audit process. It is available to all councils free of charge from the One Voice Wales website.
- 28 In June 2022, One Voice Wales, SLCC, and the Welsh Government published the Finance and Governance Toolkit for Community and Town Councils. The toolkit was developed specifically to help all councils to identify and address any gaps or weaknesses in their financial management and governance arrangements, to meet their statutory obligations and to deliver the best outcomes for their communities.
- 29 The toolkit is a comprehensive guide for councils of all sizes. It addresses the key issues my auditors commonly identify as weaknesses in council arrangements. I encourage councils to review their arrangements against the measures identified in the toolkit, as this will help them to avoid the most common issues that lead to me issuing a qualified audit opinion. I am currently working with One Voice Wales and the SLCC to examine how the toolkit can best be used to provide an Annual Governance Statement for publication alongside the annual accounting statement.

## Conclusion

- 30 My audit work continues to identify ongoing issues across the sector. Community councils need to ensure that they are aware of their responsibilities and take appropriate steps to address issues reported directly to them through my annual audit opinions and reports and those set out in this report.
- 31 Community councils need to act decisively to build a stronger and more accountable future for the communities they serve.

# Detailed report

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## COVID-19 had a significant impact on the timely submission and audit of accounts for community councils

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

- 32 Section 13 of the Public Audit (Wales) Act 2004 (the 2004 Act) requires community councils to make up their accounts to 31 March each year and to have those accounts audited by the Auditor General. The 2004 Act also provides for local electors to ask questions or make objections to the accounts at audit.
- 33 The Accounts and Audit (Wales) Regulations 2014 (the Regulations) set out the timetable for the preparation and approval of the annual accounts.
- 34 The Regulations place responsibilities on both the council's responsible finance officer (RFO) and the Council itself.
- 35 The RFO must prepare and certify that the accounts properly, present the council's receipts and payments or present fairly the council's income, expenditure and financial position. The RFO certifies the accounting statements by signing and dating them. The annual return includes provisions for signature and date.
- 36 The members, convening as a whole, must review the accounting statements. After this review, they must approve the statements for submission to the auditor by passing a resolution. Following approval, they must ensure that the person presiding at the meeting signs and dates the accounting statements.
- 37 Both the RFO and the Council must discharge these responsibilities by 30 June following the end of the financial year.
- 38 Following approval of accounts, councils must submit the accounts to me for audit. Failure to do so promptly impacts my ability to effectively resource the audit and delays my audit work.

## **I am concerned that an increasing number of councils submit accounts late or do not submit accounts for audit without significant additional input from Audit Wales staff**

- 39 Each year, I issue to all councils a notice of audit. This notice details the date from which electors can ask questions or make objections at audit and provides a timetable for submission of the accounts for audit. Usually, the accounts should be submitted for audit by mid-August at the latest.
- 40 However, too many councils disregard this timetable making it difficult to plan my audit work. In some cases, councils simply do not provide accounts for audit without significant further input from Audit Wales' staff.

### **Exhibit 1: late submission of accounts**

Around 20% of councils are significantly late in submitting accounts for audit each year. There is a small group of councils that has not submitted accounts for a considerable amount of time.

	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>
Accounts due for audit	740	740	737	737
Accounts submitted for audit by 15 August immediately after year-end	485	516	509	545
Accounts submitted on time (%)	66%	70%	69%	74%
Accounts submitted for audit by 30 September immediately after year-end	589	588	564	576
Accounts not submitted for audit by 30 September immediately after year-end	151	152	173	161
Accounts overdue at 30 September following the year-end (%)	20%	20%	23%	22%
Accounts not submitted as at 31 December 2024	11	11	31	71

Source: Audit Wales analysis

- 41 **Exhibit 1** shows that between 26% and 34% of councils fail to submit accounts each year by the date stipulated in the audit notice issued to councils. At the end of August each year, we issue a reminder to all overdue councils requesting submission by 30 September at the latest. Notwithstanding these reminders, around 20% of councils fail to respond by submitting accounts by 30 September, and are significantly late in submitting accounts.
- 42 Whilst the position for each of the last four audit cycles remains consistent from year to year, this represents a significant deterioration over time. The data we hold identifies that for the 2015-16 accounts only 17 councils had not submitted their accounts by 30 September 2016 (2%).
- 43 Councils that fail to submit an annual return promptly create additional pressure and workload as auditors expend time chasing the councils and clerks. My auditors may also undertake more extensive audit procedures to determine the reasons for the delayed/non-submission. All of which results in additional costs and fees.
- 44 It is important for all councils to ensure that their accounts have been prepared and are approved by 30 June each year and are then sent in for audit. If the annual accounts are not presented to the council on time, councils should always seek an explanation and agree a timetable for the accounts to be submitted to the council for approval.

### **Timely completion of audits and returning to compliance with the statutory timetable should be an ambition for the sector**

- 45 I last reported that only 486 (66%) of audits were complete by 30 September for the 2018-19 financial year. This represented a decline compared to the 2017-18 financial year. Since then, this position has continued to deteriorate. For 2022-23, only 154 (20%) of audits were completed on time. For 2023-24, the figures are 116 (16%).
- 46 There are a number of factors that have contributed to the declining performance on the timely completion of audits with the most significant being the COVID-19 pandemic.
- 47 Audit work on councils was delayed due to the pandemic in 2019-20 and 2020-21, to allow for councils to respond to the crisis. This created a considerable backlog for my auditors to address.

- 48 While the pandemic played a significant role, systemic issues within the sector also impede audit completion, including councils' failure to provide annual returns and other information promptly.
- 49 Councils have routinely failed to provide adequate information for my auditors to verify what has been reported in the annual return. For the 2019-20 financial year onwards, I have issued 173 qualified audit certificates due to councils not providing adequate information for audit.
- 50 The length of time my auditors spend on audits increases for those councils that fail to provide information, as my auditors will be spending time on requesting information rather than undertaking audit procedures. This increases the backlog of outstanding audits and results in additional costs to the council which are ultimately borne by council tax payers.

### **The triennial transaction-based audits are taking longer than anticipated to complete due to a number of factors**

- 51 The current audit arrangements include conducting a transaction-based audit at least once every three years, referred to as a 'full audit' within the sector.
- 52 2021-22 was the first year my auditors undertook transaction-based audits at town and community councils.
- 53 There have been a number of factors that have contributed to the poor timeliness of completion of audits:
- as a result of COVID-19 and restrictions placed on councils, a large number of audits of 2019-20 accounts were not completed during 2020.
  - in December 2020, all outstanding audits were transferred from my previous audit suppliers to Audit Wales for completion. Over 450 outstanding audits were handed over to Audit Wales at this time.
  - each year, large numbers of councils submit their accounts late and there is a growing number of councils that fail to submit accounts altogether.

- 54 Transaction-based audits frequently face delays due to councils failing to submit the required records for audit despite the requirements being clearly set out in the audit notice. For example, of the 49 outstanding transaction-based audits for the 2021-22 financial year, 34 have either not submitted accounts, submitted incomplete records or provided the full audit documents late. The other 15 audits remain outstanding because there is outstanding audit work required or earlier financial years' audits remain open.
- 55 I will address some of the most common issues in guidance for councils attached to the 2024-25 audit notice to be issued in March 2025.

**Councils' systematic failure in complying with the 2004 Act and the 2014 Regulations for the preparation, approval and making arrangements for the exercise of electors' rights is a significant factor in the timely completion of audits**

- 56 One of the most common qualification matters that arise is that councils do not prepare and approve accounts by 30 June. I often find that for those councils that have not prepared and approved the accounts by 30 June, they also fail to make proper arrangements for electors to exercise their rights to inspect the accounts:
- if councils miss the deadline of 30 June, they are required to publish a notice explaining the delay in preparing and approving the accounts. I issue a qualified opinion where no notice has been published; and
  - if councils are unable to adhere to these statutory deadlines and timeframes, it becomes increasingly more likely that they will not be able to provide their annual returns and other audit information on time.

**Exhibit 2: councils qualified due to late approval of accounts**

	2019-20	2020-21	2021-22	2022-23	2023-24
Number of councils that were qualified for not preparing and approving accounts on time	126	71	50	124	98 <sup>1</sup>
Number of councils that did not make proper arrangements for electors to exercise their rights to inspect the accounts	69	25	59	73	29

Source: Audit Wales analysis

- 57 The sector, as a whole, has had long standing difficulties in complying with the requirements of the Regulations. In many cases, this is due to a lack of understanding; in others, it is an oversight.
- 58 Since 2018-19, to support councils to meet their responsibilities, I have specified a common date for the exercise of electors' rights to ask questions or make objections at audit. My auditors have provided all councils with an audit notice setting out the dates from which councils should make their accounts available for inspection by electors and specified the date from which the inspection period should be advertised.
- 59 Therefore, I am disappointed to note that despite having clear advance notice of a consistent date, councils continued to fail to comply with the requirements of the Regulations. In my view, a significant breach of the statutory requirements adversely affects my ability to discharge my statutory responsibilities.

