

The Proper Practices Code for Category 2 Authorities in England



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1. Introduction

This document details Proper Practices for Category 2 authorities in England to assist them with turning legal accountability requirements into a clear, standard set of governance and accounting practices that authorities can follow to manage public funds properly and demonstrate accountability.

It also provides support in line with legal requirements and best practices for relevant authorities when completing their statutory accounting and governance statements, which form part of the Annual Governance and Accountability Return (AGAR).

This updated 2027 edition of Proper Practices, now renamed as the Proper Practices Code for Category 2 Authorities (England), applies in respect of financial years commencing on or after 1 April 2027. It relates to the AGAR for the year ending 31 March 2028, which **must**¹ be prepared in line with this document and covers the financial year 1 April 2027 to 31 March 2028.

The Proper Practices within this 2027 edition **must**¹ also be applied in all subsequent financial years until a further edition is published by the Smaller Authorities Proper Practices Panel (SAPPP).

From April 2027, Category 2 authorities should submit their AGAR data electronically via a digital portal. Electronic submission will become mandatory under Proper Practices by 2028/29. Details of training and support available to assist you in using the portal are included on the digital portal page.

Proper Practices detailed within this document are supported by the Proper Practices Code Guidance Notes for Category 2 Authorities (England), referred to as ‘the Guide’ throughout this document.

1.1 The Smaller Authorities' Proper Practices Panel remit to set Proper Practices for Category 2 Authorities in England

The Smaller Authorities' Proper Practices Panel (SAPPP) includes representatives from the Association of Drainage Authorities (ADA), the National Association of Local Councils (NALC) and the Society of Local Council Clerks (SLCC), along with stakeholder partners.

As detailed within the Accounts and Audit **Regulations**², SAPPP is responsible for issuing the Proper Practices detailed within this document, relating to the Statement of Accounts, that are recognised as a legally binding requirements on all Category 2 authorities in England.

Legislation also states that Category 2 authorities’ annual governance statements (AGS) **must**³ be prepared in accordance with Proper Practices. Therefore, SAPPP has the authority, through legislation⁴, to set the requirements for the AGS also.

This discretion is limited only by conventional principles of public law; It **must**^{5,6} not conflict with a legal obligation the authority already has and **must**⁵ not include matters that are not

¹ [1.2 SAPPP authority to set Proper Practices.](#)

² [Regulation 11 of the Accounts and Audit Regulations 2015.](#)

³ [The Local Authorities \(Capital Finance and Accounting\) \(England\) Regulations 2003.](#)

⁴ [Regulation 31 of the Local Authorities \(Capital Finance and Accounting\) \(England\) Regulations 2003.](#)

⁵ Public law principle.

⁶ [Local Government Act 2003 Section 21 \(2\)–\(3\)](#) 21 Accounting practices

relevant to an annual governance statement. Therefore, in the event of any inconsistency between this code and applicable legislation, legislation shall take precedence.

Note to user: legislation⁷ details the Practitioners' Guide as the document detailing proper accounting practices for Category 2 authorities. This title encompasses both the Code of Proper Practices for Category 2 Authorities (England) and the supporting Guidance Notes taken as one.

1.2 SAPPP authority to set Proper Practices

Proper Practices guidance exists to turn legal accountability requirements into a clear, standard set of governance and accounting practices that Category 2 authorities can follow to manage public funds properly and demonstrate accountability.

This updated 2027 edition of Proper Practices, now renamed as the Code of Proper Practices for Category 2 Authorities (England), applies in respect of financial years commencing on or after 1 April 2027. It also relates to the 2027/28 AGAR, which is completed at the year-end (31 March 2028) and that **must**⁸ be prepared in line with this document.

The Proper Practices within this 2027 edition **must**⁸ be followed and applied to all subsequent financial years until a further edition is published.

Proper Practices, detailed within this document, are supported by the Proper Practices Code Guidance Notes for Category 2 Authorities, produced to assist authorities in completing their statutory accounting and governance statements which form part of AGAR. These are referred to as Code Guidance Notes throughout this document.

1.3 Transition arrangements from the Practitioners' Guide to the Code for Proper Practices

As there are some new requirements within the 2027 Proper Practices, you **must**⁹ ensure that your carry forward from 2026/27 is stated on the same basis as the figures for the year ending 31 March 2028.

The order of the assertions contained within the annual governance statement has been changed but the requirement contained within them is overall the same.

Where the requirements for the Statement of Accounts on the AGAR have been revised these are detailed within the appropriate sections of Section 7 [Statement of Accounts](#).

1.4 Category 2 authorities

In accordance with **legislation**¹⁰ and updated through **statutory instruments**¹¹, an authority is a 'Category 2 authority' if the higher of the authority's gross income for the year or its gross expenditure for the year does not exceed £15m for three consecutive years.

This document uses the term 'authority' to refer to all types of Category 2 authority, which includes local councils (parish and town councils), parish meetings (where there is no parish council), internal drainage boards and 'other' authorities (including, but not limited to, charter

⁷ [Regulation 31 of the Local Authorities \(Capital Finance and Accounting\) \(England\) Regulations 2003](#).

⁸ [The Local Authorities \(Capital Finance and Accounting\) \(England\) Regulations 2003](#).

⁹ [1.2 SAPPP authority to set Proper Practices](#).

¹⁰ [Section 6 of the Local Audit and Accountability Act 2014](#).

¹¹ [The Local Audit \(Amendment of Definition of Smaller Authority\) Regulations 2025](#).

trustees, conservation bodies, port health authorities, crematorium boards and joint committees).

As the requirements for parish meetings are often different and less extensive, we have included Appendix A, which sets out in full the requirements and Proper Practices applicable to parish meetings. Any reference to where parish meetings do or do not have to follow this document have been removed. Therefore, assume that parish meetings follow the full requirements of the Proper Practices Code unless they are detailed within Appendix A.

1.5 Option to operate as a full audit authority (Category 1 authority)

Regulations¹² allow Category 2 authorities where the higher of their gross income and their gross expenditure exceed £25,000 (alternatively gross receipts or gross payments for the year exceed £25,000) to decide to prepare a Statement of Accounts and be audited as if they were a 'full audit authority'. For the purposes of the [Accounts and Audit Regulations 2015](#), a full audit authority is treated as a Category 1 authority.

Category 1 authorities **must**¹³ prepare their Statement of Accounts in accordance with the Accounts and Audit Regulations 2015 and the relevant Proper Practices. Proper Practices for Category 1 authorities are detailed in the Code of Practice on Local Authority Accounting in the UK issued annually by CIPFA/LASAAC.

The Code of Practice on Local Authority Accounting in the UK details the requirement to follow the CIPFA and Solace [Delivering Good Governance in Local Government](#) guidance and any related addendum when producing an annual governance statement.

To transfer to a full audit authority, members of the authority **must**¹⁴ be formally approved by the full authority acting in accordance with the quorum requirements set out in its standing orders and **must**¹⁴ not be delegated.

Similarly, if the authority subsequently decides that it would prefer to complete the AGAR and be audited as a Category 2 authority and so cease to be a full audit authority, members of the full authority **must**¹⁴ meet as a whole to decide to cease being a full audit authority.

As this process can be timely and expensive, SAPPP would not recommend doing this without seeking advice from CIPFA in the first instance to understand the implications.

1.6 Legislative provisions for proper accounting practices England/objective of the Proper Practices for Category 2 authorities

Proper Practices are the standards of governance and accounting that Category 2 authorities **must**¹⁵ meet if their income or expenditure (whichever is highest) does not exceed a specified limit for three consecutive years. This limit was raised, through legislation, from £6.5m to £15m for financial years starting after 1 April 2025. Authorities that exceed the specified limit for three years are classified Category 1 authorities and **must**¹⁶ follow the CIPFA Code of Practice on Local Authority Accounting in the UK which is updated annually.

¹² [Regulation 8\(1\) of the Local Audit \(Smaller Authorities\) Regulations 2015](#).

¹³ [Regulation 7 of the Accounts and Audit Regulations 2015](#).

¹⁴ [The Local Audit \(Smaller Authorities\) Regulations 2015](#) 24(1)(2)(a).

¹⁵ [Local Audit and Accountability Act 2014](#).

¹⁶ [The Local Authorities \(Capital Finance and Accounting\) \(England\) Regulations 2003](#) Regulation 31 **F4**.

1.6.1 Authorities with no financial transactions

Authorities with no financial transactions meet their responsibility to produce accounts by completing, and submitting to their relevant external auditor, a Certificate of Exemption on the Annual Governance and Accountability Return (AGAR).

1.6.2 Authorities where the higher of gross income or gross expenditure was £25,000 or less

Authorities where the higher of gross income or gross expenditure was £25,000 or less, and which meet the eligibility criteria set out in the regulations (as detailed in Section 1.7.1 [Exemption from the Limited Assurance Review](#)) may certify themselves as exempt from a limited assurance review. The Clerk/RFO will do this by completing the Certificate of Exemption on the AGAR. The completed Certificate of Exemption **must**¹⁷ be submitted to the external auditor before the publication deadlines also set out in Section 1.7.1 [Exemption from the Limited Assurance Review](#).

Such authorities may choose to opt in to a limited assurance review. Where they do so, the Clerk/RFO **must**¹⁸ arrange to pay the appropriate fee and complete the AGAR in accordance with the requirements applicable to authorities where the higher of gross income or gross expenditure exceeds £25,000, as set out in this document.

Authorities where the higher of gross income or gross expenditure was £25,000 or less are still required to appoint an internal auditor and obtain an internal audit in accordance with the requirements set out in Section 4.4 [Internal Audit](#).

1.6.3 Authorities with gross income or gross expenditure exceeding £25,000 but less than £15m

Authorities where either gross income or gross expenditure exceeds £25,000 but did not exceed £15 million **must**¹⁸ complete the AGAR, have an internal audit and be subject to a limited assurance review.

1.6.4 Authorities with gross income or expenditure of more than £15m for three consecutive years

Authorities that have a gross income or expenditure of more than £15m for three consecutive years (or one or two years if it has existed for less than three years) become a Category 1 authority and **must**¹⁹ follow the relevant Proper Practices for Category 1 authorities, the CIPFA Code of Practice, as their Proper Practices in the third year.

1.7 Completing the Annual Governance and Accountability Return (AGAR)

Every Category 2 Authority in England **must**¹⁸ complete an AGAR. This **must**¹⁸ be done at the end of each financial year in accordance with Proper Practices.

¹⁷ [The Local Audit \(Category 2 Authorities\) Regulations 2015](#) (9).

¹⁸ [1.2 SAPPP authority to set Proper Practices](#).

¹⁹ [Section 6 of the Local Audit and Accountability Act 2014](#).

1.7.1 Exemption from the limited assurance review

Category 2 authorities with no financial transactions meet their responsibility to produce accounts by completing the Declaration of No Accounts on the AGAR, which includes a Certificate of Exemption.

Authorities that have both income and expenditure not exceeding £25,000 (including the precept) may certify themselves exempt from the limited assurance review. Before doing this they **must**²⁰ ensure that they meet all of the criteria set out in legislation²¹ as detailed below:

1. The financial year is **not** one of the first three years of the authority's existence.
2. The external auditor has **not** made a public interest report in respect of the authority or any entity connected with it.
3. The external has **not** made a recommendation to the authority, relating to the authority or any entity connected with it.
4. The external auditor has **not** issued an advisory notice under paragraph 1(1) of Schedule 8 to the Act, that has not been withdrawn.
5. The external auditor has **not** commenced judicial review proceedings under Section 31(1) of the Act, that have not been withdrawn and in which the court has found against the external auditor.
6. The external auditor has **not** made an application under Section 28(1) of the Act for a declaration that an item of account is unlawful, where the application has not been withdrawn and the court has not refused to make the declaration.
7. The court has **not** declared an item of account unlawful following an appeal under Section 28(3) of the Act.

If an authority has confirmed that it meets all the exemption criteria for the relevant financial year and therefore chooses to certify itself exempt from the limited assurance review, it **must**²² complete a Certificate of Exemption (after year end – 31 March).

The completed Certificate of Exemption **must**²² be returned to the external auditor before 1 July, and the authority **must**²² publish a copy on its website before 1 July, in line with the requirements for the exercise of public rights. If it is not possible to achieve this date, it **must**²³ be done as soon as possible.

A Category 2 authority with exempt status **must**²⁴:

- keep copies of its Statement of Accounts for purchase by any person on payment of a reasonable sum, and
- after the conclusion of the period for the exercise of public rights **must**²⁵ ensure that the Statement of Accounts that was published on the authority's website remains available

²⁰ [The Local Audit \(Category 2 Authorities\) Regulations 2015](#) (9).

²¹ [Regulation 9\(3\) of the Local Audit \(Category 2 Authorities\) Regulations 2015](#).

²² [The Local Audit \(Category 2 Authorities\) Regulations 2015](#) (9).

²³ [1.2 SAPPP authority to set Proper Practices](#).

²⁴ [The Accounts and Audit Regulations 2015](#) Regulation 13 (4).

