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Governance and accountability of the community and town council sector

Governance and scrutiny arrangements – the role of the Auditor General

- 1 The Auditor General provides an important element of the overall scrutiny and accountability arrangements in place for community and town councils. He examines the accounts and provides assurance to both the councils and the public over the accounts, and he reports on councils' arrangements to secure value for money. "Assurance" here essentially means reporting that the accounts have been properly prepared and that proper arrangements are in place to secure value for money. Where this is not the case, the Auditor General will report accordingly.
- 2 The Auditor General's responsibilities in respect of community and town council accounts are chiefly set out in the Public Audit (Wales) Act 2004¹. The Act sets out that the AGW must:
 - Audit and give an opinion on the accounts
 - Consider whether or not the council has in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources
 - Consider whether or not there are any matters that should be reported in the public interest.

Overview of audit arrangements

Objectives of the audit approach

- 3 The audit arrangements in place are designed to achieve the following aims:
 - To discharge the AGW's statutory responsibilities

¹ Principally sections 13, 17, 22, 30 and 31 of the 2004 Act. The Accounts & Audit (Wales) Regulations 2014, made under the 2004 Act, also place responsibilities on the Auditor General.

- To be proportionate to the overall risk to the public purse presented by the sector as a whole and individual bodies within the sector.
- To provide a reasonable degree of assurance to the councils and the public about councils' use of public funds and their financial positions

The audit opinion and assurance provided

- 4 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.
- 5 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.

Overview of the audit programme

- 6 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.

Audit fees

- 7 Our audit fees are charged in accordance with our Annual Fee scheme. In the event that all audits were completed with no additional issues arising, we estimate that the total fees for the sector would be approximately £220,000. Currently we estimate that a full year's programme will cost approximately £250,000 to £300,000 for

the sector as a whole. This takes into account additional work arising in response to issues raised at audit.

- 8 The actual fee charged to individual councils will however vary considerably. The value of individual councils' fees are relatively small, usually amounting to no more than a few hundred pounds. The small value of the fees means that even relatively small amounts of additional work will result in a large percentage increase in the audit fee charged. However, these fees can escalate quickly where there are numerous or significant issues at audit.
- 9 The process of monitoring and chasing a very large number of small fees generates considerable administrative cost and work for Audit Wales.

Current position

- 10 Our audit programme for the sector has been set back by the long-term impact of COVID19 on our overall programme of audit across the public sector. Prior to the 2020-21 accounts, audit of the sector was undertaken on the AGW's behalf by private sector firms. Since then, Audit Wales has taken all the work in-house. In 2020, councils were late submitting large numbers of accounts to the then audit suppliers. Consequently, the auditors handed over to Audit Wales a total of 449 incomplete audits, of which many had not submitted accounts for 2019-20. In some cases, accounts had not been submitted for one or more of the previous years. Ongoing COVID restrictions through 2021 exacerbated the situation and created a significant backlog of work that we are still clearing in the context of our wider programme of work.
- 11 As at 30 September 2024, over 100 councils had not submitted the 2023-24 accounts for audit despite reminders being issued to all overdue councils. The equivalent figure for the 2022-23 audits at 30 September 2023 was in excess of 200. As at 30 September 2024, 22 councils had still not provided their 2022-23 accounts for audit. Currently, we have yet to receive accounts for audit for earlier years from a small number of councils (2021-22 12 councils, 2020-21 16 Councils, 2019-20 and earlier 6 councils).
- 12 Of those accounts we have received, we have completed the audits as follows:
 - 2019-20 and earlier 87%
 - 2020-21 95%
 - 2021-22 91%

- 2022-23 75%
- 2023-24 21%

Audit work has been completed on many of the remaining councils and the accounts are awaiting certification (2020-21 - 3%, 2021-22 - 5%, 2022-23 -16%, 2023-24 - 53%).

- 13 In so far as we are able to², by the end of this calendar year we aim to complete the audits of accounts we have received by 30 September 2024.