1 The number of councils may increase as we complete audit work on accounts submitted late.



## Community councils are managing increasing sums of public money but many do not calculate their budget requirements in accordance with the law

- 60 In my previous reports, I commented on the increasing sums of money being managed by the sector. This trend has continued over the last four years.
- 61 Community councils' primary source of income is their annual precept. A precept is a peremptory order to the unitary authority to pay a specific sum of money to the community council. The amount of the precept is charged to the community's council tax payers and is paid in full to the community council.
- 62 I noted that each year, councils raise more money through their precept and other receipts than they spend. In 2020-21, this situation was exacerbated by the COVID-19 pandemic. In many cases, due to the national lockdowns and restrictions imposed by the Welsh Government, most councils were unable to provide their normal level of services. However, due to the timing of the initial lockdown, they continued to receive their budgeted precept in full<sup>2</sup>.
- 63 This meant that by the end of 2020-21, councils held increased sums in reserves. However, many then failed to consider these reserves when setting their budgets and precepts for 2021-22 and subsequent years.
- 64 This section of my report provides some high-level analysis of the financial position of the sector and offers commentary on how councils can address some of the financial issues they face in the near future.

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2 The Local Government Finance Act 2000 requires community councils to confirm the precept one month before the start of the financial year ie by 1 March. However, in practice, most councils confirm the precept earlier than this to assist unitary authorities in administering council tax. Therefore, this means precept requests were made before the Welsh Government initiated lockdown arrangements and community councils received their full precept for the year.

## **The total sum of money raised by community councils has continued to rise year on year since 2018-19**

- 65 The 734 town and community councils and their five joint committees covered by this report raised over £245.7 million between 2019-20 and 2022-23<sup>3</sup>. Community councils raise income either through setting a precept, by charging for goods and services, by claiming grants or by disposing of long-term assets.
- 66 Councils also raise funds by charging for goods and services provided by the community council. Charges may typically be made for:
- use of village halls/community centres owned and managed by the community council;
  - burial fees where the community council is a burial authority;
  - hire charges for sports facilities; and
  - car parking charges.
- 67 Additionally, councils may raise funds for long-term asset investments through grant applications, loans, or asset disposals, with such funds typically earmarked for specific purposes.
- 68 Formal consent from the Welsh Ministers using powers under paragraph 2 of schedule 1 to the Local Government Act 2003 enables a community or town council to borrow money for capital purposes. Councils have received over £7.2 million in new borrowing arrangements since 2018-19. The value of debt has increased by £6.3 million (9.3%) since 2018-19<sup>4</sup>.
- 69 Since 2018-19, community councils' total income has increased by £11.3 million (21%) to £65.4 million (2022-23). In the same period, the total precept charged to council tax payers across Wales increased by £8.5 million (21%).
- 70 Receipts from other sources have also increased by £2.7 million from just under £13.5 million in 2018-19 to just over £16.2 million in 2022-23.

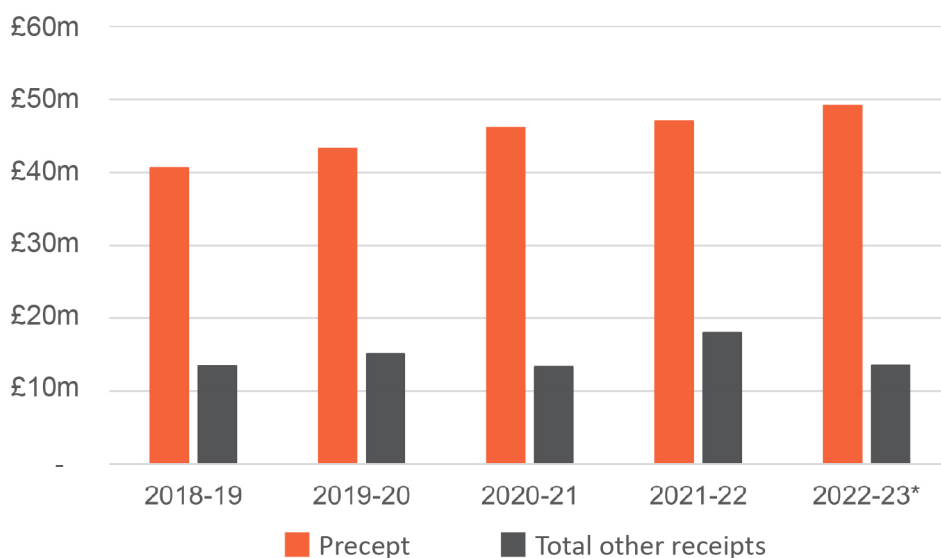
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3 Reliable data for 2023-24 is not yet available as 10% of councils had not submitted accounts by 31 December 2024.

4 Monies received by borrowing are included within total other receipts on the annual return.

### Exhibit 3: community council income 2018-19 to 2022-23

Community council total income has increased each year, from £54.1 million in 2018-19 to £65.4 million in 2022-23. The total precept has increased by £8.6 million to £49.2 million since 2018-19.



\* This data does not include those councils who have not submitted accounts for audit

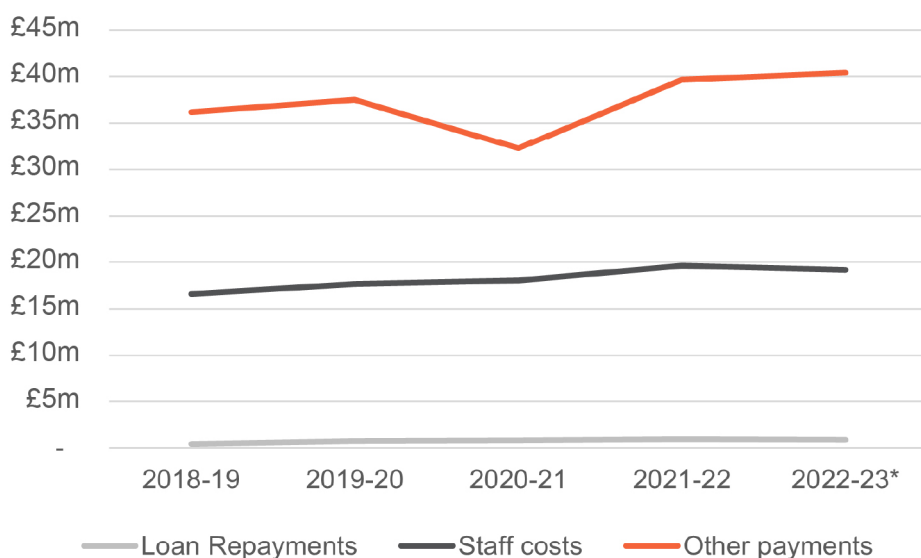
Source: Audit Wales analysis

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

- 71 Overall, community councils' expenditure has increased by £13 million (24.5%) to £66.2 million since 2018-19. Expenditure on both staff costs and other payments has increased by £4.68 million (27.9%) and £7.9 million (21.7%) respectively since 2018-19.
- 72 The COVID-19 pandemic saw a significant drop in expenditure between the 2019-20 and 2020-21 financial years. However, expenditure quickly returned to pre-pandemic levels during the 2021-22 financial year.

**Exhibit 4: community council expenditure 2018-19 to 2022-23**

Community council total expenditure has continued to increase from £53.2 million in 2018-19 to £66.2 million in 2022-23. Expenditure on staff costs increased by £4.68 million to £21.2 million and other expenditure on goods and services increased by £7.9 million to £44.1 million in the same period. Total expenditure decreased in 2020-21, due to the COVID-19 pandemic.



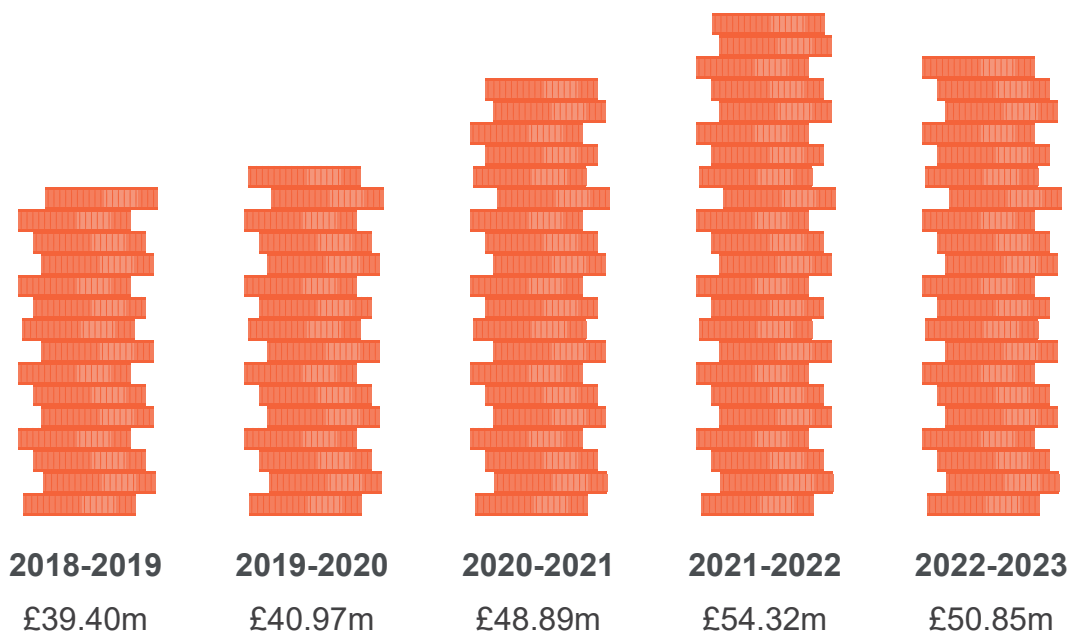
Source: Audit Wales analysis

**The COVID-19 pandemic created a windfall for community councils which has resulted in councils holding greater sums of money in reserves**

