

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

March 2020

## SECTION ONE — THE ANNUAL GOVERNANCE STATEMENT

### Introduction

- 1.1 **The Accounts and Audit Regulations 2015** require smaller authorities, each financial year, to conduct a review of the effectiveness of the system of internal control and prepare an annual governance statement in accordance with proper practices in relation to accounts.
- 1.2 This guide represents the proper practices in relation to accounts that smaller authorities need to follow in preparing their annual governance statement.
- 1.3 The purpose of the annual governance statement is for an authority to report publicly on its arrangements for ensuring that its business is conducted in accordance with the law, regulations and proper practices and that public money is safeguarded and properly accounted for.
- 1.4 Smaller authorities prepare their annual governance statement by completing Section 1 of the Annual Governance and Accountability Return. This is in the form of a number of statements, known as assertions, to which the authority needs to answer 'Yes' or 'No'. This guide follows the order of Section 1 of the Annual Governance and Accountability Return and sets out the actions that authorities need to have taken either during the financial year or after the financial year-end to answer 'Yes' to each assertion.
- 1.5 The authority needs to have appropriate evidence to support a 'Yes' answer to an assertion, for example a reference in a set of formal minutes.
- 1.6 If an authority is not able to respond 'Yes' to any assertion, it needs to provide an explanation to the external auditor on a separate sheet describing how the authority will address the weaknesses identified. These explanations must be published along with the completed AGAR.
- 1.7 To assist practitioners, a pro-forma Annual Governance and Accountability Return is available alongside this guide.

### Annual Governance Statement assertions

#### Assertion 1 — Financial management and preparation of accounting statements

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

- 1.8 Budgeting — The authority needs to prepare and approve a budget in a timely manner before setting a precept or rates and prior to the

- commencement of the financial year. (Done in November/December) It needs to monitor actual performance against its budget during the year, (Quarterly) taking corrective action where necessary. A financial appraisal needs to be undertaken before the authority commences any significant project or enters into any long-term commitments.
- 1.9 Accounting records and supporting documents — All authorities, other than parish meetings where there is no parish council, need to appoint an officer to be responsible for the financial administration of the authority (The Parish Clerk is the RFO) in accordance with section 151 of the Local Government Act 1972. Section 150(6) of the same Act makes the chairman of a parish meeting (where there is no parish council) responsible for keeping its accounts. The authority needs to have satisfied itself that its Responsible Finance Officer (RFO) has determined a system of financial controls and discharged their duties under Regulation 4 of the Accounts and Audit Regulations 2015. The RFO needs to have put in place effective procedures to accurately and promptly record all financial transactions, and maintain up to date accounting records throughout the year, together with all necessary supporting information. The accounting statements in Section 2 of the Annual Governance and Accountability Return need to agree to the underlying records.
- 1.10 Bank reconciliation — Statements reconciling each of the authority's bank accounts with its accounting records need to be prepared on a regular basis, including at the financial year-end, and reviewed by members of the authority. (Provided at monthly meetings)
- 1.11 Investments — Arrangements need to be in place to ensure that the authority's funds are managed properly and that any amounts surplus to requirements are invested appropriately, in accordance with an approved strategy which needs to have regard to MHCLG's statutory Guidance on local government investments. If total investments are to exceed the threshold specified in MHCLG's statutory guidance at any time during a financial year, an authority needs to produce and approve an annual Investment Strategy in accordance with the MHCLG guidance.
- 1.12 Statement of accounts — The authority needs to ensure that arrangements are in place to enable preparation of an accurate and timely statement of accounts in compliance with its statutory obligations and proper practices.
- 1.13 Reserves — The authority needs to have regard to the need to put in place a General Reserve Policy and have reviewed the level and purpose of all Earmarked Reserves. (At budget time) Supporting information on financial management and preparation of accounting statements can be found in Section 5.

## Assertion 2 — Internal control

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

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

- 1.14 Standing Orders and Financial Regulations. **The authority needs to have in place standing orders and financial regulations governing how it operates.** Financial regulations need to incorporate provisions for securing competition and regulating the manner in which tenders are invited. These need to be regularly reviewed, fit for purpose, and adhered to.
- 1.15 Safe and Efficient Arrangements to Safeguard Public Money. Practical and resilient arrangements need to exist covering how the authority orders goods and services, incurs liabilities, manages debtors, makes payments and handles receipts. **Authorities need to have in place safe and efficient arrangements to safeguard public money.** Where doubt exists over what constitutes money, the presumption is that that it falls within the scope of this guidance.
  - 1.15.1 Authorities need **to review regularly the effectiveness of their arrangements to protect money.** Every authority needs to arrange for the proper administration of its financial affairs and ensure that one of its officers (the RFO) has formal responsibility for those affairs (see paragraph 1.9 above).
  - 1.15.2 **Authorities need to ensure controls over money are embedded in Standing Orders and Financial Regulations. Section 150(5) of the Local Government Act 1972 required cheques or orders for payment to be signed by two elected members.** Whilst this requirement has now been repealed, the 'two member signatures' control needs to remain in place until such time as the authority has put in place safe and efficient arrangements in accordance with paragraphs 1.15.3 to 1.15.6 of this guide.
  - 1.15.3 **Authorities need to approve the setting up of, and any changes to, accounts with banks or other financial institutions.** Authorities also need to approve any decisions to enter into 'pooling' or 'sweep' arrangements whereby the bank periodically aggregates the authority's various balances via automatic transfers.
  - 1.15.4 If held, corporate credit card accounts need to have defined limits and be cleared monthly by direct debit from the main bank account. Credit card balances are not acceptable reconciling items for bank reconciliation purposes.