Audit's contribution to accountability

- 14 The Auditor General provides assurance to the public and to the councils themselves through his annual audit report and certificate on the accounts. This may, however, be being compromised somewhat because the law in respect of publication of audit certificates is not entirely straightforward. The Democracy and Boundary Commission Cymru etc. Act 2013 require community councils to publish audited statements of accounts electronically, but it does not make specific provision for the publication of audit reports and certificates. The Accounts and Audit (Wales) Regulations 2014 require community councils that are "larger relevant bodies" to publish, including on their website, all reports and audit certificates issued by the Auditor General. In the case of community councils that are "smaller relevant bodies", the Regulations require councils to publish all such reports and certificates, but the Regulations do not refer to publishing these on a website.
- 15 While we consider that the law could be interpreted in a way that does not require all community councils to publish audit reports and certificates on their websites, we think that such an interpretation is contrary to common sense and proper transparency and accountability. However, our audit work identifies that many councils do not routinely publish the audit certificate attached to the annual accounts.
- 16 In addition to providing assurance through the annual audit report, the Auditor General has powers to issue reports in the public interest. This provides the Auditor General with a range of options to address issues in the most appropriate manner.
- 17 Our reporting of issues at councils has generated some degree of interest at local level across other councils. We regularly receive

² In some cases, audits remain open due to ongoing audit issues.

correspondence raising concerns about individual councils or asking questions and raising objections about the accounts. Our reporting therefore has a positive effect on accountability at local level

- 18 In many such cases, the issues raised have little or no substance. Correspondents may have simply misunderstood what the council has done.
- 19 We do, however, consider each case on its merits as in a reasonable proportion of cases, the correspondent identifies some important issues. For example, some Auditor General reports in the public interest have followed receipt of correspondence raising concerns over procurement arrangements, or an objection to the accounts³.
- 20 Some correspondence is potentially vexatious and raised due to breakdowns in relationships between councillors or between the council and individual members of the public. In some cases, the issues indicate dysfunctional relationships within the Council itself⁴.

Is the sector fit for purpose in an evolving local government landscape

- 21 We are unable to provide a definitive response to the question of whether or not the sector is fit for purpose in an evolving local government landscape.
- 22 However, we can offer our insights from the outcomes of our audit work.

Overview of the sector

- 23 There are currently around 735 bodies that fall within the regime we are referring to. This includes both community and town councils and a small number of their joint committees – these are joint burial committees or boards. The number of councils will change over the next two to three years as unitary authorities complete their reviews of their communities.
- 24 The sector is not homogenous, and councils vary considerably in terms of resources.
- 25 The largest councils spend over £1 million and the smallest just a couple of thousand pounds each year. Some of the smallest councils

³ See for example [Llanferres Community Council – Procurement arrangements | Audit Wales](#) and [Abertillery and Llanhilleth Community Council | Audit Wales](#)

⁴ See for example [Sully and Lavernock Community Council | Audit Wales](#)

have a small tax base with relatively few households potentially limiting the amount they can raise via their precept.

- 26 Exhibit 1 shows an analysis of the numbers of councils by size – measured by income and expenditure:

Exhibit 1: Relevant size of councils

	Number of councils
Less than £10,000	209
£10,001 - £20,000	142
£20,001 - £50,000	155
£50,001 - £100,000	81
£100,001 - £200,000	67
More than £200,000	83

Source: Audit Wales analysis

- 27 The majority of councils have just one administrative officer – the clerk – who discharges all of the Council’s administrative and financial functions. Many are part time and may be employed for as little as 10 hours each month.
- 28 Larger councils with a larger tax base and income from sources other than the precept may employ additional administration staff, e.g. a deputy clerk or a finance officer. These larger councils tend to employ staff on a full time or close to full time basis.
- 29 There are no requirements for qualification of clerks except where a council wishes to exercise the General Power of Competence (GPOC). One of the qualifying conditions for a council to declare itself as eligible for GPOC is that the clerk must hold a relevant qualification. At present, only a minority of clerks hold relevant qualifications.
- 30 Overall, this means there is a lack of capacity in many councils to take advantage of new opportunities

Audit outcomes

- 31 There is some misunderstanding in the sector about what a qualified opinion means. It means that we have identified one or more deficiencies that we consider have a material (significant) impact on

our audit conclusion. We issue a qualified audit opinion in the following circumstances.