- 73 Community councils may hold reserves and balances for many reasons, such as for financing unforeseen expenditure or to ‘save’ for future projects. In some cases, they are required by law to set money aside for specific purposes. For instance, proceeds from long-term asset disposals may constitute capital receipts, earmarked solely for financing future capital expenditure. However, the law does not allow councils to hold reserves without there being a purpose to the reserve.
- 74 **Exhibit 5** highlights that the sums held by community councils as reserves have increased by £11.5 million (29%) to £50.8 million since 2018-19.

### Exhibit 5: community reserves 2018-19 to 2022-23

Community council reserves have increased by £11.5 million since 2018-19.



Source: Audit Wales analysis

- 75 The 2020-21 financial year saw the largest increase in reserves held by councils. This can be largely partly attributable to the COVID19 pandemic. The sums held by community councils increased from £40.3 million in 2019-20 to £48.8 million in 2020-21.
- 76 The Local Government Finance Act 2000 requires community councils to confirm the precept one month before the start of the financial year ie by 1 March. However, in practice, most councils confirm the precept earlier than this to assist unitary authorities in administering council tax. Therefore, in most cases, councils issued their precept demands before the UK and Welsh Governments initiated lockdown arrangements in late March 2020. This meant that the councils continued to receive their budgeted precept while they significantly curtailed their activities and therefore their expenditure.
- 77 However, reserves remained higher than pandemic levels during 2021-22 and 2022-23, which further demonstrates that the sector has a systematic issue around how councils set and manage their budgets.

## **Councils have no legal powers to hold revenue reserves other than those for reasonable day-to-day expenditure and specific earmarked purposes. Councils are holding increasing amounts of reserves without a clear purpose**

- 78 In my previous reports, I noted my concerns that councils often raise funds from council tax payers without having a clear purpose for the use of those funds. I have previously reported on the inadequacy of budget setting by too many community councils. It is therefore important for councils to understand the legislative framework that allows them to raise a precept.
- 79 This framework is set out in the Local Government Finance Act 1992.
- 80 Section 41 of the Act provides councils with the power to issue a precept but sets out that the precept must state the amount that the council has calculated as its budget requirement in accordance with section 50 of the Act.
- 81 Section 50 of the Act prescribes that the budget requirement is calculated as the net of the following items:
- an estimate of expenditure the authority estimates it will incur in the year;
  - an appropriate allowance for contingencies in relation to expenditure;
  - an estimate of income the council expects to receive in the year;
  - the expected utilisation or contribution to financial reserves; and
  - how financial reserves will be utilised in the following year.
- 82 If a council does not calculate its budget requirement in accordance with the Act, then it potentially sets an unlawful precept.

## **Councils regularly do not calculate their budget requirement in accordance with the law and in many cases do not take their reserves into account**

- 83 Since 2018-19, I have issued 273 qualified audit certificates due to councils not setting a budget in accordance with the Local Government Finance Act (1992).
- 84 In most cases, the deficiencies that have been identified fall into three categories:
- councils fail to take into account the adequacy and utilisation of the reserves already held by the council;
  - councils fail to consider any income they expect to receive; and
  - councils fail to calculate a budget requirement.
- 85 It is disappointing to note that councils are failing to calculate a budget requirement, and that the poor practice of rolling forward or keeping the precept the same as the previous financial year has become commonplace.
- 86 Since 2018-19, there has been a continued trend of what appears to be councils raising a precept in excess of their needs. Whilst I did notice an increase in the number of councils that reduced their 2021-22 precept as a result of COVID-19 restrictions, a significant proportion of councils continued to increase their precept while at the same time not using the precept to provide services.

## Exhibit 6: community councils' precepts

On average, over 400 councils increased their precept year on year, while over 150 of those increased their precept, even though their reserve balances were greater than their precept.

	2019-20	2020-21	2021-22	2022-23	2023-24
Councils that increased their reserves in-year	441	533	432	313	353
Councils that increased their precept for the year	476	488	319	430	416
Councils that increased their precept despite having generated a surplus in the previous year	246	281	210	249	189
Councils that increased their precept despite holding reserves that exceed the annual precept	195	198	128	192	175
Councils that maintained their precept	203	203	293	232	231
Councils that reduced their precept for the year	63	51	130	80	88

Source: Audit Wales analysis

- 87 Whilst it is important to ensure that councils have enough income to deliver services it is also important to ensure that they do not raise more income through council tax than is necessary to deliver council services and administer their affairs, leading to ever increasing levels of reserves. 26% of councils raised a higher precept in 2023-24 despite not spending all of the money raised by the 2022-23 precept.
- 88 Reserves have continued to increase and there is a growing need for individual councils to critically review the level of their reserve balances. This is especially likely to be the case at those councils that:
- have opening reserve balances that are greater than their precept;
  - continually raise or maintain their precept year on year; and
  - continually realise a surplus of income over expenditure.



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## **The number of councils meeting the threshold for the adoption of specific duties set out in the Well-being of Future Generations (Wales) Act 2015 continues to rise, and 69 councils now pass the threshold of annual income or expenditure exceeding £200,000 for three consecutive years**

- 89 The Well-being of Future Generations (Wales) Act 2015 requires councils with annual income or expenditure over £200,000 for three consecutive years or more to adopt specific duties in relation to local well-being plans.
- 90 In 2022-23, 83 councils had income or expenditure of over £200,000. This number is steadily rising each year.
- 91 69<sup>5</sup> councils have income or expenditure exceeding £200,000 for each of the last three financial years, and must now comply with requirements of the Act.
- 92 These councils have a specific but limited duty to take all reasonable steps towards meeting the objectives included in the local well-being plan. They must publish a report for each financial year on the progress made in meeting the local objectives.
- 93 Those councils exceeding the £200,000 threshold in 2022-23 that have not done so for three consecutive years, also need to be aware of and plan accordingly for discharging these duties. It is likely that many town and community councils need to increase their awareness of the Act's duties that apply to them.

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5 The figure is based on those councils that have submitted accounts. There are a number of councils that have not submitted accounts but may be required to comply with the requirements of the Well-being of Future Generations (Wales) Act 2015.

## The number of qualified audits is still too high with many councils making common, easily avoidable mistakes

### **Auditors issue ‘qualified’ audit opinions when councils fail to comply with their statutory responsibilities or where auditors conclude that the information reported in the annual return is misstated**

- 94 My audit approach for community councils is designed to discharge my responsibilities under the Public Audit (Wales) Act 2004.
- 95 Community councils prepare their accounts in the form of an annual return. The annual return includes:
- the annual accounting statements made up to 31 March each year.
  - an annual governance statement which sets out assertions in which the council confirms the arrangements it has in place to manage its finances. Details of the assertions made in the Annual Governance Statement are set out in **Appendix 2**.
- 96 Auditors review the accounting statements included in the annual return and the assertions made in the annual governance statement, to come to a conclusion on whether or not there is evidence that the accounting statements have been properly prepared, whether or not the council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, and whether or not the information contained in the annual return is an accurate reflection of the council’s finances and financial management and governance arrangements.
- 97 Auditors measure the council’s arrangements against its statutory responsibilities and issue ‘qualified’ opinions when they identify non-compliance. These are reported as exceptions in the audit opinion. However, all audit qualifications are avoidable if councils have appropriate arrangements in place to comply with their statutory responsibilities.
- 98 Auditors will also qualify the audit opinion when the information in the accounts and/or the annual governance statement is inconsistent with the evidence provided for audit.

- 99 I issue an unqualified audit opinion when no matters come to my attention during the audit that suggest the council has failed to comply with statutory or regulatory requirements. My audit may also identify other matters that, although they do not indicate a failure to comply with a statutory or regulatory requirement, need to be drawn to the attention of the council.