²⁵ [The Accounts and Audit Regulations 2015](#) Regulation 15 (2).

for public access for a period of not less than five years beginning with the date of such publication.

Category 2 Authorities claiming exemption **must**²⁶ ensure that they have approved and published their full AGAR in accordance with the publishing requirements and rights of access outlined in Section [3. Publication](#).

Alternatively, although the authority meets the requirements to certify themselves exempt, they may still wish to have a limited assurance review and pay the appropriate fee for doing so.

1.8 Publication

The Annual Accounts and Annual Governance and Accountability Return (AGAR) and relevant supporting documents are published to promote transparency, accountability and good governance.

Public access to these documents enables residents and stakeholders to understand how public money has been managed, scrutinise decision-making and hold the authority to account.

Publishing financial and governance information helps build public confidence, demonstrates responsible stewardship of public resources and evidences the authority's commitment to openness, continuous improvement and effective governance.

1.8.1 Publishing requirements for the unaudited accounts and the public's right of access to inspect the unaudited accounts

Category 2 authorities **must**²⁷ publish their AGAR, which includes the (unaudited) Statement of Accounts and annual governance statement, annually. They must also publish the annual internal audit report as well as, where relevant, a Certificate of Exemption (from the limited assurance review). This **must**²⁸ take place before 1 July.

It is recommended that these documents are made available on the homepage or in another clearly visible and easily accessible section of the site. Displaying them on a physical noticeboard should be treated as a supplementary measure, not a substitute for online publication.

In line with **legislation**²⁹, members of the public can inspect the accounting records that support the unaudited Statement of Accounts. These documents are detailed within the Guide.

Financial records, the Statement of Accounts as well as any other supporting records, **must**²⁹ be made available to the public at reasonable times throughout the working day to allow the public the opportunity to access them.

To ensure the public are properly informed that the unaudited accounting records are available for inspection, and they have a legal right to review them within the set inspection window, the authority **must**³⁰ give a day's notice of the commencement of the inspection period. This means that once you have given notice of the commencement of the inspection period you **must** wait

²⁶ [The Accounts and Audit Regulations 2015](#) Regulation 15 (2).

²⁷ [The Accounts and Audit Regulations 2015](#) Regulation 15 (1A) (a).

²⁸ [The Accounts and Audit Regulations 2015](#) Regulation 15 ((3)(b)).

²⁹ [The Accounts and Audit Regulations 2015](#) Regulation 14.

³⁰ [The Accounts and Audit Regulations 2015](#) Regulation 15 (1) (a).

until the following working day to upload the unaudited accounts. This notice should be published alongside the approved annual governance statement and Statement of Accounts.

These documents **must**³¹ be made available for inspection from the public for 30 working days (this excludes weekends and public holidays). In line with other publishing requirements of the AGAR this period **must**³⁶ include the first ten working days of July (or as soon as possible).

The authority **must**³² keep copies of those documents for purchase by any person on payment of a reasonable sum and ensure that those documents remain available for public access for a period of not less than five years beginning with the date on which those documents were first published.

When both publishing information and providing it to the public authorities **must**³³ consider the requirements of data protection legislation. This is covered in more detail in the Guide.

1.8.2 Publication of the audited Statement of Accounts and the public's rights of inspection

After the conclusion of the period of public rights of access outlined in Section 1.8.1 [Publishing requirements for the unaudited accounts](#), but no later than 30 September, the authority **must**³⁴ publish the following documents on their website to allow the public view as required:

- the audited Statement of Accounts prepared by the authority (the AGAR)
- the external auditor's certificate (of limited assurance review, where applicable) that the audit of the authority's accounts including that statement has been completed
- the external auditor's opinion on the Statement of Accounts (the AGAR)
- any public interest report relating to the authority or an entity connected with it, and
- any recommendation relating to the authority or an entity connected with it.

If the external auditor has not yet concluded and provided their final certificate and report, the authority may be issued an interim certificate, which (if received) it should publish on its website.

As soon as reasonably practicable, after the conclusion of the limited assurance review, an authority **must** also publish a statement detailing that the audit has been concluded and that the accounts have been published. The notice must also explain the public's rights of inspection relating to the audited accounts, the external auditor's opinion and any audit recommendations.

The authority **must**³⁵ ensure that the public is able to view the documents detailed at all reasonable times and without payments.

³¹ [The Accounts and Audit Regulations 2015 Regulation 15 \(1\)](#).

³² [The Accounts and Audit Regulations 2015 Regulation 13 \(1\)](#).

³³ UK General Data Protection (UK GDPR) and the Data Protection Act 2018.

³⁴ [The Accounts and Audit Regulations 2015](#) 13 (1) 16.

³⁵ [Local Audit and Accountability Act 2014](#) S25.

Legislation outlines that when the authority receives any audit letter or auditor's annual report from the external auditor, members of the authority **must**³⁶ meet to consider that letter or report as soon as reasonably practicable.

1.9 Roles and responsibilities

1.9.1 Role of the Clerk and Responsible Finance Officer (RFO)

All authorities **must**³⁷ appoint an 'Officer' (or similar position) that has responsibility for the financial affairs of the authority. Within most Category 2 authorities they will be referred to as the Responsible Financial Officer (RFO).

The clerk to the authority is often also appointed as the RFO, but this is not automatically the case. In some larger authorities' separate persons may hold these posts.

This post may include several additional responsibilities, which differ within each authority.

Regardless of who prepared the Statement of Accounts, it is the responsibility of the authority's RFO to certify it as either presenting fairly the financial position of the authority or properly presenting its receipts and payments. Through the authorisation the RFO confirms that Proper Practices have been followed in preparing the Statement of Accounts.

To ensure adequate segregation of duties in accordance with good practice and internal controls, the Chair of the authority or of the Finance Committee **must**³⁸ never be appointed (even on a short-term basis) as Clerk or Responsible Financial Officer (RFO).

However, where necessary to ensure that statutory functions continue to be fulfilled, other members may undertake these roles on a short-term, unpaid basis, provided that an appropriate risk assessment has been completed and suitable safeguards are in place.

Any decision to appoint a temporary RFO **must**³⁹ be formally approved by the full authority acting in accordance with the quorum requirements set out in its standing orders and **must**³⁹ not be delegated. The decision needs to be recorded clearly recorded in the minutes, including the rationale and considerations supporting the decision.

As both the Clerk and RFO posts are not considered independent to the authority, they therefore cannot act as internal auditor, and neither can their friends and family members.

1.9.2 Members of the authority

Although the functions detailed below may be delegated to the Clerk/RFO, members of the authority retain overall legal responsibility for the authority's governance, finances and decision-making. Accordingly, they should satisfy themselves that appropriate arrangements are in place and operating effectively.

Members **must**⁴⁰ ensure good financial management arrangement are in place, and there is proper segregation of duties and an adequate internal control framework.

³⁶ [The Accounts and Audit Regulations 2015](#) S20 (1).

³⁷ [Section 151 of the Local Government Act 1972](#).

³⁸ [1.2 SAPPP authority to set Proper Practices](#).

³⁹ [Local Government Act 1972](#) S112(1).

⁴⁰ [The Accounts and Audit Regulations 2015](#) (6).

Members of the authority **must**⁴¹ review and approve the annual governance statement (AGS), ensuring all assertions are accurate and confirm that there is a system of internal control in place. Approval needs to be provided by the authority (in line with standing order quorum requirements) and **must**⁴² not be delegated to a sub-committee.

Members **must**⁴³ consider the Statement of Accounts. Approval needs to be provided by the authority (in line with standing order quorum requirements) and **must**⁴⁴ not be delegated to a sub-committee. Following the formal approval, alongside the RFO's certification, the Chair (or relevant person presiding the meeting at which the approval is given) **must**⁴⁵ approve the accounts on the AGAR in line with statutory deadlines detailed within this document.

Members need to ensure that arrangements are in place where appropriate for internal audit and external auditor's limited assurance review. Members **must**⁴⁶ have considered all matters brought to their attention by its external auditor and internal audit and taken corrective action as appropriate.

Should the authority receive any audit letter or auditor's annual report from the external auditor, the elected or appointed members of the relevant authority **must**⁴⁷ meet to consider that letter or report as soon as reasonably practicable.

Members **must**⁴⁸ prepare an action plan in response to all audit findings, ensuring any actions put in place to mitigate risks are proportionate to the risk level that the authority faces. Any actions arising from the internal or external auditor's reports **must**⁴⁹ be reviewed by the full authority (in line with standing order quorum requirements) and their progress monitored as appropriate.

1.9.3 External auditor

The external auditor carries out a limited assurance review within Category 2 authorities. This provides the authority and the public with assurance that the authority's Annual Governance and Accountability Return (AGAR) has have been reviewed independently and whether the information reported in the return is consistent with the requirements of Proper Practices, based on the specified procedures they have performed.

The government has determined that a lower level of assurance than that provided by a full statutory audit is appropriate for those local public bodies with the lowest levels of spending of under £15m per year.

A limited assurance review is not a full statutory audit; it does not constitute an audit carried out in accordance with International Standards on Auditing (UK) and hence it does not provide the same level of assurance that such an audit would.

⁴¹ [The Accounts and Audit Regulations 2015](#) (6)(3)(b).

⁴² [The Accounts and Audit Regulations 2015](#) (6)(3)(b).

⁴³ [The Accounts and Audit Regulations 2015](#) (12)(2)(A and C).

⁴⁴ [The Accounts and Audit Regulations 2015](#) (12)(2)(A and B).

⁴⁵ [The Accounts and Audit Regulations 2015](#) (12)(2)(C).

⁴⁶ [The Accounts and Audit Regulations 2015](#) S20 (1) external audit; SAPPP Proper Practices for internal Audit.

⁴⁷ [The Accounts and Audit Regulations 2015](#) S20 (1).

⁴⁸ [1.2 SAPPP authority to set Proper Practices](#).

⁴⁹ [The Accounts and Audit Regulations 2015](#) S20 (1) – External Audit and [1.2 SAPPP authority to set Proper Practices](#) for Internal Audit.

The auditor discharges their responsibility to complete a limited assurance review by carrying out specified procedures as set out by the National Audit Office (NAO) in Auditor Guidance Note 02 (AGN 02). The guidance notes details held on the NAO website.

The work auditors are expected to carry out depends on the level of income or expenditure of the body and is set out in the AGN.

External auditors for Category 2 authorities are appointed by the Smaller Authorities Audit Appointments (SAAA). SAAA is the sector-led limited, not-for-profit organisation appointed by the then Department for Communities and Local Government (DCLG) in 2015 as the ‘specified person⁵⁰’ to procure and appoint external auditors to Category 2 authorities in England that have opted in to the limited assurance review and have paid the appropriate fee. Authorities can also opt-out of the limited assurance review and subsequently appoint their own external auditors.

Details of the requirements to publish the external auditor’s reports are included in Section 3.2 [Publication of the Audited Statement of Accounts and the public’s rights of inspection](#) and Section 9.1 [Governance](#).

All authorities **must**⁵¹ provide the external auditor with the facilities and information required to undertake the limited assurance review.

1.9.4 Internal audit

Internal audit provides an independent review of the systems and processes underpinning the AGAR, offering assurance on their effectiveness to members and the public.

Category 2 authorities **must**⁵² “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

As the Global Internal Audit Standards in the UK Public Sector have not been applied to Category 2 authorities, they **must**⁵³ follow the Code of Practice for Internal Audit of Category 2 Authorities (England), which details that:

- All authorities (except those with no financial transactions) **must**⁵² undertake an annual internal audit, and arrangements should be proportionate to the size, complexity and risk profile of the organisation.
- Authorities **must**⁵³ appoint an internal auditor who is demonstrably independent and competent and adheres to professional ethical standards.
- The internal auditor **must**⁵³ provide an internal audit report via the AGAR, supported by detailed findings, recommendations and documented evidence of work undertaken.
- Authorities **must**⁵³ formally consider audit reports, maintain action plans and monitor the implementation of recommendations.
- All internal audit reports and actions proved by the authority to mitigate inadequate controls **must**⁵³ be held on the authority’s website.

Details are provided in the Guide for approaches to carrying out internal audit work.

⁵⁰ [The Local Audit \(Category 2 Authorities\) Regulations 2015](#).

⁵¹ [Local Audit and Accountability Act 2014](#) (10).

⁵² [The Accounts and Audit Regulations 2015](#) Pt2, Regulation 5 (1).

⁵³ [1.2 SAPPP authority to set Proper Practices](#).

2. Annual governance statement

Category 2 authorities **must**⁵⁴ conduct an annual review of the effectiveness of the system of internal control and prepare an annual governance statement (AGS) in accordance with Proper Practices in relation to accounts.

The purpose of the AGS 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.

2.1 Approval of the AGS

The authority needs to approve the annual governance statement by a resolution of members of the authority meeting prior to the approval of the Statement of Accounts on the AGAR. Approval needs to be provided by the authority (in line with standing order quorum requirements) and **must**⁵⁴ not be delegated to a sub-committee.