Accounting statements

- 32 We issue a qualified opinion in relation to the Accounting Statement (the accounts) when we conclude.
- the accounts have not been prepared in accordance with proper practice and this has a material impact on the reported figures;
 - the accounts contain errors that cannot be resolved;
 - the council has not provided sufficient information for us to draw a conclusion.

Annual Governance Statement

- 33 The Annual Governance Statement is prepared by the council and is an outline of the council's governance controls. We issue a qualified opinion in relation to the Annual Governance Statement when we conclude:
- The assertions made in the AGS contradict the evidence available at audit;
 - the council has not provided sufficient information for us to draw a conclusion.

Value for money – economy, efficiency and effectiveness

- 34 We issue a qualified opinion in relation to the Council's arrangements to secure value for money when we conclude:
- Audit evidence demonstrates that the council does not have proper arrangements in place;
 - the council has not provided sufficient information for us to draw a conclusion.

Audit opinions

- 35 In total, around 50% of councils overall receive qualified audit opinions. Where we undertake a more in-depth audit (the 'full' audit), we identify more issues. Overall 58% of our triennial 'full' audits receive qualified audit opinions.
- 36 Exhibit 2 summarises the rate of qualified audit opinions by size of council.

Exhibit 2: Qualified audit opinions 2022-23

Income/expenditure	Number of councils	Audits completed	Qualified Opinions	Qualified opinions % of completed audits	Full audits completed	Qualified Opinions Full audits	Qualified Opinions % of full audits
Less than £10,000	209	191	104	54%	62	37	60%
£10,001 - £20,000	142	125	72	58%	37	23	62%
£20,001 - £50,000	155	146	58	40%	48	21	44%
£50,001 - £100,000	81	77	35	45%	26	16	62%
£100,001 - £200,000	67	63	36	57%	19	15	79%
More than £200,000	83	79	32	41%	24	13	54%
Total	737	681	337	49%	216	125	58%

Source: Audit Wales analysis of 2022-23 audit outcomes. These include councils where the audit work has been completed but are to be reviewed prior to certification. The proposed draft opinions are subject to review before issue to councils.

Common audit issues

- 37 Many councils do not get the basics right. About 30% of councils each year provide accounts that are not arithmetically correct. Mostly this is due to rounding errors but there are a significant number that are wrong for other reasons.
- 38 Exhibit 3 summarises the causes of these arithmetic errors. Approximately 60% of these errors are as a result of rounding error. A further 8% to 15% are due to simple typographical errors. These issues would be straightforward to resolve by a simple arithmetic check by the council when approving the accounts.

Exhibit 3: Accounts submitted with arithmetic errors

Each year around 30% of councils submit accounts that are not arithmetically correct.

	2022-23	2023-24
Accounts processed	703	600
Rounding errors only	126	105
Typographical errors only	29	14
Other arithmetic errors	35	33
Combinations of the above	29	24
Total number of accounts with arithmetic errors	219	176
% of councils with errors	31%	29%

Source: Audit Wales analysis

- 39 In many cases, audit qualifications could be avoided by councils making simple changes to their arrangements. Such simple changes would include:
- Ensuring that the accounts are presented to a June meeting for approval. This might include arranging a special meeting towards the month end if the council normally meets at the start of the month.
 - Checking that all information required for the audit has been included in the pack submitted for audit and
 - Addressing issues raised in previous audit reports.