### **41% of all completed audits resulted in a qualified audit certificate**

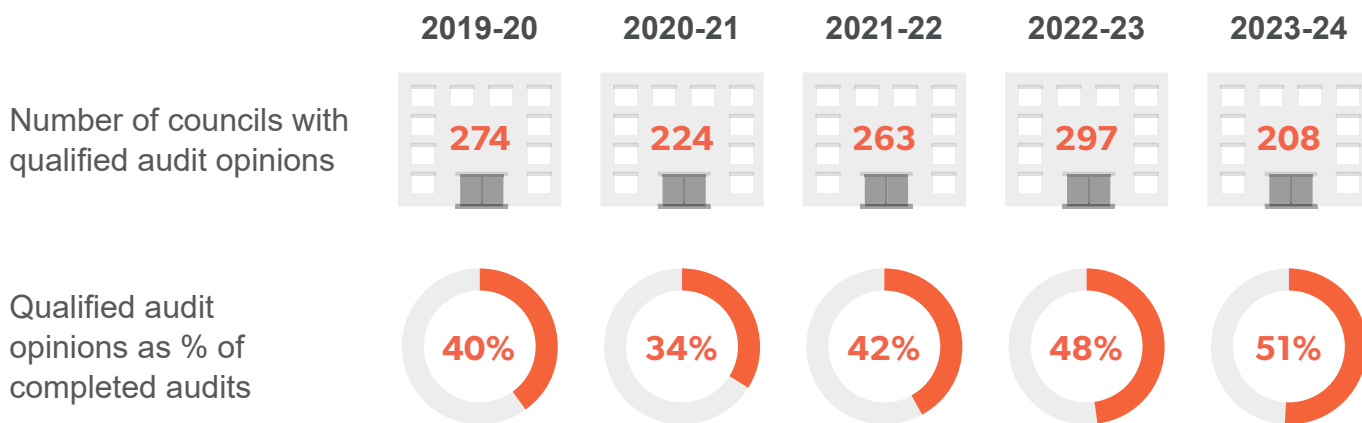
- 100 As at 31 December 2024, I have issued 1,266 qualified audit opinions for the 2019-20 to 2023-24 financial years. This means that 41% of all completed audits resulted in a qualified audit certificate.
- 101 The number of qualified opinions is likely to rise as audit work on the outstanding councils is completed.
- 102 I have noted as part of the new audit arrangements that the transaction-based audits identify more qualification issues. 66% of completed transaction-based audits resulted in a qualified audit certificate<sup>6</sup>.
- 103 The higher proportion of qualified audit certificates supports the rationale for the need for transaction-based audits. **Paragraphs 134 to 161** of this report explore the issues identified as part of the transaction-based audits.
- 104 Auditors also report on other matters noted during the audit that do not affect the audit opinion but require attention from the audited body.
- 105 **Exhibit 7** summarises the number of completed audits that received a qualified audit opinion.

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6 232 full audits have been completed since the new audit arrangements have been implemented. 154 of these have resulted in a qualified audit certificate.

### Exhibit 7: qualified audit opinions

Between 34% and 51% of audit opinions are qualified



Source: Audit Wales analysis

### Many of the common issues that lead to qualified audit opinions should be straightforward and easy to resolve

- 106 Although the accounting requirements for community councils are relatively simple, auditors issued qualified audit opinions for significant errors in the accounts. Auditors also identified minor errors for a large number of councils.
- 107 Community councils’ accounts follow a simple structure. The most basic form of accounting, receipts and payments accounting, is undertaken at over 650 of the 740 bodies covered by this report. Receipts and payments accounting requires the body to record and report transactions as money is received or spent. The transactions are classified into one of five categories. The annual accounts are the totals of these categories.
- 108 The first assertion made by councils in the annual governance statement is that they have made proper arrangements for effective financial management and to prepare and approve the annual accounts.

109 Auditors identified the following common issues across the four financial years:

- the council had not fully completed the accounts, eg councils had not completed the statement of balances section of the annual return;
- the entries in the annual accounts are not fully supported by an adequate audit trail to reconcile the accounts and the cashbook;
- individual accounting entries have been incorrectly classified or have been inaccurately recorded;
- the accounts presented for audit are not arithmetically correct; and
- councils have incorrectly accounted for unrepresented cheque payments.

**For the financial years 2019-20 onwards, I have qualified 281 sets of accounting statements where it has come to my attention that the accounting statements were not properly prepared, or I have been unable to conclude on whether the accounting statements have been properly prepared**

110 **Exhibit 8** below shows that there has been an upward trend of councils that have received a qualified audit certificate due to issues with the accounting statement.

111 Auditors identified the following common issues across the four financial years that resulted in a qualified audit certificate:

- the council had not fully completed the accounts, eg councils had not completed the statement of balances section of the annual return;
- the entries in the annual accounts are not fully supported by an adequate audit trail to underlying accounting records;
- councils have failed to provide an adequate explanation for significant variances between the two comparative years; and
- individual accounting entries have been incorrectly classified or have been inaccurately recorded.

## Exhibit 8 – number of accounting statements that were not properly prepared

Up to one third of councils provide arithmetically incorrect accounts for audit.

	2019-20	2020-21	2021-22	2022-23	2023-24
Number of councils that received a qualified audit report for accounting statement issues	57	69	127	89	83
Number of councils with minor issues related to the accounts	69	60	49	59	91
Number of councils that submitted accounts that were arithmetically incorrect	– <sup>7</sup>	204	213	235	220

Source: Audit Wales analysis

### **I have also reported minor issues such as arithmetical and typographical errors to councils 328 times since 2018-19. These minor issues should be straightforward to rectify if councils took the time to review the annual return prior to submission**

112 **Exhibit 8** shows that there is a consistent number of councils that I have reported minor issues to. However, it is concerning to note that over one in three<sup>8</sup> sets of accounts submitted for audit are arithmetically incorrect.

113 Auditors identified the following common issues across the four financial years:

- the council had not fully completed the accounts, eg councils had not completed the statement of balances section of the annual return;
- councils incorrectly accounted for unrepresented cheques;
- the accounts submitted for audit were not arithmetically correct due to rounding errors; and
- the accounts submitted for audit included typographical errors such as a transposition error.

<sup>7</sup> Because some of the 2019-20 audits were completed by external providers, we do not have full data for arithmetic errors for 2019-20.

<sup>8</sup> 249 of the 630 (39.5%) accounts submitted for the 2022-23 financial year were arithmetically incorrect.

- 114 For 2018-19, I reported that auditors qualified the accounts of 11 councils in 2018-19 and raised minor issues with 70 councils. Since then, this has substantially increased with a peak of 127 accounts being qualified in 2021-22, which is consistent with the implementation of transaction-based audits.
- 115 The significant increase in issues identified by auditors is disappointing to note. These issues are mostly both easy to identify and to resolve. The Practitioners' Guide provides guidance on how to properly prepare the accounting statements.

### **Every year since 2018-19 over 120 councils that received a qualified audit opinion were qualified for more than one issue**

- 116 Audit qualifications should be a rare occurrence. In most cases, I would not expect councils to receive audit opinions that are qualified on two or more grounds.
- 117 In my report of the 2018-19 audit round, I noted that in 2018-19, 101 councils (to 30 November 2019) received audit opinions that were qualified on two or more grounds: 42 of which were qualified for three or more issues. This trend continued through 2019-20 and 2020-21. Furthermore, as we undertake more detailed examinations as part of the new audit cycle, we are identifying a larger number of issues at individual councils.

### Exhibit 9 – number of qualified audit certificates analysed by the number of qualification issues reported<sup>9</sup>

Over 100 councils each year receive a qualified audit report containing two or more grounds for qualification

<b>Number of qualification issues included in report to single councils</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>
One	153	119	103	109
Two	73	118	67	79
Three	34	27	48	56
Four or more	14	19	45	41

Source: Audit Wales analysis

- 118 Those councils that receive qualified audit opinions for multiple issues are not meeting the basic standards of financial management and accountability that the public can rightly expect. These councils need to review their internal arrangements and take urgent action to address the weaknesses identified by the auditors.
- 119 Councils make the assertion whether they have taken appropriate action on all matters raised in previous internal and external audit reports within the annual governance statement. Failure to take appropriate action will likely result in a qualified audit report.
- 120 There are a number of councils that are not taking appropriate action to respond to issues raised by auditors. Since 2018-19, there have been over 100 councils that have been qualified for three consecutive years<sup>10</sup>.

<sup>9</sup> There is currently not sufficient data available for the 2023-24 financial year to undertake the analysis.

<sup>10</sup> 103 councils have received a qualified audit certificate for the 2019-20, 2020-21 and 2021-22 financial years. We have completed 88 of these councils' audits for 2022-23, of which 44 received a qualified audit certificate. We have completed 53 of these councils' audits for 2023-24 of which 24 received a qualified audit certificate.