The Chair of the meeting and the Clerk **must**⁵⁵ sign and date the statement, and the relevant minute reference needs to be recorded upon the AGAR also.

2.2 Annual governance statement assertions

The AGS is made up of a series of questions known as assertions which require “Yes” or “No” answers. Suitable evidence needs to be provided to support any positive response. You can find details of possible evidence in the Guide.

The authority **must**⁵⁵ have appropriate evidence to support a “Yes” answer to an assertion, for example, a reference in a set of formal minutes.

Where an authority cannot provide a positive response (answered “No” or “Not covered”) to any assertion, it will need to provide an explanation of how the authority will address the weakness in governance identified.

These explanations **must** be provided to the external auditor alongside the completed AGAR and be published in line with Section 3. [Publication requirements of the unaudited accounts](#).

⁵⁴ [The Accounts and Audit Regulations 2015](#) (6)(3)(b).

⁵⁵ [1.2 SAPPP authority to set Proper Practices](#).

3. Compliance with laws, regulations and Proper Practices

3.1 Assertion 1 – Compliance with laws, regulations and Proper Practices

This assertion satisfies the requirement that:

“We (the Authority) have assured ourselves that there are no matters of actual or potential non-compliance with laws, regulations and Proper Practices that could have a significant financial effect on the ability of this Authority to conduct its business or on its finances.”

To warrant a positive response to this assertion, the following processes detailed within paragraphs 3.1.1 to 3.1.3 **must**⁵⁶ be in place and operating effectively:

3.1.1 Acting within its powers

All authorities, regardless of size, **must** ensure that they act in accordance with legislative requirements. Decision-makers must understand the extent of their powers before acting, considering:

- the legal limits of the authority
- the purpose of the power being exercised
- the wider context, including budget constraints and fairness.

All policies and procedures must reflect current legislation to ensure that decisions and payments are lawful and not ultra vires (actions taken without the legal authority to do so).

Appropriate decision-making processes **must**⁵⁶ be in place, including properly convened meetings, clear recorded minutes and adherence to standing orders and financial regulations, to ensure that all activities fall within the authority’s legal powers.

Standing orders and financial regulations **must**⁵⁷ be formally approved by the full authority (acting in accordance with the quorum requirements set out in its standing orders) and **must**⁵⁷ not be delegated.

3.1.2 General power of competence

An authority seeking to exercise the general power of competence under the [Localism Act 2011](#) must ensure that it is fully understood and applied in accordance with the [Parish Councils \(General Power of Competence\) \(Prescribed Conditions\) Order 2012](#).

3.1.3 Regulations and Proper Practices

Authorities **must**⁵⁸ keep up to date with changes in legislation and Proper Practices and ensure that policies and procedures are reviewed and updated accordingly.

⁵⁶ [1.2 SAPPP authority to set Proper Practices](#).

⁵⁷ [Local Government Act 1972 \(106\)](#).

⁵⁸ [1.2 SAPPP authority to set Proper Practices](#).

All amendments **must**⁵⁹ be formally reported to members and applied.

It is recommended that policies are accessed online where possible to ensure the most up-to-date versions are used.

Relevant sector bodies (NALC, SLCC, ADA etc) will issue updates to support authorities in maintaining compliance.

3.2 Assertion 2 – Information governance and data security

This assertion satisfies the requirement that:

“We (the Authority) have put in place arrangements for effective IT and data management in accordance with Proper Practices during the year under review.”

To warrant a positive response to this assertion, the authority should have the following arrangements outlined within paragraphs 3.2.1 to 3.2.4 in place and operating effectively:

3.2.1 Email management

The authority **must**⁷⁷ have a generic email account hosted on an authority-owned domain for example:

- clerk@abcparishcouncil.gov.uk
- clerk@abcparishcouncil.org.uk
- or info@abcdrainageboard.org,

rather than personal or third-party email accounts, for example:

- joeblogs@hotmail.com
- abcparishclerk@gmail.com
- abcparishclerk@outlook.com), for official business use.

3.2.2 Website and accessibility compliance

All relevant authorities **must**⁷⁷ conform to the legal requirements detailed below for all existing websites regardless of what domain is being used.

All websites **must**⁶⁰ meet the legal requirements for website accessibility (where applicable). However, **legislation**⁶¹ also details that the authority does not have to purchase/secure a new website to comply with accessibility law if it places a disproportionate burden on the authority.

At a minimum all authorities' websites **must** include an accessibility statement on their website that is kept under regular review. This statement should include reasons for not meeting accessibility requirements, ways to source alternative copies of non-accessible documents and a point of contact.

All websites **must**⁶² include published documentation as specified in the [Freedom of Information Act 2000](#) and the [Transparency code for Category 2 authorities](#) (where applicable).

⁵⁹ [1.2 SAPPP authority to set Proper Practices.](#)

⁶⁰ [Web Content Accessibility Guidelines 2.2 AA](#) and the [Public Sector Bodies \(Websites and Mobile Applications\) \(No. 2\) Accessibility Regulations 2018.](#)

⁶¹ [The Public Sector Bodies \(Websites and Mobile Applications\) \(No. 2\) Accessibility Regulations 2018 Regulation 7.](#)

⁶² [Freedom of Information Act 2000](#) and [Transparency code for Category 2 Authorities.](#)

3.2.3 Data protection and information governance

All authorities **must**⁶³ comply with:

- the UK General Data Protection Regulation (UK GDPR) 2016
- the Data Protection Act 2018.

Authorities **must**⁸² ensure that personal data is processed lawfully, fairly, and securely, and in accordance with the principles of data protection.

As Category 2 authorities are not classified by **legislation**⁶⁴ as a “public authority or body” they are not automatically required to appoint a data protection officer (DPO) in line with the requirement in UK GDPR Article 37 for UK GDPR purposes. However, noting that Article 37 also requires that the controller and the processor shall designate a data protection officer in any case where “the core activities of the controller or the processor consist of processing operations which, by virtue of their nature, their scope and/or their purposes, require regular and systematic monitoring of data subjects on a large scale”. Authorities should therefore assess the nature, scope and purpose of their processing activities and appoint a DPO if any of the Article 37 criteria apply.

All authorities must still comply with UK GDPR and the Data Protection Act 2018.

All authorities need to know what personal data they hold, why they hold it, how it is used, who it is shared with, how long it is kept and how it is kept safe. They must also explain this clearly to people and respond properly when individuals ask to see, correct or otherwise exercise their rights over their own personal data.

3.2.4 IT policies and secure working practices

All authorities **must**⁶⁵ have an IT policy in place setting out how clerks, elected or appointed members and staff **must**⁸⁵ use IT systems securely and appropriately, including the use of both authority-owned and personal devices for conducting official business.

⁶³ [General Data Protection Regulation \(GDPR\) 2016](#) and [Data Protection Act \(DPA\) 2018](#).

⁶⁴ [Data Protection Act 2018](#) Section 7 (a) and (d), noting (a) would apply to town councils also.

⁶⁵ [1.2 SAPPP authority to set Proper Practices](#).

4. Good financial management

4.1. Assertion 3 – Financial management and preparation of the Statement of Accounts

This assertion satisfies the requirement that:

“We (the authority) have put in place arrangements for effective financial management during the year, and for the preparation of the Statement of Accounts.”

To warrant a positive response to this assertion, the following arrangements outlined in 4.1.1 to 4.1.7 **must** be in place and operating effectively.

4.1.1 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.

Therefore, the authority should prepare and have approve its budget by the end of February in the financial year preceding that to which the budget relates.

- The budget **must**⁶⁶ be formally approved by the full authority, acting in accordance with the quorum requirements set out in its standing orders, and **must**⁶⁶ not be delegated
- Once the budget has been approved, the precepts (or rates) can be set. A precept **must**⁶⁷ be issued to the billing authority before 1 March in the financial year preceding that for which it is issued.

However, a precept is not rendered invalid solely because it is issued on or after that date.

During the financial year that the budget relates to the authority **must**⁶⁸ regularly monitor actual income and expenditure against the budget and take corrective action (eg delaying non-essential projects or deferring purchases) where necessary. Should the authority consider taking on any significant projects or long-term financial commitments that will have a long-term budget impact, a financial appraisal should be undertaken and approved as required in standing orders. Details of the financial appraisal are included within the Guide.

4.1.2 Accounting records and supporting documents

All authorities **must**⁶⁹ appoint an officer to be responsible for the financial administration of the authority considering the segregation of duty requirements detailed within 4.1 [Role of the Clerk and Responsible Finance Officer](#).

Any decision to appoint a temporary RFO **must**⁷⁰ be formally approved by the full authority acting in accordance with the quorum requirements set out in its standing orders and **must**⁷⁰ not be delegated. The decision needs to be recorded clearly recorded in the minutes, including the rationale and considerations supporting the decision.

⁶⁶ Local Government Act 1972 Section 101(6).

⁶⁷ [Local Government Finance Act 1992](#) ((41)(3A)(4)).

⁶⁸ [1.2 SAPPP authority to set Proper Practices](#).

⁶⁹ [Section 151 of the Local Government Act 1972](#).

⁷⁰ [Local Government Act 1972](#) S112(1).

The authority needs to satisfy itself that the Responsible Finance Officer (RFO) has established an effective system of financial controls and is discharging their **statutory responsibilities**⁷¹.

These controls should be designed to:

- prevent and detect errors and fraud
- enable the reconstruction of lost or incomplete financial records
- ensure risks are appropriately identified and managed.

The RFO **must**⁷² ensure that procedures are in place detailing that:

- all financial transactions are recorded accurately and promptly
- accounting records are maintained and kept up to date throughout the year
- appropriate supporting documentation is retained for all transactions
- clear segregation-of-duty arrangements are in place for the allocation of duties between officers and members involved in financial processes.

There **must**⁷² also be a clear division of responsibilities between officers handling financial transactions to ensure adequate internal control and accountability.

4.1.3 Bank reconciliation

The authority **must**⁷² regularly reconcile all bank accounts against accounting records throughout the year and at year-end.

Formal statements **must**⁷² be held evidencing the reconciliations. These need to be reviewed by elected or appointed members of the authority.

The year-end bank reconciliation **must**⁷² be reviewed by the authority before the Statement of Accounts are approved.

4.1.4 Investments

The authority **must**⁷³ ensure that funds are managed properly and that any surplus balances are invested appropriately in accordance with an approved investment strategy in line with the requirements requirement of the government's [statutory guidance on local government investments](#) (where appropriate).

This statutory guidance on local government investment applies to parish councils and charter trustees, providing their total investments exceed or are expected to exceed £100,000 at any time during the financial year. Where a parish council or charter trustee expects its total investments to be between £10,000 and £100,000, it is encouraged to adopt the principles in this guidance.

If the total investment exceeds these thresholds detailed at any time during the financial year, the authority needs to produce and approve an annual investment strategy in accordance with the guidance.

⁷¹ Part 2 of [Regulation 4 of the Accounts and Audit Regulations 2015](#).

⁷² [1.2 SAPPP authority to set Proper Practices](#).

⁷³ [Statutory guidance on local government investments](#).

The strategy, along with any subsequent changes, formally approved by the full authority, acting in accordance with the quorum requirements set out in its standing orders

The strategy should be publicly available on the authority's website.

4.1.5 Statement of Accounts

The authority **must**⁷⁴ ensure that arrangements are in place to enable the preparation of an accurate and timely Statement of Accounts in compliance with both legislation and Proper Practices detailed in [6. Statement of Accounts](#).

Publication details for the Statement of Accounts are included in [3. Publication](#).

4.1.6 Reserves

Reserves represent the underlying resources available to the authority. While there is no legislation which specifically mandates reserves, they support good financial management, which is a legal and ethically bound requirement of the authority.

Reserves are held for three main purposes:

- future investment needs of the authority
- cash flow
- risk management.

General reserves

Reserves may be held for general purposes, such as cash flow purposes, in a 'general reserve'.

The level of general reserves **must**⁷⁵ be included in the authority's reserves strategy and should be set at a prudent level to manage financial risks and expected variations from planned income or expenditure.

Each authority should adopt a general reserves policy that sets out the level of reserves appropriate to its size, circumstances and risks, and should plan its budget to maintain that level. When setting the minimum level of reserves, the authority should consider not only its income and expenditure, but also the risks that could affect them.

Earmarked and ringfenced reserves

Reserves may also be earmarked for a specific use in an 'earmarked reserve'. All 'earmarked reserves' **must**⁷⁶ be held for a genuine and clearly identified purpose or project.

They **must**⁷⁶ form part of the authority's overall reserve strategy and be regularly (at least annually) reported on and reviewed for continued necessity and justification, noting that if the purpose or project is cancelled, then the earmark should be removed and the balance be moved to general reserves.

The overall level of all reserves **must**⁷⁶ be reviewed at least annually by elected or appointed members of the authority as well as during the budget setting process.

⁷⁴ Accounts and Audit Regulations 2015, Regulation 4(1).

⁷⁵ SAPPP Proper Practices.

⁷⁶ [1.2 SAPPP authority to set Proper Practices](#).