- 40 Since 2015-16, we have been notifying councils in advance of the financial year of the areas we will focus on for our review of the governance statement. Such areas include contracts of employment for clerks and the operation of PAYE, and the adoption and compliance with standing orders and financial regulations. Many councils do not address these matters, so they are unable to demonstrate compliance when asked to do so at audit.
- 41 Many councils do not comply with other statutory/regulatory requirements. This may be because they do not pay any members' allowances, or they disregard the requirement to report this to the IRPW
- 42 Councillors often do not effectively scrutinise their clerk and in some cases, clerks can misuse their position. In many cases, members hand over all responsibility to their clerk.
- 43 This can cause significant losses to individual councils, as for example set out in various Auditor General reports in the public interest⁵.
- 44 At some councils, members exert undue pressure on the clerk and take responsibility on themselves for managing the council's activities⁶.
- 45 In other councils, the lack of councillor scrutiny can lead to a breakdown in financial reporting. There is a core of 15-25 councils that have not prepared accounts for council approval for 4-5 years.
- 46 Councils adopt standing orders and financial regulations that are intended to govern how they conduct business, and these include rules for financial matters. However, councils often disregard their own standing orders and financial regulations⁷.
- 47 Councils often fail to provide information requested for audit. Each year we send all councils an audit notice. This sets out the supporting information we need for the audit. Some councils simply send the same information year after year without reference to the

⁵ [See for example Failure in financial management and fraud – Maesteg Town Council | Audit Wales](#)

[Ynysawdre Community Council | Audit Wales](#)

[Llangynwyd Middle Community Council | Audit Wales](#)

[Abertillery and Llanhilleth Community Council | Audit Wales](#)

⁶ [See for example St Harmon Community Council | Audit Wales](#)

⁷ [See for example Mumbles Community Council - Expenditure on planning consultants | Audit Wales & Llanferres Community Council – Procurement arrangements | Audit Wales](#)

audit notice. Others send just the annual return with a cover message to contact them if we need anything further.

- 48 Whilst we seek to obtain the missing information, in some cases it has not been prepared or retained by the council. In other cases, information has been withheld without good reason⁸. Such cases require us to spend time chasing and persuading clerks and their councils to provide the information. Such time spent by Audit Wales staff generally has to be paid for, and to meet the rules in legislation on fees, this falls on the audit fee for the council, unless it is subsidised by supply from the Welsh Consolidated Fund, which does not seem appropriate. Obstruction sometimes leads to very large increases in the audit fee.
- 49 Increases in fees often lead councils to make complaints, and dealing with increasing numbers of complaints from community councils about the extent of audit fees is itself becoming a time-consuming and costly activity.

Scope of digital and new technology to improve decision-making, service provision and participation in local democratic processes

- 50 The standard of adoption of IT across the sector is variable. In some cases, council are still maintaining manuscript cashbooks and minutes. Large numbers of councils do not publish on their websites all of the information they are required to publish electronically.
- 51 Many clerks use their personal email addresses for council business. This often results in a loss of information when staff change. This also increases risk of loss to the public purse.
- 52 In one instance, the Auditor General has reported in the public interest to highlight deficiencies in the Council's website and its inaccessibility⁹. The report also highlighted how a third party was easily able to defraud the Council due to lax internal controls.
- 53 In order to take advantage of developments in digital and information technology, the sector as a whole will need to address issues of capacity and capability.

⁸ See for example [Llanpumsaint Community Council | Audit Wales](#)

⁹ See [Failures in financial management and governance and losses incurred – Harlech Community Council | Audit Wales](#)

How new powers and responsibilities for this tier of government are utilised to support communities

- 54 We hold limited information in relation to new powers granted to community and town councils.
- 55 We have not yet examined if or how councils have declared themselves eligible for the General Power of Competence (GPOC) and what if any activities they are undertaking using GPOC. Our understanding is that at present, there are comparatively few councils able to declare themselves eligible for GPOC.
- 56 Anecdotally, we understand that GPOC is planned to be used for activities such as:
- Supporting a local village shop
 - Acquiring and running a local post office
 - Running a local library that the local authority has decided to close
 - Provision of local bus services on routes not covered by bus companies
- 57 The key areas councils will need to focus on when applying GPOC are to ensure that the following are in place:
- A full and adequate business plan highlighting the risks, costs and benefits of the proposed activity
 - An effective system of internal control and financial monitoring of activities particularly where third party organisations are involved
- 58 We intend to review this area as part of future audits.