## **One of the most frequent qualification issues identified by auditors involves councils failing to be transparent and accountable by not publishing legally required information**

- 121 The third assertion made by councils in the annual governance statement is that they have taken reasonable steps to assure themselves that there are no matters of actual or potential non-compliance with law and regulations.
- 122 Councils have a statutory duty to make certain information available electronically under Section 55 of the Democracy and Boundary Commission Cymru etc. Act 2013 (the 2013 Act) (previously named as the Local Government (Democracy) (Wales) Act 2013). This is in addition to the requirements of the Local Government Act 1972 (the 1972 Act) and the Local Government Act 2000 (the 2000 Act) concerning public notices, council meetings and proceedings, and registers of members' interests.
- 123 The 2013 Act also sets out the requirement for community councils to have due regard to any guidance issued by the Welsh Ministers such as the Code of Practice for Local Authority Publicity.
- 124 Since 2018-19, 184 qualified audit certificates have been issued due to councils not publishing legally required information.

## **The adoption and effectiveness of council websites vary significantly across Wales, with many not meeting the necessary standards, particularly those hosted by Pembrokeshire County Council**

- 125 Councils across Wales have adopted a variety of ways of publishing information electronically. In many cases, councils have developed a bespoke website. Other councils have used readily available website development services eg 'wordpress' to develop their websites. In Pembrokeshire, the County Council has provided a platform for Pembrokeshire councils to use.

- 126 Each council is responsible for the publication of its information and must ensure that it meets its legal obligations. Regardless of how any council established its website, it is important that the website is maintained and updated on a regular basis. It is also essential that the website is well structured such that the information published is readily accessible to users. A website should not be considered an administrative burden but a way to promote public engagement.
- 127 My auditors use councils' websites to access information relevant to the audit. However, my work identified that ten councils do not operate a website, and I was unable to identify any online presence.
- 128 My auditors have found multiple issues regarding councils' websites which are common across Wales. Examples of issues identified are:
- the level of engagement, functionality and use of the website varies between councils. For example, some councils do not update records in a timely manner.
  - websites are not accessible This may be because the council has restricted access to password holders or has not maintained the site.
  - contact details for clerks and members are not regularly updated or are not provided.
  - there is incomplete member information.
  - there are little to no council business documents, such as financial information, policies and procedure documents.
- 129 For some councils, the structure of the website is such that it is very difficult for users to access information. In my report in the public interest on Harlech Community Council, I note the poor structure of the website and the fact that documents for two councils are published on the same website. The structure of the website is poor – documents from both councils are intermingled with one another and are not published on a timely or chronological basis. This means that individual documents are difficult to locate.

## Three-quarters of community councils in Pembrokeshire use the website developed by the County Council

- 130 The website<sup>11</sup> hosted and developed by Pembrokeshire County Council operates primarily as an overview page and a document repository for each town and community council in Pembrokeshire. The website is a prime example of the common issues noted above. In my opinion, there are significant deficiencies with the structure of this site:
- documents that are uploaded onto the site are displayed as one long list and are not categorised. This contrasts with websites not hosted by the unitary authority where separate pages are set up to store different documents, for example, a page dedicated to agendas and minutes.
  - there are no search functions that allow users to find specific documents. Instead, users must scroll through all documents published on an individual council's page.
  - documents are displayed in the order they were uploaded to the site. This means that individual documents are difficult to locate.
  - hyperlinks to other councils that independently host their website do not work.
  - there are duplicate council subsites. For example, Eglwysrwrw Community Council<sup>12</sup>.
- 131 In my opinion, the [pembstcc.co.uk](http://pembstcc.co.uk) website has such significant deficiencies that it is not fit for purpose.
- 132 I am informed that the website will be closed at the end of March 2025. It is therefore important for all Pembrokeshire councils to make their own arrangements for websites in the future. Regardless of decisions made regarding the Pembrokeshire site, the responsibility to comply with legislation rests with individual town and community councils.

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11 [Pembrokeshire Town and Community Councils \(pembstcc.co.uk\)](http://Pembrokeshire Town and Community Councils (pembstcc.co.uk))

12 The [second Eglwysrwrw Community Council website](#).

## New audit arrangements are identifying significant issues that are common across the sector

### **The documents provided by councils are often inadequate, incomplete and fall far below my expectations**

133 The Practitioners' Guide – Governance and Accountability for Local Councils in Wales – A Practitioners' Guide, published by One Voice Wales and the Society of Local Council Clerks sets out proper accounting practice for the sector and includes guidance on how to maintain appropriate and adequate accounting records. However, a common theme identified at audit is that many councils do not keep adequate accounting records. For example, in 2021-22 alone, I raised the issues regarding the adequacy of accounting records at 119 councils.

### **Inadequate accounting records make it difficult to agree the accounting statements to underlying and supporting records**

134 The Practitioners' Guide includes an example cashbook. This provides a model that councils can adopt to record transactions. Whilst the requirements of the cashbook will vary from council to council, the information included within the example is the minimum I would expect to see across all councils.

135 My auditors noted that it was often difficult to agree manual and spreadsheet cashbooks to the reported accounting statements for the following reasons:

- the cashbook totals are often arithmetically incorrect;
- cashbooks contain limited information making it difficult to identify what individual transactions relate to;
- entries in manual and spreadsheet-based cashbooks do not reconcile to the annual accounts;
- councils often misclassify expenditure eg including staff costs within total other payments; and
- VAT is inaccurately or not recorded.

136 If agreeing the accounting statements to a cashbook or ledger is difficult, then it becomes ever more likely that agreeing transactions on the cashbook to underlying and supporting records will also be difficult.

## **Computerised accounting packages do not guarantee or ensure that accounting records are adequate**

- 137 Computerised accounting packages such as Rialtas, Xero and Scribe can be used as an effective tool to help councils keep accounting records, prepare accounting statements and provide information for audit.
- 138 However, I have seen no immediate correlation between the adequacy of accounting records for those councils that have used computerised accounting packages and those that do not.
- 139 My auditors noted that computerised account packages also share the same issues as manual and spreadsheet cashbooks. For example, data entry can be inaccurate. The data output is only as good as the data input. Further to this, my auditors noted the following issues specifically for computerised accounting packages:
- councils do not fully understand the software packages, such as how to correct errors or input accruals.
  - councils provide incorrect or incomplete information from the software packages for audit, making it difficult to reconcile to the annual accounts. For example, councils do not provide separate creditor or debtor listings.
  - in some cases, councils make adjustments to the data generated by the accounting software but do explain what these adjustments are for or how the accounting statement can be reconciled to the accounting software data.
  - councils required the provider of the software to help close down the accounts which came at an additional cost.
  - councils misinterpret how the accounting package accounts for VAT<sup>13</sup> and other taxes.

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13 Councils that prepare accounts on an income and expenditure basis are required to report the net value of transactions but have often used the gross value in preparing accounting statements.

## **Councils are still failing to comply with regulations and the obligations placed upon them as an employer**

- 140 A common area for improvement which should be easy to rectify is regarding the employment of staff. For the 2020-21 financial year, my audit programme focused on staff employment as a governance theme. I considered whether or not councils comply with their legal duties to provide employees with contracts of employment or details of their terms and conditions of employment and whether or not they operate Pay As You Earn (PAYE).
- 141 I previously examined this area in 2016-17, when I reported that 54 councils did not have arrangements in place to manage the taxation of officers' pay.
- 142 It is therefore disappointing to note that for the 2020-21 financial year, I issued 61 qualified audit certificates for failing to provide a written contract of employment and 23 qualified audit certificates for not operating PAYE.
- 143 This issue persists in transaction-based audits where auditors trace staff cost transactions to source documents such as payslips and employment contracts.
- 144 In 2021-22 and 2022-23 (to date) I have issued 21 qualified audit certificates on the basis of councils not operating PAYE.

## **Staff costs within accounting statements are commonly misstated or there are inadequate accounting records to support the reported figure**

- 145 My auditors have also noted it has been difficult to confirm the accuracy of staff costs for the following reasons:
- contracts of employment do not exist or have not been updated to reflect changes in terms of conditions eg the inclusion of any approved allowances or pension arrangements;
  - contracts of employment have not been amended from a template document to reflect the arrangements of the council;
  - evidence of pay awards and increases have not been retained;
  - payslips and PAYE records have not been retained; and
  - councils have included expenses and other reimbursements within staff costs.
- 146 The reported staff figure must comprise all payments directly incurred in the employment of staff. This includes gross wages, taxable benefits and associated employer costs such as national insurance contributions.

## **Councils are not acting as proper stewards for public assets by not keeping appropriate records regarding fixed assets**

- 147 The reported value of fixed assets by councils has risen from £208 million in 2018-19 to £247 million in 2022-23, reflecting sector changes such as the transfer of assets and services from principal bodies to community councils.
- 148 However, the basic record keeping of maintaining an asset register continues to be an issue. Since 2018-19, I have issued 57 qualified audit certificates for materially misstated fixed assets and reported to councils 36 times regarding minor issues regarding the reported fixed asset figure<sup>14</sup>.
- 149 Capital expenditure by community councils is subject to the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003. Poor record keeping regarding fixed assets puts councils at risk of not complying with the regulations. In addition to the compliance risk, poor record keeping exposes councils to the risk of financial loss due to improper asset management and misappropriation of assets.
- 150 Councils can greatly reduce these risks by ensuring they have a complete and accurate asset register. The One Voice Wales Practitioners' Guide provides guidance on the minimum information an asset register should contain.