4.2 Assertion 4 – Significant events

This assertion satisfies the requirement that:

“We (the Authority) considered whether any litigation, liabilities or commitments, events or transactions, occurring either during or after the year-end, have a financial impact on this Authority and, where appropriate have included them in the Statement of Accounts.”

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

The authority needs to consider whether any events occurring during the financial year, or after the year-end, have had or may have financial consequences for the authority.

Where such events are identified, the authority **must**⁷⁷ determine whether the financial impact needs to be reflected in the Statement of Accounts as outlined in 4.2.1.

4.2.1 Impact of the accounting basis on significant events

For authorities accounting on a receipts and payments basis, the review of significant events should cover events that occurred during the financial year to ensure that they have been included in the Statement of Accounts where appropriate.

For authorities accounting on an income and expenditure basis, the review of significant events should also cover events that occurred after the financial year-end but before the Statement of Accounts is approved by the authority.

4.3 Assertion 5 – Exercise of public rights

This assertion satisfies the requirement that:

“We (the authority) provided proper opportunity during the year for the exercise of electors’ rights in accordance with the requirements of the Accounts and Audit Regulations.”

The authority **must**⁷⁷ ensure that the previous year’s Annual Governance and Accountability Return has been published in accordance with **legislative**⁷⁸ requirements. To warrant a positive response to this assertion, the following arrangements outlined in 4.3.1 and 4.3.2 **must**⁷⁹ be in place and operating effectively.

4.3.1 Public rights of access to the unaudited accounts

The RFO is required to publish the following on the authority’s website:

- the Statement of Accounts and Annual Governance Statement within the Annual Governance and Accountability Return
- a declaration that the status of the Statement of Accounts is ‘unaudited’
- a statement that sets out details of how public rights can be exercised, also detailing the period for the exercise of public rights.

⁷⁷ [1.2 SAPPP authority to set Proper Practices.](#)

⁷⁸ [Sections 26 and 27 of the Local Audit and Accountability Act 2014; Part 5 of the Accounts and Audit Regulations 2015 Regulation 15\(2\)\(b\).](#)

⁷⁹ [1.2 SAPPP authority to set Proper Practices.](#)

Further details of the requirements for publishing the Statement of Accounts as part of the AGAR are included in Section [1.8 Publication](#).

4.3.2 Public's right of inspection to the audited accounts

The RFO is required to publish the following on the authority's website:

A notice or statement detailing the conclusion of the external audit's limited assurance review of the Annual Governance and Accountability Return (AGAR), together with any relevant accompanying information, **must**⁸⁰ be published on the authority's website as soon as reasonably practical after the audit has been completed and by 30 September.

The notice **must**⁸⁰ also set out the rights of inspection.

In addition, details of how and where relevant information can be accessed by the public including times and addresses where applicable **must**⁸¹ be provided to ensure compliance with public inspection rights.

Details of the requirements for publishing the accounts and the public's right of inspection is included in this document in 1.8.2 [Publication of the Audited Statement of Accounts and the public's rights of inspection](#)

⁸⁰ [The Accounts and Audit Regulations 2015](#) 13(1)(16).

⁸¹ [The Accounts and Audit Regulations 2015](#).

5. Governance, risk management and internal control

5.1 Assertion 6 – Governance

This assertion satisfies the requirement that:

“We are satisfied that effective governance arrangements are in place to ensure that all matters identified through internal and external audit are appropriately considered, acted upon and monitored to completion.”

The authority should engage constructively and professionally with the findings, recommendations, opinions and advice provided by both internal and external auditors, recognising its role in supporting effective governance, accountability, risk management and continuous improvement.

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

The authority **must**⁸² have considered all matters brought to its attention by its external auditor and internal audit and taken corrective action as appropriate.

This includes the requirement that Clerk/RFO **must**⁸³ present the audit reports to a meeting of the full authority for consideration.

Any actions arising from the internal or external auditor’s reports **must**⁸³ be reviewed by members and their progress monitored as appropriate.

Members **must**⁸³ prepare an action plan to address audit findings, ensuring any actions put in place to mitigate risks are proportionate to the risk level that the authority faces.

Any actions arising from the internal or external auditor’s reports **must**⁸³ be reviewed at a full authority meeting (acting in accordance with the quorum requirements set out in standing orders) and their progress monitored as appropriate.

Both the report from internal and external audit as well as any relevant action plan **must**⁸³ be published on the authority’s website to allow the public access to view as required. This may include further reports that are received, such as public interest reports from the external auditor in line with the requirements of Section 1.8.2 [Publication of the audited Statement of Accounts and the public’s right of inspection](#).

Progress against all audit findings, recommendations and agreed management actions are monitored and reported by the full authority, acting in accordance with the quorum requirements set out in its standing orders, to ensure they are implemented within an appropriate timeframe.

5.2 Assertion 7 – Risk management

This assertion satisfies the requirement that:

⁸² [Local Audit and Accountability Act 2014](#) (schedule 7) for external audit.

⁸³ [1.2 SAPPP authority to set Proper Practices](#).

“We (the authority) carried out an assessment of the risks facing this Category 2 authority and took appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required.”

The authority **must**⁸⁴ ensure that it has a sound system of internal control that:

- facilitates the effective exercise of its functions and the achievement of its aims and objectives
- ensures that the financial and operational management of the authority is effective
- includes effective arrangements for the management of risk.

The authority **must**⁸⁵ have effective arrangements for risk management to ensure that risk is appropriately identified, assessed and managed where appropriate by internal controls and/or insurance cover.

These arrangements should be reviewed regularly and at least annually as part of the authority’s overall governance and internal control review process.

As part of its risk management processes, the authority may implement internal controls and/or make appropriate use of insurance to mitigate identified risks.

Such arrangements will vary and should be proportionate to the size, scale and nature of the authority’s operations.

The authority needs to identify, assess and record risks arising from its activities, decisions and planned actions that could have financial, operational or reputational consequences.

Where necessary the authority may utilise a risk assessment matrix and conduct more extensive risk arrangements and/or a full risk register.

While there is no statutory requirement to maintain a formal risk register, doing so is considered good practice and may assist the authority in demonstrating effective risk awareness and control.

Further details of risk assessment matrix and the risk register are included within the Guide.

5.3 Assertion 8 – Internal control

This assertion satisfies the requirement that:

“We (the authority) maintained an adequate system of internal control, including measures designed to prevent and detect fraud and corruption and reviewed its effectiveness.”

To warrant a positive response to this assertion, the processes outlined within 5.3.1 to 5.3.8 **must** be in place and operating effectively.

The findings of the latest internal audit report should be considered as part of the authority’s assessment of the effectiveness of its internal control arrangements.

⁸⁴ [The Accounts and Audit Regulations 2015 \(Part 2 \(3\)\)](#).

⁸⁵ [The Accounts and Audit Regulations 2015 Regulation 3](#).

5.3.1 Standing orders and financial regulations

The authority needs to have in place standing orders, which set out the rules governing how the authority conducts its business.

The authority needs to also have financial regulations in place, which establish the framework for financial management and control of expenditure. These **must**⁸⁶ include provisions for securing competition and regulating the process by which tenders are invited and awarded.

Both standing orders and financial regulations need to be regularly reviewed, kept up to date and adhered to. They **must**⁸⁶ be updated as necessary to reflect changes in legislation and Proper Practices to ensure they remain fit for purpose.

Standing orders and financial regulations **must**⁸⁷ be formally approved by the full authority, acting in accordance with the quorum requirements set out in its standing orders and **must**⁸⁷ not be delegated.

5.3.2 Safe and efficient arrangements to safeguard public money

Whether there is uncertainty around whether something counts as cash or cash equivalents, it should be assumed that it does and the relevant accounting guidance applied as detailed within this document.

The authority **must**⁸⁸ maintain robust and transparent financial arrangements. It should satisfy itself that the Responsible Finance Officer (RFO) has established an effective system of financial controls and is discharging their statutory responsibilities. The authority **must**⁸⁸ regularly review the effectiveness of these arrangements to ensure that public money is properly safeguarded.

These arrangements should be set out in its standing orders and financial regulations and ensure that:

- all goods and services are properly ordered and authorised according to the authority's financial regulations
- any liabilities incurred, including commitments to pay for goods or services (whether immediately or on credit), are properly recorded and approved
- income due to the authority is accurately invoiced, monitored and collected
- payments are made in accordance with authorised procedures and financial regulations
- all receipts and banking transactions are securely managed and promptly recorded
- any corporate credit card account needs to have a defined limit and be paid/cleared monthly by direct debit from the authority's main bank account; credit card balances are not acceptable reconciling items for bank reconciliation purposes.

Officers with direct responsibility for cash and cash equivalents should undertake training to ensure that they are aware of the authority's financial regulations, cash handling procedures, internal controls, fraud prevention and relevant security requirements.

⁸⁶ [1.2 SAPPP authority to set Proper Practices.](#)

⁸⁷ [Local Government Act 1972 \(106\).](#)

⁸⁸ [Part 2 Regulation 4 of the Accounts and Audit Regulations 2015.](#)

5.3.3 Authorising spend

Authorities need to approve:

- the setting up of, and any subsequent changes to, accounts with banks or other financial institutes
- any decisions to enter 'pooling' or 'sweep' arrangements whereby the bank periodically aggregates the authority's various balances via automatic transfer
- every bank mandate, including the list of authorised signatures for each account, the limits on authority for each account signature and any amendments made to mandates
- that any spend is authorised, either through pre-approval or through the approval of the statement.

5.3.4 Employment

The authority **must**⁸⁹ ensure that salaries, wages, allowances and other payments to employees are checked for accuracy and legitimacy and approved in advance, in line with standing orders, financial regulations and relevant employment legislation to maintain transparency and proper financial control.

The authority also needs to ensure that it has complied with its duties under employment legislation and has met its pension obligations. Guidance is available through the National Association of Local Councils (NALC), the Society of Local Council Clerks (SLCC) and the Association of Drainage Authorities (ADA).

Where applicable the authority **must**⁹⁰ ensure any self-employed or contracted workers meet any regulatory requirements set out by HMRC in relation to status as employee or contractor.

5.3.5 VAT

Where applicable, the authority **must**⁹¹ have robust arrangements in place for managing its VAT responsibilities in accordance with the requirements of [HM Revenue and Customs](#) (HMRC). Relevant officers and practitioners should ensure they remain up to date with current VAT guidance.

The authority **must**⁹¹ ensure that VAT is correctly identified where incurred and that accurate VAT information is recorded in the Annual Governance and Accountability Return (AGAR) where required in accordance with Proper Practices.

5.3.6 Non-current assets

A non-current asset is an asset that is expected to provide economic benefit for more than 12 months and is not intended to be realised, sold or consumed in the normal operating cycle, such as land and buildings, infrastructure, vehicles, equipment and long-term investments.

The authority **must**⁹² safeguard all non-current assets by ensuring they are securely stored, properly insured, regularly maintained and used responsibly by authorised personnel.

⁸⁹ SAPPP Proper Practices.

⁹⁰ Regulatory requirements as set out by HMRC.

⁹¹ [HMRC](#).

⁹² [1.2 SAPPP authority to set Proper Practices](#).

All non-current assets **must**⁹³ be protected from loss, theft, damage or misuse, maintained in line with any warranties or manufacturer guidance and accurately recorded in a fixed asset register in accordance with the requirements outlined within the Guide.

Insurance cover **must**⁹³ be reviewed regularly to ensure it reflects the correct replacement value.

Appropriate procedures included in the Guide need to be followed for any asset disposal and for the use of any resulting capital receipt.

5.3.7 Loans and long-term liabilities

Authorities need to ensure that any loan or similar commitment is only entered into after the full 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 loans are affordable and sustainable and have the appropriate authorisation and that funds are available to make repayments of capital and any associated interest and other liabilities.

All loans (or similar commitments) **must**⁹⁴ be formally approved by the full authority acting in accordance with the quorum requirements set out in its standing orders and **must**⁹⁴ not be delegated

5.3.8 Review of the effectiveness of internal controls

The authority **must**⁹⁵ conduct an annual review of the effectiveness of the system of internal control. The review needs to inform the authorities preparation of its annual governance statement (AGS).

Following the review, the findings **must**⁹⁶ be considered by members and formally approved by the full authority, acting in accordance with the quorum requirements set out in its standing orders, and **must**⁹⁷ not be delegated.

The AGS **must**⁹⁸ be prepared in accordance with Proper Practices in relation to accounts and governance and approved in advance of the approval of the Statement of Accounts.

5.4 Assertion 9 – Internal audit

This assertion satisfies the requirement that:

“We (the authority) have undertaken an effective internal audit to evaluate the effectiveness of governance, risk management and control, in line with the requirements of the Code of Practice for Internal Audit of Category 2 Authorities (England).”

To warrant a positive response to this assertion, the authority needs to have taken the following actions as outlined in 5.4.1 and 5.4.2.

⁹³ [1.2 SAPPP authority to set Proper Practices.](#)

⁹⁴ [Local Government Act 2003](#) (4).