- 1.15.5 The authority needs to approve every bank mandate, the list of authorised signatures for each account, the limits of authority for each account signature and any amendments to mandates.
- 1.15.6 Risk assessment and internal controls need to focus on the safety of the authority's assets, particularly money. Those with direct responsibility for money need to undertake appropriate training from time to time.
- 1.16 Employment — The remuneration payable to all employees needs to be approved in advance by the authority. In addition to having robust payroll arrangements which cover the accuracy and legitimacy of payments of salaries and wages, and associated liabilities, the authority needs to ensure that it has complied with its duties under employment legislation and has met its pension obligations.
- 1.17 VAT — The authority needs to have robust arrangements in place for handling its responsibilities with regard to VAT.
- 1.18 Fixed Assets and Equipment — The authority's assets need to be secured, properly maintained and efficiently managed. Appropriate procedures need to be followed for any asset disposal and for the use of any resulting capital receipt.
- 1.19 Loans and long-term liabilities — Authorities need to ensure that any loan or similar commitment is only entered into after the authority is satisfied that it can be afforded and that relevant approvals have been obtained. Proper arrangements need to be in place to ensure that funds are available to make repayments of capital and any associated interest and other liabilities.
- 1.20 Review of effectiveness — **Regulation 6 of the Accounts and Audit Regulations 2015** requires the authority to conduct each financial year a review of the effectiveness of the system of internal control. The review needs to inform the authority's preparation of its annual governance statement.
- 1.21 Supporting information on internal control can be found in Section 5.

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

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

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

- 1.22 **Acting within its powers** — All authorities' actions are controlled by statute. Therefore, appropriate decision-making processes need to be in place to

ensure that all activities undertaken fall within an authority's powers to act. In particular authorities need to have **robust procedures in place to prevent any decisions or payments being made that are ultra vires, i.e. that the authority does not have the lawful power to make**. The exercise of legal powers needs always to be carried out reasonably. For that reason, authorities making decisions need always to understand the power(s) they are exercising in the context of their decision making.

- 1.23 General power of competence — In particular an authority seeking to exercise a general power of competence under the Localism Act 2011 needs to ensure that the power is fully understood and exercised in accordance with the Parish Councils (General Power of Competence) (Prescribed Conditions) Order 2012.
- 1.24 **Regulations and proper practices — Procedures need to be in place to ensure that an authority's compliance with statutory regulations and applicable proper practices is regularly reviewed and that new requirements, or changes to existing ones,** are reported to members and applied. Authorities need to have particular regard to the requirements of the Accounts and Audit Regulations 2015.
- 1.25 Actions during the year — An authority needs to have satisfied itself that it has not taken any decision during the year, or authorised any action, that exceeds its powers or contravenes any laws, regulations, or proper practices.
- 1.26 Supporting information on compliance with laws, regulations and proper practices can be found in Section 5.

#### Assertion 4 — Exercise of public rights

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

In order to warrant a positive response to this assertion the authority needs to have taken the following actions in respect of the previous year's Annual Governance and Accountability Return<sup>1</sup>:

- 1.27 **Exercise of public rights.** The authority provided for the exercise of public rights set out in Sections 26 and 27 of the Local Audit and Accountability Act 2014. Part 5 of the Accounts and Audit Regulations 2015 requires the

---

<sup>1</sup> If the Annual Governance and Accountability Return referred to is that for 2014/15 (in the case of voluntary application of this guide to the Annual Governance and Accountability Return for 2015/16), the relevant legislation was the Audit Commission Act 1998 and the Accounts and Audit (England) Regulations 2011.



RFO to have published, including on the authority's website or other website:

- Sections 1 and 2 of the Annual Governance and Accountability Return;
- a declaration that the status of the statement of accounts is 'unaudited'; and
- a statement that sets out details of how public rights can be exercised, as set out in Regulation 15(2)(b), which includes the period for the exercise of public rights.

1.28 External Auditor's Review — A notice of the conclusion of the external auditor's limited assurance review of the Annual Governance and Accountability Return, together with relevant accompanying information, was published (including on the authority's website or other website) in accordance with the requirements of Regulation 16 the Accounts and Audit Regulations 2015.

1.29 A parish meeting may meet the publication requirements by displaying the information in question in a conspicuous place in the area of the authority for at least 14 days.

1.30 Supporting information on the exercise of public rights can be found in Section 5.

#### Assertion 5 — Riskmanagement

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

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

1.31 Identifying and assessing risks — The authority needs to identify, assess and record risks associated with actions and decisions it has taken or considered taking during the year that could have financial or reputational consequences.

1.32 Addressing risks — Having identified, assessed and recorded the risks, the authority needs to address them by ensuring that appropriate measures are in place to mitigate and manage risk. This might include the introduction of internal controls and/or appropriate use of insurance cover.

1.33 Supporting information on risk management can be found in Section 5.

### Assertion 6 — Internal Audit

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

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

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

### Assertion 7 — Reports from Auditors

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

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

### Assertion 8 — Significant events

**We considered whether any litigation, liabilities or commitments, events or transactions, occurring either during or after the year-end, have a financial impact on this smaller authority and, where appropriate have included them in the accounting statements.**

To warrant a positive response to this assertion, the authority needs to have taken the following actions where necessary:

- 1.39. Significant events — **The authority needs to have considered if any events that occurred during the financial year (or after the year-end), have consequences, or potential consequences, on the authority's finances.** If any such events are identified, the authority then needs to determine whether



the financial consequences need to be reflected in the statement of accounts.

1.40. Supporting information on significant events can be found in Section 5.

Assertion 9 — Trust Funds (local councils only) **N/A**

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

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

1.42. Supporting information on trust funds can be found in Section 5.

#### Approval process

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

This is done at the May/June meeting, after the Internal Audit has been carried out