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14 Town and community councils are not subject to capital accounting and do not charge depreciation or other capital adjustments. Town and community councils must record fixed assets initially at cost, but may wish to subsequently remeasure the valuation of the assets that they deem appropriate and relevant.

**How councils make and approve decisions is poorly documented, which has made it difficult to obtain evidence to determine whether the council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources**

- 151 The second assertion made by councils in the annual governance statement is that they have maintained an adequate system of internal control. A key component of internal control is that councils should have proper arrangements for making and approving payments.
- 152 Since 2018-19, I have issued 82 qualified audit certificates on the basis of councils not having effective internal control regarding making and approving payments.
- 153 From 2021-22 onwards, I have examined councils' compliance with their own documented system of controls over payments. In 2021-22, I issued qualified opinions at 51 councils where there were inadequate controls or where the council did not follow its documented arrangements.
- 154 It is concerning to note that basic approval mechanisms are not in place in many councils. The areas of concern my auditors identified regarding making and approving payments were as follows:
- electronic payments do not allow for adequate segregation of duties;
  - retrospective approval of payments was becoming common practice; and
  - the record of approval of payments within minutes is ambiguous.
- 155 The impact of a failure to establish and operate proper internal controls can be severe and result in significant losses to the public purse. Failures in internal control are a common issue addressed in my reports in the public interest.



**Councils are legally required to establish standing orders for the supply of goods, materials or for the execution of works. However, many Councils fail to establish appropriate standing orders or disregard them completely**

- 156 A key component of internal control is for community councils to have in place rules governing the way in which they will conduct business. These rules are often referred to as:
- standing orders which govern the way in which the council will operate, eg how council meetings are to be conducted, the establishment and operation of committees and sub-committees, public access to meetings, code of conduct requirements rules relating to member interests etc; and
  - financial regulations which govern the way in which the council manages its financial affairs, eg financial delegation arrangements, banking of receipts, accounting and audit arrangements, payroll etc.
- 157 Standing orders and financial regulations contain rules for the council to procure goods and services and therefore help to ensure that the council secures value for money.
- 158 **Exhibit 10** sets out the number of audit certificates I have issued where I have identified that a council does not have proper arrangements to secure value for money. This has been split by those councils that have not followed their own rules and those that have not adopted appropriate standing orders and financial regulations eg by not reviewing the thresholds for entering into a competitive process for procurement.

### Exhibit 10 – number of qualified audit certificates issued for issues relating to standing orders and financial regulations

The number of councils receiving qualified audit opinions increased significantly in 2021-22

<b>Number of qualification issues included in report to single councils</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>
Councils that received a qualified audit report for not following their own rules	5	4	31	22	3
Councils that received a qualified audit certificate for having inadequate standing orders and financial regulations	1	0	23	6	27

Source: Audit Wales analysis

- 159 My auditors have identified issues relating to standing orders and financial regulations as part of the transaction-based audits. From the ongoing work for the 2022-23 and 2023-24 transaction based audits, I have noted the trend is likely to continue. I will consider standing orders and financial regulations as a governance theme in future years.
- 160 Non-compliance with standing orders and financial regulations coupled with poor record keeping and inadequate arrangements for making and approving payments exposes councils to financial loss.

## Significant problems at 23 councils led to me issuing statutory recommendations or reports in the public interest between 2019 and 2024

### **My public interest reports and statutory recommendations arise from focussed work to address risks highlighted by my audit teams**

- 161 My normal audit work is designed to be proportionate to the size of community councils and the sums of public money that they manage. The audit process should be efficient and allow councils to publish audited accounts in accordance with the statutory timetable for councils.
- 162 My auditors undertake detailed and focussed audit work to address the risks identified when:
- councils do not submit the annual returns within a reasonable timescale;
  - there are repeated difficulties with contacting or obtaining information needed for the audit, from the clerk to the council;
  - the audit team identifies significant issues during their normal audit work; and/or
  - local electors exercise their rights to ask questions at audit or to make objections to the accounts.

### **Town and community councils in Wales can learn lessons from the reports in the public interest issued to 11 councils and the statutory recommendations issued to 12 councils since 2019**

- 163 The Public Audit (Wales) Act 2004 requires me to consider whether during the course of my audit, I should make a report on any matter which comes to my notice in order for it to be considered by the council or brought to the attention of the public. I refer to these reports as reports in the public interest or public interest reports.
- 164 I also have a statutory power to issue written recommendations to councils and require the councils to consider those recommendations in accordance with specific provisions within the Act. I refer to these as statutory recommendations.

- 165 Where I exercise these powers, councils must consider the reports and/or recommendations at a public meeting and publish their response to the report or recommendations.
- 166 Town and community councils in Wales can learn lessons from the reports in the public interest issued to 11 councils and the statutory recommendations issued to 12 councils since 2019 as listed in **Appendix 4**.
- 167 I normally expect that the publication of a report in the public interest to be an unusual occurrence. Since 2019, however, I have noted an increase in the number of issues as noted in the previous sections of this report.
- 168 Community councils are responsible for the management of public funds and where there are significant failures in financial management and governance at individual councils, I consider that it is important to draw these failures to the attention of the community that the councils serve.
- 169 While these reports and recommendations are addressed to the individual councils, there are usually lessons that can be applied to other councils across Wales. I recommend that all councils consider the issues raised in the reports and whether any of the issues raised may apply to them.

### **Community councils have incurred expenditure that in my view is unlawful**

- 170 Community councils may only incur expenditure where they are able to demonstrate that they have statutory powers and functions to do so. Such powers include the power to provide and equip community buildings, the power to promote visitors and the power to provide recreational facilities<sup>15</sup>.
- 171 Failure to do so may render the expenditure unlawful. My public interest reports provide examples of where in my view councils acted unlawfully. The Local Government and Elections (Wales) Act 2021, Section 24 introduced the general power of competence which grants a council the power to do anything that individuals generally may do. The general power of competence is not available to all councils but only to those that qualify by meeting the three eligibility criteria:
- two-thirds of councillors are declared elected;
  - the council must have a qualified clerk as specified by the regulations; and
  - the two most recent audit certificates were unqualified.

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15 An indicative list of legal duties and powers can be found in the [Good Councillors Guide 2022](#).

- 172 The general power of competence does not allow for councils to bypass prohibitions, limitations or restrictions contained in existing legislation. It also highlights the importance that all councils must act reasonably<sup>16</sup>.

**Inadequate internal control arrangements are a common theme within my public interest reports and can result in losses due to theft and fraud or cause councils to make unlawful payments**

- 173 Insufficient internal controls within community councils can lead to losses resulting from theft and scams, posing significant financial risks and tarnishing the council's reputation. Inadequate internal control arrangements create opportunities for individuals with access to council funds or assets to exploit vulnerabilities for personal gain.
- 174 Councils are at a greater risk of fraud and theft as often councils rely on a single individual (usually the clerk) wielding excessive control over financial processes. Without proper scrutiny or controls, councils can lose significant sums of money, as seen in our public interest reports on Llangynwyd Middle Community Council, Maesteg Town Council, and Ynysawdre Community Council.
- 175 Our report on Harlech Community Council shows how scams targeting community councils may exploit weaknesses in internal controls to deceive council members or staff into authorising payments.
- 176 In my view, where a council fails to follow its own internal rules or follow proper process for procuring goods and services, it incurs unlawful expenditure. Councils with poor internal controls are also more likely to incur expenditure where they lack the statutory authority to make the payments, as seen at Abertillery and Llanhilleth Community Council.

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16 Councils must act in accordance with the principle established in the case of Associated Provincial Picture Houses Ltd v Wednesbury Corporation (1948) known as the Wednesbury case.



# Appendices

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- 1 Audit arrangements for community councils in Wales**
- 2 Annual Governance Statement**
- 3 Future audit programme**
- 4 Public interest reports and statutory recommendations**
- 5 Audit fees**
- 6 Further guidance**

# 1 Audit arrangements for community councils in Wales

**My audit arrangements for community and town councils are designed to meet my statutory duties under the 2004 Act and to provide assurance that is proportionate to the size of individual councils and the risk to the public purse**

Section 13 of the Public Audit (Wales) Act 2004 (the 2004 Act) states that all local government bodies must make up their accounts to 31 March each year and ensure that the accounts are audited by the Auditor General for Wales (the Auditor General).

The 2004 Act sets out my responsibilities as Auditor General for the audit of community council accounts. These include:

- Sections 17 and 23: general duties to ensure that the accounts have been properly prepared, to provide an opinion on the accounts and to satisfy myself that the council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources;
- Section 22: duty to consider whether, in the public interest, I should make a report on any matter which comes to the Auditor General's notice in the course of the audit; and
- Sections 30 and 31: duty to make arrangements for electors to ask questions or make objections to the accounts.