⁹⁵ [The Accounts and Audit Regulations 2015](#) 6(1).

⁹⁶ [The Accounts and Audit Regulations 2015](#) 6(1).

⁹⁷ [The Accounts and Audit Regulations 2015](#) (6)(3)(b).

⁹⁸ [The Accounts and Audit Regulations 2015](#) 6 (3 and 4).

5.4.1 Internal audit

The internal auditor **must**⁹⁹, through the course of their work, evaluate the effectiveness of the authority's governance, risk management and control arrangements in line with the Code of Practice for Internal Audit of Smaller Authorities (England) (Code of Practice).

The internal auditor is not responsible for checking the AGAR prior to being provided to the external auditor.

To support a positive response to this assertion, the authority should be able to demonstrate that it has acted in line with the requirements of the Code of Practice, which includes the requirement that:

- an independent and competent person has been appointed to undertake the internal audit function
- the internal auditor has undertaken sufficient work to evaluate the effectiveness of the authority's governance, risk management and control arrangements
- the internal auditor's approach and audit programme have been informed by, and are proportionate to, the risks facing the authority
- the scope of the internal audit review and the annual audit plan have been formally considered and approved by members at an appropriate meeting, following consultation with the Clerk and Responsible Financial Officer, before audit work commences
- the approved programme of internal audit work is appropriate, proportionate and risk-based, and provides sufficient coverage to support an opinion on the effectiveness of governance, risk management and internal control.

Evidence of compliance should be retained and made available for inspection if requested.

5.4.2 Support for internal audit

To support a positive response to this assertion, the authority should be able to demonstrate that it has acted in line with the requirement of the Code of Practices and has provided appropriate support to the internal auditor and has not hindered or restricted the effective discharge of the internal audit function.

In particular, the authority should be able to demonstrate that it has acted in accordance with the following:

- Where requested, the authority **must**¹⁰⁰ provide the internal auditor with all documents and records requested; this can/may include both paper copies and electronic versions.
- The authority **must**¹⁰⁰ also be able to provide information and explanations where required by the internal auditor. Responses to internal audit requests should be made within a reasonable timeframe.
- Internal audit has been provided with appropriate and timely access to information, records, systems, premises and relevant officers, employees, members or contractors as reasonably required to undertake audit work.

⁹⁹ [The Accounts and Audit Regulations 2015](#).

¹⁰⁰ [The Accounts and Audit Regulations 2015](#) (Part 2 ((5)2)).

- The authority has co-operated fully with internal audit throughout the audit process and has not sought to improperly influence, restrict, direct or interfere with the auditor's work, findings, conclusions, recommendations or professional judgement.
- The authority has engaged constructively and professionally with internal audit findings, recommendations, opinions and advice, recognising the role of internal audit in supporting effective governance, accountability, risk management and continuous improvement.
- Appropriate arrangements are in place to safeguard the independence and integrity of internal audit.
- Where appropriate, particularly where the Clerk, Responsible Financial Officer or another senior officer may have direct involvement in the matters under review, the Chair of the authority (or equivalent) should provide the internal auditor with direct contact details to facilitate confidential communication outside normal management channels.
- The authority should have regard to applicable data protection and information governance requirements when providing information to the internal auditor and ensure that personal data has not been disclosed unnecessarily.
- The authority has engaged constructively and professionally with the findings, recommendations, opinions and advice provided by internal audit, recognising its role in supporting effective governance, accountability, risk management and continuous improvement.

6. Authorities that manage trust funds (local councils only)

Local authorities may be appointed as trustee of local trusts, most commonly charitable trusts, acting either as custodian trustee or managing trustee. Where an authority undertakes this role, it **must**¹⁰¹ ensure that each trust is managed in accordance with the relevant legal and regulatory framework.

Charitable trusts, including those established as charity incorporated organisations (CIOs), are regulated by the [Charity Commission](#) and **must**¹⁰¹ comply with the applicable accounting, audit and [annual reporting](#) requirements.

Authorities should ensure that all statutory returns are completed accurately and submitted on time for each entity.

6.1 Assertion 10 – Trust funds (local councils only)

This assertion satisfies the requirement that

“The council is a sole managing trustee and has discharged its accountability responsibilities for the fund(s)/assets, including financial reporting and, if required, independent examination or audit.”

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

Financial transactions of a trust **do not** form part of the authority’s accounts and are therefore not included in the authorities’ Statement of Accounts on the AGAR.

Where a local council does act 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 its responsibilities about the trust’s finances.

This needs to include financial reporting and, if required, independent examination or audit.

If a local council is a sole managing trustee and has not discharged all its responsibilities it **must**¹⁰² select “No”.

If a local council is not a sole managing trustee, it **must**¹⁰² select “N/A”.

6.1.1 Trust fund bank account

Authorities should ensure that each trust or charity that the authority is responsible for, holds or manages the funds of, has its own bank account. Only amounts paid and received through that account should appear in the accounts of the trust fund/charity.

If, exceptionally, the authority’s bank account is used to receive monies intended for the trust or to pay for any expenditure on behalf of a trust (prior to recovery from the trust account), then these transactions, including any irrecoverable VAT, **must**¹⁰² be included in the AGAR of the authority as being its own receipts/income and payments/expenditure during the year and, to

¹⁰¹ [Charities Act 2011](#).

¹⁰² [1.2 SAPPP authority to set Proper Practices](#)

the extent that they are yet to be recovered or paid over, reconciled as debtor and creditor amounts.

Where the authority finds itself in this position, a 'No' in response **must**¹⁰³ be provided to assertion 10.

It should also give a 'No' response to "*Do the figures in the Statement of Accounts exclude any trust transactions?*" in the Statement of Accounts on the AGAR; this will trigger a qualification in relation to accounts preparation.

¹⁰³ [1.2 SAPPP authority to set Proper Practices.](#)

7. Statement of Accounts

7.1 Introduction

The [Local Audit and Accountability Act 2014](#) and the [Accounts and Audit Regulations 2015](#) require all authorities to prepare a Statement of Accounts for each financial year in accordance with Proper Practices that Category 2 authorities need to follow in preparing their annual accounts (and follows the order that the Statement of Accounts does on the Annual Governance and Accountability Return).

For Category 2 authorities, the Statement of Accounts needs to be prepared in accordance with, and in the form specified in, any Annual Governance and Accountability Return required by these Proper Practices in relation to accounts.

The Statement of Accounts on the Annual Governance and Accountability Return takes the form of a summary payments and receipts (or income and expenditure for those preparing on this basis) account and a statement of balances.

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

Where an error has been identified in the prior year's accounts, after the external auditor's review, which has resulted in a change to the original submitted figures, then the corrected figure needs to be inserted into the current year's Annual Governance and Accountability Return. The authority **must**¹⁰⁴ clearly indicate that the prior year column in the Statement of Accounts is 'Restated' to inform the external auditor.

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

The RFO is responsible for determining, on behalf of the authority, the form of its accounting records and supporting records and its financial control systems. The RFO **must**¹⁰⁵ also ensure that the financial control systems are observed and that the accounting records of the authority are kept up to date.

The accounting records **must**¹⁰⁶ contain entries from day to day of all sums of money received and expended by the authority and the matters to which its income and expenditure or receipts and payments relate; and a record of the assets and liabilities of the authority.

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

¹⁰⁴ [1.2 SAPPP authority to set Proper Practices.](#)

¹⁰⁵ [The Accounts and Audit Regulations 2015 Regulation 4.](#)

¹⁰⁶ [The Accounts and Audit Regulations 2015.](#)

The financial control systems **must**¹⁰⁷ include measures that:

- ensure that the financial transactions of the authority are recorded as soon as, and as accurately as, reasonably practicable
- enable the prevention and the detection of inaccuracies and fraud, and the reconstitution of any lost records
- ensure that risk is appropriately managed
- identify the duties of officers dealing with financial transactions and division of responsibilities of those officers.

7.2 Accounting principles and reporting requirements

When determining how transactions should be recorded throughout the financial year, authorities may adopt one of the following accounting methods as appropriate:

7.2.1 Receipts and payments (R&P) accounting

Where an authority's gross income or expenditure is not more than £200,000 for that year, or for either of the two immediately preceding financial years, the statement may take the form of a summary receipts and payments account (sometimes known as cash basis accounting)¹⁰⁸.

The authority will record transactions only when cash or cash equivalents are actually received or paid. Receipts and payments are therefore recognised at the point they are given or received, rather than when they are earned or incurred.

Authorities with gross income or expenditure below the £200,000 threshold may choose to prepare their accounts either on an income and expenditure basis or on a receipts and payments basis.

Where an authority's gross income or expenditure (whichever is higher) exceeds £200,000 for three consecutive years, the authority **must**¹⁰⁹ prepare its accounts on an income and expenditure basis from the third year onwards.

For authorities preparing accounts on a receipts and payments basis, the figure in 'Total value of cash and short-term investments' will be the same as that shown in 'Balances carried forward'.

7.2.2 Income and expenditure (I&E) accounting (accruals basis)

Authorities where the gross income or expenditure (whichever is higher) between £200,000 and £15m **must**¹⁰⁹ prepare the AGAR on an income and expenditure basis.

The authority will record income and expenditure in the financial year to which they relate, based on when goods or services are provided or received, rather than when cash is actually paid or received. This approach ensures that financial statements reflect the true financial position for the period. Further explanation and examples will be included in the Guide.

Authorities preparing accounts on an income and expenditure basis, including the recognition of debtors, creditors and year-end cut-off adjustments, are encouraged to use proprietary accounting software. This supports the accurate recording and monitoring of transactions that span more than one accounting period.

¹⁰⁷ [The Accounts and Audit Regulations 2015 \(4\)](#).

¹⁰⁸ [The Accounts and Audit Regulations 2015 11\(3\)](#).

¹⁰⁹ [The Accounts and Audit Regulations 2015 11\(2\)](#).

Note that authorities whose gross income or expenditure (whichever is higher) exceeds £15m are not classified as a smaller authority and will therefore not account under this framework.

7.2.3 Transferring from a receipts and payments to income and expenditure basis

In line with the requirements outlined in [balances brought forward 8.1](#) and [balances carried forward 8.7](#), should the accounting basis be changed and these figures be restated or adjusted, this should be noted and an explanation should be provided with the AGAR.

Further information and examples of converting the accounts from receipts and payments to income and expenditure are provided in the Guide.

7.3 Treatment of refunds and reimbursements

For the purpose of this section, a refund is defined as a sum paid to/received from the original payer/payee in relation to goods or services not rendered or received, or goods returned from/to the original recipient/sender.

A reimbursement is a sum contributed by an authority to a third party in relation to goods or services purchased by that third party, or a sum contributed by a third party in relation to goods or services purchased by the authority.

7.3.1 Refunds and reimbursements – I&E basis

Under income and expenditure reporting, the refund of amounts paid or received **must**¹¹⁰ only be reported net where the refund is paid to/received from the original payee/payer.

Reimbursements from third parties (eg insurance providers) **must**¹¹⁰ never be netted off but always reported as gross income and expenditure

7.3.2 Refunds and reimbursements – R&P basis

Under receipts and payments reporting the refund/reimbursement of amounts paid or received **must**¹¹⁰ always be reported as gross receipts and payments in the AGAR.

7.4 Joint committees and arrangements

The [Local Government Act 1972](#) permits two or more authorities to discharge functions jointly by a joint committee. This legislation outlines the requirements for the discharge of the function.

It is the responsibility of each party involved in both a joint committee and joint arrangement to demonstrate their own share in line with documented agreements.

Authorities that participate in a joint committees **must**¹¹⁰ ensure that their own accounting records fully and accurately reflect the authority's appropriate share of the reserves, income, expenditure, assets and liabilities.

If the 'lead' authority is holding balances belonging to the other authorities at the 31 March, these **must**¹¹⁰ be held in earmarked reserves.

¹¹⁰ [1.2 SAPP authority to set Proper Practices](#)

The joint arrangements need to have a formal agreement in place regarding this arrangement. Where no original formal document exists, the authorities involved should formally agree and minute how the arrangement is governed. This will cover:

- the decision-making process
- how income, expenditure, assets and liabilities are shared
- how each authority will report its share in its AGAR.

Joint arrangements are **not** separate legal entities: they cannot own assets. These should be included in the register of the holding or managing authority. They can also **not** hold bank accounts in their own name, employ staff or enter into contracts.

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

Details of how to complete the accounting for a joint committee is included in the Guide.

7.4.1 I&E basis

For a 'lead' authority, any balance retained/owed to 'subordinate' authorities would be recorded within creditors.

If the authority is the 'subordinate' authority, then any amounts not transferred by the lead authority would be recorded within debtors.

7.4.2 R&P basis

For a 'lead' authority operating a joint committee, whose accounts are prepared on a receipts and payments basis, all transactions **must**¹¹¹ be recorded gross in the accounts without netting off transactions against each other.