In establishing the audit arrangements, I have taken account of the relatively small size of the sector as a whole and of individual councils and have adopted a lighter touch approach to that followed for other parts of the public sector in Wales.

The audit arrangements for community councils are designed to:

- enable me to discharge my responsibilities as the statutory auditor for community councils;
- provide local residents with a reasonable level of assurance on the effective financial management and governance of their community council; and
- support all councils to improve their financial management and governance arrangements where further development is needed.

## The audit opinion and assurance provided

The audit process is designed to give reasonable but not absolute assurance that the accounts have been properly prepared and proper arrangements are in place to secure value for money. In order to ensure the audit is proportionate, we do not apply International Standards on Auditing to community and town councils. As such we give a negative assurance rather than a positive assurance opinion.

With a positive assurance opinion, we would state that the Accounts give a true and fair view of the financial position of the council. With a negative or limited assurance opinion we state that nothing has come to our attention that gives us cause for concern or suggests that the accounts have not been properly prepared.

In my previous reports on financial management and governance in the sector, I identified a series of systemic weaknesses that affected a large proportion of community and town councils. I also noted that in the more significant cases, I considered that the weaknesses identified were sufficiently serious to warrant my making a report in the public interest. In some instances, the deficiencies identified led to a significant loss to individual councils.

In response to these issues, in 2020 I consulted on and published [Future Audit Arrangements for Community and Town Councils in Wales](#) setting out a new audit regime. The new arrangements incorporate a more rigorous approach to help councils identify areas for improvement as soon as possible and to avoid more serious consequences arising when deficiencies go undetected. I also published a [webinar](#) setting out how the audit arrangements will work in practice.

The audit programme has two strands:

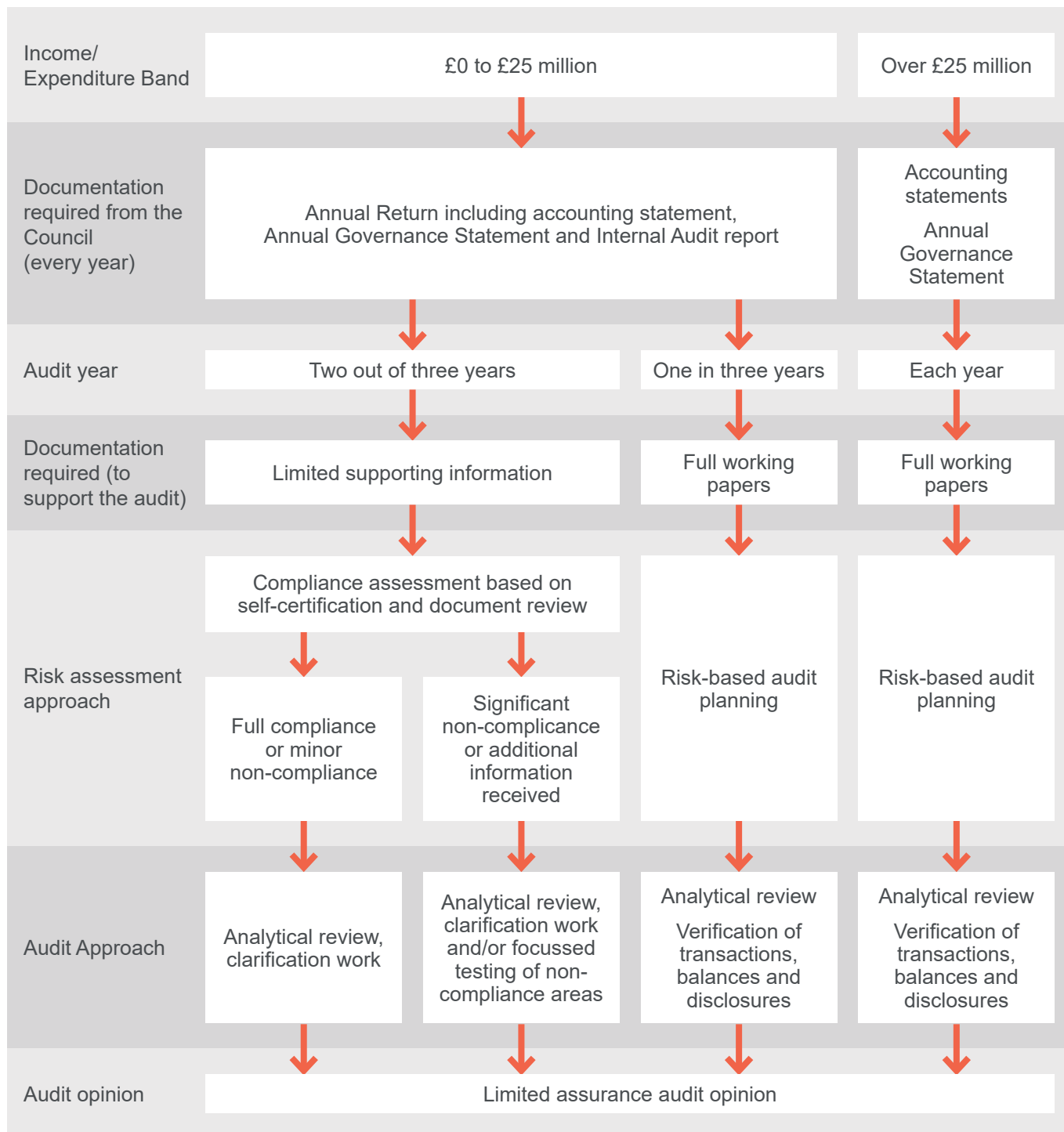
- a planned programme of work that follows a three-year cycle. This arrangement applies to all councils. Each council will receive a limited defined procedures audit in two of the three years and a more in-depth examination in the third year.
- re-active work undertaken at individual councils in any given year. This work may result from significant issues arising being identified during the planned audit work, or in response to issues raised by electors' questions and objections, and other correspondence that we receive from time to time.



The new arrangements are summarised in **Exhibit 11** below:

**Exhibit 11 – the external audit approach**

The external audit follows a three-year cycle incorporating two basic audits and one more detailed audit at each council.



Source: Auditor General's report on Future Audit Arrangements

The limited procedure audit process involves a review of the annual accounts and an examination of the council's financial management and governance arrangements that underpin securing value for money in councils' use of resources.

The triennial transaction-based approach involves auditors examining an individual council's accounts and tracing transactions through to source records, confirming the completeness and accuracy of the accounts.

In addition to conducting this core audit work, auditors perform supplementary audit work when deemed necessary. This additional work may arise when:

- councils fail to submit accounts for audit on a timely basis; or
- the audit process identifies significant issues; or
- we receive questions, objections and other correspondence raising significant concerns about individual councils.

The new arrangements were due to commence for the audit of the 2020-21 accounts. However, due to the impact of COVID-19 causing significant delays in the completion of the 2019-20 accounts, implementation was postponed for a year. The three-year cycle of two limited procedure audits and one transaction-based audit therefore commenced for the audit of the 2021-22 accounts. To manage the overall programme across each three-year cycle, all councils were allocated to one of three groups so that in any given year, one-third of councils are subject to the full audit process.

## 2 Annual Governance Statement

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

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

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

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<b>Assertion</b>	<b>This means that the Council has</b>
8. We have taken appropriate action on all matters raised in previous reports from internal and external audit.	<ul style="list-style-type: none"><li>• Considered all reports received from both internal and external auditors.</li><li>• Identified and taken all appropriate action required to address deficiencies identified by the auditors.</li></ul>
9. Trust funds – The body acts as sole trustee for and is responsible for managing trust fund(s)/assets. We exclude transactions related to these trusts from the Accounting Statement. In our capacity as trustee, we have discharged our responsibility in relation to the accountability for the fund(s) including financial reporting and, if required, independent examination or audit.	<ul style="list-style-type: none"><li>• Met all of its responsibilities where it is a sole managing trustee of a local trust or trusts.</li></ul>

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### 3 Future audit programme

#### My audit arrangements are designed to ensure that councils have proper arrangements in place without adding an additional burden on individual councils

One of the key considerations of Audit Wales' approach to the review of the Annual Governance Statement (AGS) is to examine areas that councils can reasonably be expected to have arrangements in place. In most cases this means areas where councils have a statutory duty to put arrangements in place or where such arrangements, although not specified in law, are essential to deliver an adequate and effective system of internal control.

Adopting this approach means that councils should not be required to undertake any substantial additional work over and above what they should already be doing. Evidence to support the assertions made in the AGS should be readily available.

Auditors will therefore ask councils to provide documented evidence that they have put arrangements in place. This may include:

- Copies of relevant documents presented to the council eg budgets
- Copies of relevant minutes demonstrating that the council adopted required policies or made decisions
- Copies of documents presented to the council by third parties eg internal audit reports, insurance schedules

## My audit approach for the next five years will continue to focus on common areas of concern where there is significant scope for improvement across the sector as a whole

In previous years, I set out in advance my audit programme for the examination of key governance themes. Looking ahead to the next five years, my audit programme will continue to focus on areas where there is scope for local councils to improve their financial management and governance.

The programme focuses on recurring themes identified as part of the annual audit cycle and is intended will help councils to improve their arrangements, where required, over time. **Exhibit 12** sets out the current proposed timetable for future governance themes. Councils should note that these may change if significant issues arise from the annual audits.

**Exhibit 12: future audit themes 2024-25 to 2028-29**

	<b>Core (basic/full) audit coverage</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27</b>	<b>2027-28</b>	<b>2028-29</b>
1. In consultation with the community, we have developed a vision and purpose for the Council and used this vision to inform the Council's plans, budget and activities.	Annual Basic audit check for councils > £200,000		Annual report		Annual report	
2. We have adopted a Code of Conduct for members and officers and implemented an appropriate training plan for members to ensure all councillors understand their role and responsibilities.		Copy of training plan			Copy of Code and member acceptance of office	
3. We have ensured that we electronically publish the information the Council is required to publish by law, on its website at [insert name of website].	Covered by triennial full audit and by exception at basic audit					



	<b>Core (basic/full) audit coverage</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27</b>	<b>2027-28</b>	<b>2028-29</b>
4. We have taken all reasonable steps to ensure that the Council complies with relevant laws and regulations when exercising its functions, including borrowing, employment of staff, and payment of allowances to members.	Covered by triennial full audit and by exception at basic audit					
5. We have adopted standing orders, financial regulations and terms of reference and ensure that these are followed when conducting business including functions delegated to committees.	Compliance with standing orders/financial regulations covered by full audit and by exception at basic audit					Scheme of delegation and terms of reference for committees

	<b>Core (basic/full) audit coverage</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27</b>	<b>2027-28</b>	<b>2028-29</b>
6. We have put in place arrangements for: <ul style="list-style-type: none"> <li>• effective financial management including the setting and monitoring of the Council's budget;</li> <li>• maintenance and security of accurate and up-to-date accounting and other financial records; and</li> <li>• identifying potential liabilities, commitments, events and transactions that may have a financial impact on the Council.</li> </ul>	Maintenance of records covered by triennial full audit and by exception at basic audit	Schedule of planned capital projects	Budget monitoring arrangements including reserves	Template for councils to complete to explain how they identify liabilities, commitments etc		

	<b>Core (basic/full) audit coverage</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27</b>	<b>2027-28</b>	<b>2028-29</b>
7. We have maintained an adequate system of internal control and management of risk, including: <ul style="list-style-type: none"> <li>• measures designed to prevent and detect fraud and corruption including clearly documented procedures for authorising and making payments;</li> <li>• assessment and management of risks facing the Council;</li> <li>• an adequate and effective system of internal audit; and</li> <li>• reviewed the effectiveness of these arrangements.</li> </ul>	Arrangements for making payments and insurance reviewed at full audit		Internal audit terms of reference and report			Risk assessment report to council

	<b>Core (basic/full) audit coverage</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27</b>	<b>2027-28</b>	<b>2028-29</b>
8. We have taken appropriate action on all matters raised in previous reports from internal and external audit.	Covered annually by basic audit steps					
9. We have provided proper opportunity for the exercise of electors' rights in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Accounts and Audit (Wales) Regulations 2014.			Publication of notice of completion of 2023-24 audit including audit opinion		Evidence of publication of audit notice for current year	
10. General power of Competence – The Council has resolved to adopt the General Power of Competence set out in the Local Government and Elections (Wales) Act 2021.	Verification as and when required to address audit issues					

## 4 Public interest reports and statutory recommendations

The 2004 Act places duties on the Auditor General to consider whether or not he should report his audit findings publicly.

- Section 22: The Auditor General must consider at each audit whether any matters have come to his attention that he considers should be reported in the public interest.
- Section 25: The Auditor General may issue written recommendations to a council that he considers should be considered by the Council in the same way in which reports in the public interest are considered. We refer to these recommendations as statutory recommendations.

In both cases, the recipient council must hold a public meeting to consider the report and/or recommendations and must publish a response to the report or recommendations.

**Since my last national report on the 2018-29 audits, I have issued 11 reports in the public interest to community councils**

Reports in the public interest are issued when my audit identifies serious failings that are fundamental to the audit or to the Council's financial management and governance arrangements.

Since January 2020, I have issued 11 reports in the public interest to draw attention to significant issues at individual councils. These issues include:

- Failure to prepare accounts for audit and/or non-cooperation or obstruction of the audit process
- Significant failures in internal control that resulted in large value losses to councils
- Poor procurement practices
- Breakdowns in relationships within councils

These reports are published on the [Audit Wales](#) website.

### **Exhibit 13: public interest reports issued since 2020**

Since January 2020, I have issued reports in the public interest to 11 councils in Wales.

#### **Reports in the public interest**

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Abertillery and Llanhilleth Community Council

Ammanford Town Council

Harlech Community Council

Llanferres Community Council

Llangynwyd Middle Community Council

Llanpumsaint Community Council

Maesteg Town Council

Magor with Undy Community Council

St Harmon Community Council

Sully and Lavernock Community Council

Ynysawdre Community Council

Source: Audit Wales analysis

## In addition to the reports in the public interest, I have issued statutory recommendations to a further 12 councils across Wales

I issue statutory recommendations when significant issues are identified at audit, but these issues are not considered to be pervasive to the Council's overall financial management and governance arrangements.

These reports should be published on the individual councils' websites.

### **Exhibit 14: reports with statutory recommendations issued since 2020**

Since January 2020, I have issued statutory recommendations to 12 councils across Wales.

#### **Reports with statutory recommendations**

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Abergele Joint Burial Board

Aberporth Community Council

Bangor City Council

Bethesda Community Council

Blaengwrach Community Council

Clocaenog Community Council

Crai Community Council

Johnston Community Council

Llandyrnog Community Council

Llansteffan and Llanybrie Community Council

Ogmore Valley Community Council

St Ishmaels Community Council

## 5 Audit fees

Section 20 of the 2004 Act sets out the basis upon which we charge fees for the audit and states that:

- the Wales Audit Office must prescribe a scale or scales of fees payable in respect of the audit of accounts of local government bodies in Wales. This scale is included in the annual Fee Scheme;
- the Wales Audit Office must charge a fee in accordance with the Fee Scheme in respect of functions exercised by the Auditor General; and
- a local government body in Wales must pay to the Wales Audit Office the fee payable in respect of the audit in accordance with the appropriate scale.

Our audit fees are charged on an hourly basis at grade-related fee rates. The hourly rates are set out in the annual Fee Schemes. Most of the audit work is completed by our trainees and apprentices. Their work is reviewed by one of our senior auditors and a final review by an audit manager or director. More time is required for senior auditor, manager and/or director review where the audit has identified issues that lead to a qualification or a reporting matter.

The total fee charged is therefore directly related to the quality of submission by the councils. We are currently consulting on indicative fee ranges for the sector that take into account our experience of the work required under the new audit arrangements.

In general, our fees range from around £200 to £400 for a basic audit and from around £300 to £1,500 for a full audit. There are outliers with higher fees. In some cases, these are the larger councils with more complex activities and therefore our audit testing is extended. In other cases, there may be specific and significant issues or correspondence.

The small value of individual fees means that a small amount of additional work may lead to a large percentage increase in the cost of the audit even though the absolute value of the increase is a small sum of money. Provided councils submit accounts on time along with full information and there are no issues arising at audit, then the audit fee will be small in value and not prohibitively expensive.



## 6 Further guidance

### Audit Wales publishes reports relevant to community councils on its website

In addition to reports in the public interest issued to individual councils (see **Appendix 4**), since 2009, Audit Wales has published various national reports directly relevant to the sector. These include the annual Financial Management and Governance reports, Good Practice Exchange materials, and a report on internal audit in the sector. These documents are free to access for all councils.

### Governance and Accountability for Local Councils in Wales: A Practitioners' Guide (the Practitioners' Guide) is freely available to all councils in Wales

The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 specify that the Practitioners' Guide represents proper accounting practice for community councils in Wales. It is therefore essential reading for all councils.

The Practitioners' Guide is published on the [One Voice Wales](#) and [Society of Local Council Clerks'](#) (SLCC) websites and is available free of charge in electronic format to all councils. A printed copy of the Practitioners' Guide may be purchased from One Voice Wales.

### The Finance and Governance Toolkit for Community and Town Councils has been developed to help councils address common issues

The Finance and Governance Toolkit for Community and Town Councils was co-developed by the Welsh Government, One Voice Wales and the SLCC. This toolkit will support councils to meet their statutory responsibilities, have strong financial management and governance, and deliver the best outcomes for their communities.

It is available free of charge from [One Voice Wales](#) and the [SLCC](#). One Voice Wales also provides a [Quick Guide](#) and an [FAQ](#) sheet to assist councils.



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Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.