7.5 VAT – threshold (parish/town councils VAT exempt) (Section 33 of the VAT Act 1994)

The authority needs to have robust arrangements in place for handling its responsibilities regarding VAT considering HMRC regulations. These regulations outline how:

- VAT needs to be appropriately accounted for.
- If a VAT receipt/invoice is not held, the council cannot reclaim VAT.
- VAT reclaims are prepared and submitted in a timely manner in line with the underlying records and in accordance with current HMRC requirements.
- The authority should ensure that VAT is identified wherever incurred and appropriate.

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

Smaller authorities with little self-generated income will most likely recover VAT using the [VAT126](#) form.

Those authorities that are VAT-registered and submitting quarterly returns are, from April 2022, included within the [Making Tax Digital regulations](#). It would be expected that all such authorities are using HMRC-compliant software to prepare their returns.

¹¹¹ [1.2 SAPP authority to set Proper Practices](#).

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

For authorities that manage a trust, charity VAT is covered by [VAT Notice 701](#), which is entirely separate from [Notice 749](#) for smaller authorities. Advice should be sought if there is uncertainty.

7.5.1 I&E basis

VAT owed to/from HMRC to the authority will result in a creditor/debtor (due to/from HMRC). In this situation all transactions will be entered onto the AGAR net of VAT (ie the value of goods and services **excluding** any VAT).

VAT reclaims submitted to HMRC but not yet received will be a **debtor**.

VAT owed to HMRC but not yet paid over will be a **creditor**.

7.5.2 R&P basis

Any VAT charged to a customer and VAT refunded from HMRC will be included in **Total other receipts** but held separately within the VAT control account.

VAT paid to suppliers and any paid to HMRC will be included in **All other payments** but held separately in the VAT control account.

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

8. Completing the Statement of Accounts on the AGAR

8.1 Balances brought forward

(Previously AGAR Line 1)

The balances brought forward figure will consist of the total balances and reserves that the authority started with at the beginning of the year – this will equal the closing balances and reserves at the end of the previous year.

This entry should always equal the balances carried forward from the previous year as confirmed by the external auditor. Where an error has been identified in the prior year's accounts, after the external auditor's review, which has resulted in a change to the originally submitted figures, the carry forward figure being amended, then the corrected figure needs to be input to the current years carry forward figure and include the detail 'restated' and an explanation be provided for the external auditor.

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

Note that where entries are restated, comparatives **must**¹¹² also be restated.

8.2 Precepts and levies

(Previously AGAR line 2)

8.2.1 Setting a precept

The authority **must**¹¹³ prepare and approve a budget in a timely manner before setting a precept or rates and prior to the start of the financial year in which the financial statements (AGAR) relate.

A meeting of full authority (acting in accordance with the quorum requirements), as opposed to approval at committee, **must**¹¹⁴ consider, approve and adopt the annual precepts for the coming year **before** 1 March (in the preceding year for which the precept is issued).

Precepts received in the accounts needs to match the prior year submission as well as the public record of precepted amounts.

Precept and budget: When setting a budget, it is prudent to develop a multi-year medium-term financial plan (which consists of building assumptions to form a financial plan for the upcoming 3–5 year period) as well as a basic precept budget that will determine the amount of precepts needed to be raised to cover the planned expenditure for the coming year after taking into account any planned use of reserves and other sources of income (total other receipts). This should consider projected reserve levels, particularly the general reserve.

¹¹² [1.2 SAPPP authority to set Proper Practices](#).

¹¹³ [The Local Government Finance Act 1992](#) 41 (2)(a).

¹¹⁴ [Local Government Act 1972](#) Section 101(6).

8.2.2 I&E basis

For precepting authorities preparing on an I&E basis, this figure shows the total precept **receivable** in the year.

This figure **must**¹¹⁵ contain only the value of precepts or rates and levies receivable in the year issued to billing authorities under the Local Government Finance Act 1942. Community infrastructure levy (CIL) payments are **not** to be included here – they **must**¹¹⁵ instead be included in the ‘total other receipts’ figure.

Grants and other forms of income are **not** to be included here as they are included within the ‘total other receipts’ figure.

8.2.3 R&P basis

For precepting authorities preparing on a R&P basis, this figure shows the total precept **received** in the year.

This figure **must**¹¹⁵ contain only the value of precepts or rates and levies received in the year issued to billing authorities under the Local Government Finance Act 1942. Community infrastructure levy (CIL) payments are **not** to be included here – they **must**¹¹⁵ instead be included in the ‘total other receipts’ figure.

Grants and other forms of income are **not** to be included here as they are included within the total other receipts figure.

8.2.4 Internal drainage boards

For internal drainage boards this figure shows the total of rates and special levies received (R&P) or receivable (I&E) in the year.

8.3 Borrowing

This is a new line on the AGAR – previously these figures were included in line 3 ‘Total other receipts’.

Money should only be borrowed to finance schemes of a capital nature or other uses allowed by regulations. Borrowing should not be used to fund day-to-day spending activities (revenue) as doing so would not be financially sustainable or prudent.

Borrowing may be utilised as part of treasury management and cash management activities (which is not considered to be the same as revenue spending – see Guide for further guidance).

8.3.1 Borrowing I&E

This line should show only money that has been recorded in the income summary in relation to money that the authority has borrowed and has been paid into the authority’s account.

Authorities accounting on an I&E basis will also show a long-term creditor which will be included in the ‘total borrowings’ section of the AGAR; see Section 8.13 [Total borrowing](#).

¹¹⁵ [1.2 SAPPP authority to set Proper Practices](#).

8.3.2 Borrowing R&P

This should show only money that has been recorded in the cash book in relation to money that the authority has borrowed and has been paid into the authority's account.

8.4 Total other receipts

(Previously AGAR line 3)

This includes all other income/receipts not shown in 'precepts and levies' or borrowing. This includes but is not limited to:

- grants and donations received
- capital receipts
- income/receipts from fees and charges
- community infrastructure levy
- VAT received/receivable
- any other relevant income.

8.4.1 Total other receipts I&E basis

This figure shows the authority's total income for the year, less the precept and levies figure receivable and monies borrowed. It will therefore include any repayable investments and loans, proceeds from the sale of fixed assets, fees, charges and grants such as council tax support grants.

Compilers of the Statement of Accounts **must**¹¹⁶ exclude from the total other receipts figure the value of any transactions recorded in the authority's accounting records arising from daily cash management activities. These transactions include transfers between bank current and deposit accounts and other short-term deposits. It is correct to record such transactions in the cash book for control and reconciliation purposes. However, they are not reported in the Statement of Accounts because these transfers do not represent income or expenditure for the authority.

Total other receipts for the year **must**¹¹⁷ include the community infrastructure levy (CIL) passed to a local council under [Regulation 59A of the Community Infrastructure Regulations 2010](#) and receivable by the authority, in the year in which it is receivable by the authority. [Regulation 62A of the 2010 Regulations](#) sets out special reporting requirements (separate from the AGAR) in respect of CIL receipts and expenditure. In addition, the principal authority may recover CIL not spent by the local council within five years of receipt per **legislation**¹¹⁸. Amounts recognised with respect of CIL **must**¹¹⁷ be kept in a ringfenced reserve. An authority may notify the charging authority in writing that it does not want to receive some or all of the receipts before the CIL is paid – in which case the charging authority **must**¹¹⁷ retain those receipts.

Total other receipts for the year **must**¹¹⁹ include all grants receivable by the authority, in the year in which they are received by the authority unless there are outstanding conditions (see Section 8.4.3 [Grants and donations](#)).

¹¹⁶ [1.2 SAPPP authority to set Proper Practices](#).

¹¹⁷ [Regulation 59A of the Community Infrastructure Regulations 2010](#).

¹¹⁸ [Regulation 59E of the Community Infrastructure Regulations 2010](#).

¹¹⁹ [1.2 SAPPP authority to set Proper Practices](#).

Income **must**¹²⁰ only be accrued for where receipt is ‘reasonably certain’, for example where a principal authority has confirmed in writing its intention to provide a grant and the receiving authority has reasonable assurance it will comply with any future conditions.

The total of precept and levies, total borrowing and total other receipts should agree to the total income on the income summary.

8.4.2 Total other receipts R&P basis

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

Compilers of the Statement of Accounts **must**¹²⁰ exclude from the total other receipts figure the value of any transactions recorded in the authority’s accounting records arising from daily cash management activities. These transactions include transfers between bank current and deposit accounts and other short-term deposits. It is correct to record such transactions in the cash book for control and reconciliation purposes. However, they are not reported in the Statement of Accounts because these transfers do not represent either receipts or payments or income or expenditure for the authority.

Total other receipts for the year **must**¹²¹ include the community infrastructure levy passed to a local council under [Regulation 59A of the Community Infrastructure Regulations 2010](#) and received by the authority, in the year in which it is received by the authority. [Regulation 62A of the 2010 Regulations](#) sets out special reporting requirements (separate from the AGAR) in respect of CIL receipts and expenditure. In addition, the principal authority may (but need not) recover CIL not spent by the local council within five years of receipt¹²². Amounts received in respect of CIL **must**¹²¹ be kept in a separate ringfenced reserve. An authority may notify the charging authority in writing that it does not want to receive some or all of the receipts before the CIL is paid – in which case the charging authority **must**¹²¹ retain those receipts.

Total other receipts for the year **must**¹²⁰ include all grants received by the authority, in the year in which they are received by the authority.

The total of precept and levies, borrowing and total other receipts should agree to the total income on the cash book.

8.4.3 Grants and donations

Grants are to be included in the total other receipts figure on the AGAR.

Grants **must**¹²⁰ not be included in the ‘precept and levies’ figure. Even if they are received at the same time from the same source as the precept or levy they **must**¹²⁰ be included in other receipts figure.

¹²⁰ [1.2 SAPPP authority to set Proper Practices.](#)

¹²¹ [Regulation 59A of the Community Infrastructure Regulations 2010.](#)

¹²² [Regulation 59E of the Community Infrastructure Regulations 2010.](#)

Capital grants should be kept in a separate earmarked reserve and only used for capital purposes. Note – receipts from the sale of fixed assets are capital receipts not capital grants and are subject to statutory regulations (see section on capital receipts).

Grants and donations consist of any grants, contributions, gifts and legacy payments from government or non-government sources, including individuals, for which there is no direct exchange of goods or services in return for the income (excluding borrowing).

8.4.3.1 Grants I&E basis

Grants **must**¹²³ be recognised immediately in the AGAR in the year they are received unless there are outstanding conditions that may not be fulfilled and would require the authority to repay the grant.

A grant condition is one that stipulates the grant will be returned to the grantor unless certain requirements are met. Note that a grant may contain restrictions that direct the use of grant monies but if the requirement to return is not included then this does not qualify as a condition and does not prevent grant recognition.

Where outstanding conditions exist, the grant will not be shown as income in the AGAR but will be shown as a receipt in advance (creditor). Once the conditions are met, the receipt in advance will be cleared and the income will show in the AGAR in the year the conditions are met.

If conditions are not met and the grant is to be returned, the grantor and the receipt in advance will be cleared and the cash repaid. No income or expenditure will be shown in the AGAR in these circumstances.

Grant income **must**¹²³ only be accrued for when the authority has it in writing that the grant has been awarded and no unmet conditions may prevent the authority from receiving the grant. The authority **must**¹²³ be reasonably certain it will receive the grant to reflect a debtor pertaining to that grant.

Grants containing restrictions on their use or that have been provided for specified projects or purposes should be kept in a separate earmarked reserve and used only for those purposes.

8.4.3.2 Grants R&P basis

Grants **must**¹²³ be recognised immediately as income in the AGAR in the year they are received.

Grants containing conditions or restrictions on their use or that have been provided for specified projects or purposes should be kept in a separate earmarked reserve and used only for those purposes. Note: where a condition exists, failure to comply with the conditions may result in the repayment of the grant.

8.4.4 Capital receipts

Capital receipts are payments received by the authority in respect of the disposal of an authority's interest in an asset. Capital receipts are subject to regulatory restrictions and can only be used for the purposes set out in accordance with the applicable Section 23 of The Local

¹²³ [1.2 SAPPP authority to set Proper Practices.](#)

Authorities (Capital Finance and Accounting) (England) Regulations 2003¹²⁴. For further information on the accepted uses of capital receipts, see the guide.

As such they should be kept separately in a ringfenced reserve to ensure compliance with legal restriction on their use.

Sums received in respect of the disposal of interest in an asset that in aggregate do not exceed £10,000 shall not be treated as a capital receipt and are therefore not required to be ringfenced¹²⁵.

8.4.4.1 Capital receipts I&E basis

Capital receipts are income receivable from the sale of the authority's assets and included within 'other income' in the AGAR. The asset **must**¹²⁶ be removed from the authority's asset register and capital receipts held in a ringfenced reserve. Where a sale has completed but the payment to the authority has not yet been received, a debtor will be created for the receipt and the income shown in the AGAR. The receipt should not be used to fund further capital projects until the cash relating to the sale is received.

If a deposit is received in relation to the sale of an asset that has not yet completed, the deposit will be shown immediately in the AGAR unless the deposit is subject to return on non-completion. Deposits subject to return will show as receipts in advance (creditor). Deposits that form part of the total sale of the asset will be a capital receipt.

8.4.4.2 Capital receipts R&P basis

Capital receipts are income received from the sale of the authority's assets and included within 'other income' in the AGAR. The asset **must**¹²⁶ be removed from the authority's asset register and capital receipts held in a ringfenced reserve. The income will be shown in the AGAR once the cash has been received regardless of when the sale completes.

Deposits that form part of the total sale of the asset will be a capital receipt and shown in the AGAR when received.

8.4.5 Fees and charges

Fees and charges relate to income and receipts for services the authority has provided in exchange for a fee and are shown in the 'other income' section of the AGAR.

8.4.5.1 Fees and charges I&E basis

Income from fees and charges will be shown on the AGAR when goods have been provided or services rendered. Where the authority has not been paid for goods and services rendered at year-end, they will show the income within the AGAR and hold a debtor for the amount due to the authority.

If an authority receives income for goods they have not yet delivered or services not rendered, they will not show the income on the AGAR until the goods or services have been rendered and the transaction complete. Any income received prior to the authority delivering the goods or services to which the income relates will be a receipt in advance (creditor).

¹²⁴ [Local Authorities \(Capital Finance and Accounting\) \(England\) Regulations 2003 \(23\)](#).

¹²⁵ [Local Authorities \(Capital Finance and Accounting\) \(England\) Regulations 2003 \(10\)](#).

¹²⁶ [1.2 SAPPP authority to set Proper Practices](#).

8.4.5.2 Fees and charges R&P basis

Receipts from fees and charges will be shown on the AGAR when they are received by the authority.

8.5 Loan interest/capital repayments

(Previously AGAR line 5)

Total expenditure or payments of capital and interest made during the year on the authority's borrowings (if any).

8.5.1 Loan repayments I&E basis

This figure shows the total of capital and interest amounts payable by the authority in the year.

It includes repayment due of loan principal, whether as part of a scheduled repayment plan or as a special payment, and interest arising from any borrowing including bank overdrafts and credit cards.

Authorities need to make an accrual in their accounts for any accrued interest payable at the year-end in accordance with the terms of any loan and any principal due but not yet paid out at year-end. These will show as creditors.

8.5.2 Loan repayments R&P basis

This figure shows the total of capital and interest payments made by the authority in the year.

It includes repayment of loan principal, whether as part of a scheduled repayment plan or as a special payment, and interest arising from any borrowing including bank overdrafts and credit cards.

8.6 All other payments and expenditure

(Previously AGAR line 6)

This will include total expenditure or payments as recorded in the cash book less than those shown in 'loan interest/capital repayments'. This is including but not limited to:

- capital expenditure
- other investments
- staff costs
- cost of providing day-to-day services
- any other relevant payments not included elsewhere.

This section **must not**¹²⁷ include loan interest and capital repayments.

The total expenditure per the cash book should equal the amounts in 'loan interest/capital repayments' and 'all other payments'.

8.6.1 Other payments and expenditure I&E basis

This figure shows the authority's total expenditure in the year, less the total of the specific expenditure amounts shown in loan interest/capital receipts. It will include the costs of

¹²⁷ [1.2 SAPPP authority to set Proper Practices.](#)

purchasing fixed assets and undertaking capital projects and the costs of providing day-to-day services.

Expenditure relating to investments and long-term loans need to be included, but not entries that result from daily cash management activities, such as transfers between bank current and deposit accounts or the making of short-term investments.

Only expenditure made by the authority should be included in all other payments. Payments made through the bank account of a charity or other body should not be included.

Expenditure for goods and services should be shown when the goods and services are delivered/received. Where the authority has received goods and services that they have not yet paid for this will be shown in the AGAR and a creditor created. Where the authority has paid for goods and services that they have not yet received, they will show a receipt in advance (debtor) and the amount will not be included in the AGAR until the goods and services are received.

8.6.2 Other payments and expenditure R&P basis

This figure shows the authority's total payments made in the year, less the total of the specific expenditure amounts shown in loan interest/capital receipts. It will include the costs of purchasing fixed assets and undertaking capital projects and the costs of providing day-to-day services.

Payments made regarding investments and long-term loans need to be included, but not entries that result from daily cash management activities, such as transfers between bank current and deposit accounts or the making of short-term investments.

Only payments made by the authority should be included in 'All other payments' – payments made through the bank account of a charity or other body should not be included.

Payments should be shown in the AGAR when the goods and services are paid for.

8.6.3 Capital expenditure

Payments and expenditure made in respect of the acquisition of or enhancement of assets and other capital expenditure. The creation or purchase of a new asset, and the costs of enhancement works on existing assets **must**¹²⁸ be entered onto the authority's asset register. Capital expenditure will be included in 'All other payments'.

8.6.4 Other investments

Expenditure related to any other investments other than capital expenditure. Other investments will be included within 'all other payments'

Payments made regarding investments and long-term loans need to be included, but not entries that result from daily cash management activities, such as transfers between bank current and deposit accounts or the making of short-term investments; see 8.8 [Short-term investments](#).

8.7 Balances carried forward

(Previously AGAR line 7)

¹²⁸ [1.2 SAPPP authority to set Proper Practices](#).

This shows the closing figure for the balances of the authority after all of its financial transactions have been accounted for. The value is calculated by determining total income (by calculating the total value of 'precepts and levies and 'borrowing' with 'total other income') and adding these to the balances brought forward and then deducting the total expenditure/outgoings (by calculating the value of 'total other payments', and 'loan interest/capital repayments').

8.8 Total value of cash and short-term investments

(Previously AGAR line 8)

The authority will need to reconcile this figure to its year-end bank account statements and submit the reconciliation to the external auditor.

This shows the actual value of the authority's cash and short-term investments in the form of cash held, current and deposit accounts plus any short-term investments.

Short-term investments, which mainly include deposit and savings accounts typically provided by banks, **must**¹²⁹ adhere to the following:

- a. they are denominated in pounds sterling
- b. they are realisable at full value on demand or have a maturity end date of not more than 12 months
- c. the whole of the original sum invested can, from the time that the investment is made, be accessed for use by the authority without any reduction, and
- d. the authority has assessed the counterparty and is satisfied that the original sum invested is not subject to unreasonable risk.

Where an authority holds short-term investments such as deposit or savings accounts, all year-end balances **must**¹²⁸ be reported in detail within the bank reconciliation, be included in the total value of cash and short-term investments figure and the reconciliation submitted to the external auditor.

8.8.1 Cash and short-term investments I&E basis

The figure should be equal to the corresponding figure in the authority's cash book.

For authorities preparing on an **income and expenditure basis** a reconciliation statement needs to be prepared to explain the difference between the amounts in cash and cash equivalents and the balances prepared on an income and expenditure basis including but not limited to debtors, creditors and provisions. This will be done on the face of the AGAR – see Section 8.11 [Reconciliation](#).

Users of proprietary accounting software may choose to account for credit card transactions through a cash book mechanism.

¹²⁹ [1.2 SAPPP authority to set Proper Practices](#).

However, amounts owing on credit cards **must**¹³⁰ not be included within this figure but are to be treated as creditors and thus included within the reconciliation between balances carried forward and total value of cash and short-term investments.

8.8.2 Cash and short-term investments R&P basis

The figure **must**¹³⁰ be equal to the corresponding figure in the authority's cash book(s). For authorities preparing accounts on a **receipts and payments basis**, the figure in total value of cash and short-term investments will be the same as that shown in balances carried forward.

8.9 Trade debtors and prepayments

This is a new section on the AGAR – applicable to those preparing on an I&E basis only. Those preparing on a cash basis should skip to Section 8.10 Trade creditors and receipts in advance.

When an authority uses the income and expenditure basis it will be required to account for its debtors and creditors.

Appropriate accounting arrangements need to be in place to account for debtors and creditors during the year and at the financial year-end.

Accounting arrangements are in place for debtors during the year and at the financial year-end (31 March). This means that debtors need to be properly recorded on an aged debtor report and followed up to ensure payment regularly throughout the year.

If the debtor is part of a payment relating to a trust refer to Section [8.17 Disclosure note for trust funds \(local council only\)](#) in this document for treatment.

If at the time of preparing the AGAR monies are held on behalf of a trust (prior to the recovery from the trust account), then these transactions **must**¹³⁰ be included on the authority's AGAR as its own receipts/income payments/expenditure during the year.

8.9.1 Prepayments

A prepayment is a sum paid out by the authority prior to receiving goods or services. This is a form of debtor, and the expenditure will not be recorded in the AGAR until the goods or services are received.

8.10 Trade creditors and receipts in advance

This is a new section on the AGAR applicable to those preparing on an I&E basis only. Any unpaid invoices at year-end will be following year transactions for R&P accounts. They should not appear on the bank reconciliation. Those preparing on an R&P basis should skip to Section 8.12 Total fixed assets plus long-term investments and other assets.

Amounts owing on credit cards are not to be included in 'Total value of cash and short-term investments', but should be treated as a creditor and included here. It will form part of the reconciliation – see Section 8.11 [Reconciliation](#).

When carrying out the consolidated year-end bank reconciliation:

- Electronic payments scheduled for after the reconciliation date remain creditors.

¹³⁰ [1.2 SAPP authority to set Proper Practices](#).

- Unpaid invoices where goods or services have been received are trade creditors for I&E accounts.

On an accruals accounting basis, goods or services that have been ordered but not received will **not** be included in creditors even if a purchase order (PO) has been created (ie commitments). They will instead be shown in the year that goods or services are received.

8.10.1 Receipts in advance

Receipts in advance refers to sums received for goods and services not yet provided but for which payment has already been received by the authority. Income relating to these should not be recorded in the AGAR until the goods and services have been provided.

This section will also contain any [grants received in advance](#) – see Section 8.4.3.

8.11 Reconciliation between balances carried forward and total value of cash and short-term investments

This is a new section on the AGAR applicable those preparing on an I&E basis only. Those preparing on an R&P basis should skip to Section 8.12.

This section will be a reconciliation of the balances carried forward per the AGAR and those balances reported within total value of cash and short-term investments.

This section should be calculated by:

- taking the amount in ‘Total value of cash and short-term investments’ section
- **adding** any debtors (this should equal the amount shown in the debtor’s section of the AGAR)
- **deducting** any creditors (this should equal the amount shown in the creditors section of the AGAR)
- **to total** an amount that should be **equal** to the amount shown in the ‘balances carried forward’.

Additional explanations: if for any reason the ‘total’ amount here does not match the ‘balances carried forward’, additional figures reconciling the total back to the balances carried forward **must**¹³¹ be provided along with narrative explanation of the discrepancy.

8.12 Total fixed assets plus long-term investments and other assets

(Previously AGAR line 9)

This is the value of all the capital the authority owns. This figure is made up of all the fixed assets, long-term investments and debtor long-term loans the authority owns.

Authorities need to maintain a register of the fixed assets, long-term investments and other non-current assets that they hold as at 31 March.

Fixed assets **must**¹³¹ be entered into the fixed assets register at the purchase price and the total value on the fixed asset register **must**¹³¹ match the amount in this section (total fixed assets plus long-term investments and other assets).

¹³¹ [1.2 SAPPP authority to set Proper Practices.](#)

8.12.1 Valuation of assets

The value of the fixed assets will be taken on 31 March (year-end) and needs to include any capital acquisitions and disposals recorded during the year.

The method of asset valuation is not prescribed in Proper Practices. Authorities may therefore adopt any reasonable valuation method, provided it is applied consistently from year to year. The chosen valuation method should be documented in an asset valuation policy approved by the authority and recorded in both the authority's minutes and the asset register.

The most appropriate and widely adopted method for the initial recognition of fixed assets in the asset register is valuation at acquisition cost. Under this approach, the recorded value of an asset remains unchanged from year to year unless the asset has undergone a material enhancement or improvement.

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

Authorities will set capitalisation thresholds (known as de-minimis) individually based on the amounts where the authority deems capitalisation will make no significant difference to the accounts, authorities may elect to treat expenditure that would otherwise be capital as revenue expenditure. In such cases they will not record the asset within their fixed asset register.

De-minimis levels **must**¹³² be set in advance of the expenditure being incurred and be included within the organisation's financial regulations or accounting policies. For further information on setting a de-minimis level see the Guide.

Any change in de-minimis **must**¹³² be appropriately agreed by the authority's decision makers and financial regulations and accounting policies updated accordingly. An authority may not apply de-minimis retroactively to expenditure incurred prior to the setting or changing of the de-minimis threshold.

8.12.2 Acquiring fixed assets

Where an asset is donated, it is best practice to seek a valuation (insurance valuations may be used for this purpose) and hold the asset at the estimated value per the asset valuation. This will be a form of income to the authority but will not be entered into the AGAR until such time that the asset is sold and the income is realised.

Where the cost of obtaining a valuation would make doing so impracticable, the asset should be held at a nil or nominal cost with a note that the asset is donated and the amount on the asset register is unlikely to represent the true value of the asset. Authorities **must**¹³² keep any information pertaining to restrictions on the sale or use of a donated asset and ensure that these restrictions are adhered to.

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

¹³² [1.2 SAPPP authority to set Proper Practices.](#)

8.12.3 Disposing of fixed assets

Upon disposal the asset **must**¹³³ be removed from the fixed asset register and the receipt from sale recorded on the AGAR under 'Total other receipts'.

The amount received should be held in a separate ringfenced reserve and it should be ensured that their use adheres with legal restrictions – see section on [capital receipts](#).

8.12.4 Long-term loan assets

Long-term loan assets **must**¹³³ be included at the amount originally advanced, less any subsequent repayments.

8.12.5 Other long-term investments

A long-term investment arises where the authority invests resources in anything other than a short-term investment and **must**¹³³ adhere to the following:

- a. the investment is denominated in pounds sterling
- b. the authority has assessed the counterparty and is satisfied that the original sum invested is not subject to unreasonable risk.

A long-term investment is any investment other than investment properties where the investment is expected to mature later than 12 months from the reporting date. Any investment where the maturity date is expected to be received within 12 months of the reporting date will be classed as a short-term investment; see Section 8.8 [total value of cash and short-term investments](#).

8.12.5.1 Treasury management investments

Where a long-term investment is for treasury management purposes, this amount will be recorded in the AGAR as 'all other payments/expenditure' and be included in the balance carried forward. It shall not, however, be held against general or earmarked reserves. A reconciliation is therefore required to balance the 'balances carried forward' figure (see Section 8.7) with the general and earmarked reserves (see Sections 8.15 and 8.16). For more information on treasury management investments see the Guide.

Treasury management investments should be made in line with the authority's treasury management and investment strategies and should follow the key principles of **security, liquidity and yield** in that order.

8.12.6 Intangible assets

Common costs that an authority may incur under intangible assets include software development and website development costs. For example, if an authority pays for a bespoke website build, this could be considered an intangible asset.

In order for costs to qualify as an intangible asset the authority **must**¹³³ have ownership or control over the asset such as software purchase and expect to receive long-term (ie greater than one year) benefits from the ownership or control of the asset. For this reason, while the initial set up of a computer programme or software package may qualify as an intangible asset,

¹³³ [1.2 SAPP authority to set Proper Practices](#).

often licence fees will not as they are paying for annual usage of the software and so are not receiving long-term benefits.

Care should be taken when multiple-year licences are purchased up front as these may still be annual licence fees just with a different pattern of payment. If expenditure can be directly allocated to individual years of usage this is an indication that it is an annual licence fee rather than a long-term benefit (see guidance for more information).

8.13 Total borrowings

(Previously AGAR line 10)

Total borrowings show the outstanding capital balance of all borrowings from third parties at the end of the year (31 March), including all loans but excluding bank overdrafts – bank overdrafts should be included within the cash and short-term investments line.

Authorities need to maintain a record of all borrowings and similar credit arrangements entered into, other than temporary bank overdrafts.

The capital value of instalment finance, including hire purchase or leases that have not been classed as borrowing by MHCLG, should not be included here.

8.13.1 Long-term borrowing

Long-term borrowing refers to any money owed by the authority to a third party, including central government, the Public Works Loan Board (PWLB) and other authorities, for which the maturity date is later than a year. The balance should show the total amount outstanding as at the reporting date including both principal and interest owed.

Authorities **must**¹³⁴ not take out long-term loans to cover the cost of day-to-day revenue spending.

If the balance includes PWLB loans, total PWLB borrowings at 31 March should agree with the [published record](#).

8.13.1.1 Long-term borrowing: internal drainage boards

Internal drainage boards (IDB) need to apply for a public works loan through the Debt Management Office. IDBs need to obtain ministerial consent to borrow the money from the DEFRA Secretary of State in accordance with S55 of the [Land Drainage Act 1991](#).

8.13.2 Short-term borrowing

Short-term borrowing refers to any money owed by the authority to a third party where the maturity date is less than a year, including credit arrangements.

Trade creditors will not be included here, and will instead be shown within the [trade creditors](#) section.

8.14 Reserves

This is a new section on the AGAR.

¹³⁴ [Local Government Act 2003](#) Schedule 1.

This is a supplementary item and **must**¹³⁵ show all the authority's reserves, split between general and earmarked/ringfenced reserves.

For those authorities whose 'balances carried forward' figure (see Section 8.7) contains charges relating to investments for treasury management purposes (see Section 8.12.5.1), this figure shall not be disaggregated from the reserves breakdown and **not** shown against general or earmarked reserves figures. It shall instead be shown separately in AGAR line 'Long-term treasury management investments' (see Section 8.15). The total amount in earmarked and general reserves figure should equal closing balances plus long-term investments; this will be reconciled on the AGAR (see Section 8.16).

For those without treasury management investments, general **plus** earmarked/ringfenced reserves should equal the amounts recorded in 'Balances carried forward' (see Section 8.7 [Balances carried forward](#)).

8.14.1 Earmarked and ringfenced reserves

This will include all reserves that have been earmarked for a specific purpose including those that are restricted by funding requirements, such as grants containing restrictions or sums set aside for specified future purposes by the authority.

This section will also include **ringfenced** reserves with legal restrictions on them including CIL and capital receipts reserves.

8.14.1.1 Earmarked reserves I&E basis

For those reporting on an I&E basis, grants with unmet conditions that have prevented grant recognition will not form part of this section but will instead be held as grants received in advanced – see Section 8.4 [grants](#). As these grants are not yet recognised as income in the AGAR they will not be included within the authority's reserves.

8.14.1.2 Earmarked reserves R&P basis

For those reporting on an R&P basis, grants with unmet conditions will form part of the authority's earmarked reserves. Authorities should be aware that failing to meet the conditions may result in repayment of the grant and so the authority should not spend them until they have met the conditions attached (unless the conditions are around spending the grant on specified projects, in which case the authority may spend the grant but only for the purposes laid out in the grant conditions).

8.14.2 General reserves

This will comprise all other reserves not included in ringfenced or earmarked reserves.

8.15 Long-term treasury management investments

This is a new line of the AGAR.

This line will include any long-term investment made for treasury management purposes from investing the authority's excess cash and is not held against a specified reserve. Enter the amount of long-term treasury management investments held in full in this section.

¹³⁵ [1.2 SAPPP authority to set Proper Practices](#).

Authorities not holding long-term treasury management investments can skip this step and move to Section 8.17 'Disclosure note for trust funds'.

8.16 Reserves reconciliation

This is a new section of the AGAR applicable to authorities holding investments for treasury management purposes only. If this section is not applicable skip to Section 8.17 on disclosure notes for trust funds.

This is a reconciliation figure and should be made up of the following:

- a) Earmarked and ringfenced reserves (Section 8.14)
- Plus**
- b) General reserves (Section 8.14.2)
- Less**
- c) Long-term investments for treasury management purposes (Section 8.15).

The total amount of the above sum will be entered into the AGAR under the reserves reconciliation section. The amount entered here should be equal to the amount shown in the 'Balances carried forward' section of the AGAR (see Section 8.7).

8.17 Disclosure note for trust funds (local councils only)

(Previously AGAR line 11)

Town and parish councils are required to make disclosures regarding any trust fund transactions or balances, requiring these councils to answer 'Yes' or 'No' to whether the figures in Statement of Accounts of the Annual Governance and Accountability Return exclude any trust transactions or balances.

Where a body is not a sole managing trustee, it **must**¹³⁶ answer Yes to the disclosure.

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

If, exceptionally, the authority's bank account is used to receive monies intended for the trust or to pay for any expenditure on behalf of a trust (prior to recovery from the trust account), then these transactions, including any irrecoverable VAT, **must**¹³⁶ be included in the AGAR of the authority as being its own receipts/income and payments/expenditure during the year and to the extent that they are yet to be recovered or paid over reconciled as debtor and creditor amounts.

Where the authority finds itself in this position a 'No' in response **must**¹³⁶ be provided to Assertion 10.

The authority should also give a 'No' response to "Do the figures in the Statement of Accounts exclude any trust transactions?" in the Statement of Accounts on the AGAR; this will trigger a qualification in relation to accounts preparation.

¹³⁶ [1.2 SAPP authority to set Proper Practices.](#)

9. Notes that accompany the Statement of Accounts

There is no provision in the Annual Governance and Accountability Return (AGAR) for additional notes to provide a narrative on the cause of any variance in the figures shown in the Statement of Accounts. To address this, authorities need to provide the following accompanying information to the external auditor.

9.1 Explanation of variances

Authorities need to understand the changes in income and expenditure from year to year and their significance.

The RFO needs to produce explanatory figures with a written narrative on the amount and cause of significant variances in annual levels of income, expenditure and balances shown the Statement of Accounts on the Annual Governance and Accountability Return that provides a sufficiently detailed and meaningful analysis and explanation of the reasons for the change. This should also include an analysis of the change in reserves, in particular changes in earmarked reserves – see Section 8.14 [Reserves](#).

9.2 Bank reconciliation

The year-end bank reconciliation needs to be provided to the external auditor together with the Annual Governance and Accountability Return and other accompanying documentation.

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

9.3 Certificate of Exemption

Where an authority meets the criteria for certifying itself exempt in the year of account to which the AGAR relates, and wishes to certify itself exempt from a limited assurance review, it needs to complete the Declaration of No Accounts and Certificate of Exemption in AGAR following a meeting of the authority after 31 March. It must also return a copy of the Certificate of Exemption to the external auditor by 30 June and publish a copy on the authority's website before the 1 July immediately following the financial year-end.

Appendix A – Parish meetings

Parish meetings are smaller and less complex than most Category 2 authorities, so it is not proportionate to expect them to operate all of the same processes. However, they remain subject to key requirements, including the rules on exemption from a limited assurance review where applicable, the requirement to complete the Annual Governance and Accountability Return (AGAR), and the requirement to have effective internal audit arrangements in line with the Code of Practice for Internal Audit in Category 2 Authorities (England). This appendix summarises the exceptions from Proper Practices and the legislative requirement that alternatively applies specifically to parish meetings.

Note to user: all exceptions from Proper Practices have been removed from the Proper Practices Code. However, where there are circumstances where Proper Practices may apply to parish meetings they do remain within the main document.

Proper Practices that are not applicable to parish meetings	Proper Practices that parish meetings must follow instead
Introduction	
1.8 Publication	The parish meeting must follow the publication requirements outlined for all Category 2 authorities, including the timeframes detailed. However, where a parish meeting does not have its own website, and therefore cannot satisfy that part of legislation, publication must be made in a manner that is accessible to local electors and complies with the statutory requirements¹³⁷. This includes being accessible by any member of the public without registration or payment. The legislation refers to publication on "any website"; however, in practice this should be a website that is clearly associated with the parish meeting, such as a dedicated parish meeting social media page or a neighbouring authority's website hosting the information on its behalf. Alternatively, legislation¹³⁸ does outline that the required notice may be displayed in a conspicuous place within the area of the authority for at least 14 days, for example on a parish hall noticeboard or another prominent public noticeboard. However, it is important to note that Proper Practices outlines that the rights to access to these documents are 30 days, see Section 1.8.1 Publishing requirements for the unaudited accounts and the publics' right of access to inspect the unaudited accounts.
1.9 Roles and responsibilities	The chairman of the parish meeting will act as the responsible financial officer in line with the requirements of the Accounts and Audit Regulations (Regulation 12) and will sign the Statement of Accounts.

¹³⁷ [The Accounts and Audit Regulations 2015](#) (5)(b).

¹³⁸ [The Accounts and Audit Regulations 2015](#) (5)(a).

Proper Practices that are not applicable to parish meetings	Proper Practices that parish meetings must follow instead
	The external auditor appointed to audit the accounts of a parish meeting must ¹³⁹ be appointed by the parish meeting itself (and not by its chairman on behalf of the parish meeting).
Annual governance statement	
Assertion 1 – Compliance with laws, regulations and Proper Practices	There is no legal requirement for parish meetings to have financial regulations. Parish meetings must follow the Local Government Act 1972¹⁴⁰ for the rules for holding meetings, which may normally be detailed within standing orders.
Assertion 2 – Information governance and data security	Parish meetings are not required to have a gov.uk email or address, although it would be good practice to do so should the option be made available.
Assertion 2 – Information governance and data security	There is no legal requirement for a parish meeting to have their own website.
Assertion 2 – Information governance and data security	Parish meetings are not required to have an IT policy.
Assertion 8 – VAT	Parish meetings are not bodies listed for the purposes of Section 33 of the Value Added Tax Act 1994 and therefore cannot use the special Section 33 refund scheme to reclaim VAT on non-business activities. They should therefore treat VAT incurred as a cost unless another specific VAT recovery route applies. Local authorities and similar bodies (VAT Notice 749) details that Section 33 does not relate to parish meetings and as such they are unable to reclaim VAT.

¹³⁹ [Local Audit and Accountability Act 2014](#) schedule 3, part 1 (4).

¹⁴⁰ [Local Government Act 1972](#) Schedule 12 Part III.