

REPORT BY INTERNAL AUDITOR TO
BISHOP AUCKLAND TOWN COUNCIL
ANNUAL AUDIT 2017/18

BACKGROUND TO REPORT

Under the provisions of the Accounts and Audit Regulations 2015 Councils, such as Bishop Auckland Town Council, should arrange for an independent and suitably qualified person to carry out an internal audit who, *on the basis of an assessment of risk, should carry out a selective assessment of compliance with relevant procedures and controls expected to be in operation during the financial year ended 31st March.*

The internal auditor is provided with a detailed checklist ("objectives of internal control") by the external auditor (Mazars for 2017/18) to which he/she is asked to state if they Agree (YES) or Disagree (NO) to each entry marked 1-9 on the checklist included in the Annual Governance and Accountability Return (AGAR). Such responses signify conclusions on whether, in all significant respects, each objective was being achieved throughout the financial year to *a standard adequate to meet the needs of the council.*

Under the relevant sections of the Audit Commission Acts auditors are required to report any matters which should be given formal consideration by the body or brought to the attention of the public.

CARRYING OUT THE AUDIT

I met with the Town Clerk on 18th and 21st May 2018.

The purpose of the meeting was to examine the year end accounts for 2017/18 in accordance with the guidelines set down by the Audit Regulations.

KEY DATES / TIMELINE

FINANCE

The main dates identified during the audit were as follows:-

Approval of budget for the year ending 31st March 2019

Detailed report on setting the budget for 2018/19 approved by the Town Council at a Meeting held on 23rd January 2018. (Minute TC.149/17)

Durham County Council deadline for Precept demand – 26th January 2018 – returned by the Town Council on 25th January 2018.

Review of the Effectiveness of Internal Controls

Reviewed and approved at a Council Meeting held on 6th March 2018. (Minute No TC.174/17)

Review of Risk Assessment

Reviewed and approved at a Council Meeting held on 6th March 2018. (Minute No TC.172/17)

One further item added to the schedule – the skatepark lighting.

Review of Audit Planning

Reviewed and approved at a Council Meeting held on 6th March 2018. (Minute No TC.173/17)

Review the level of Fidelity Guarantee insurance cover to include the precept

This remains at £500,000 which is more than adequate to cover both the end of year balances plus the annual precept paid by the County Council.

Review of the Budget for 2017/18

It was noted that the Council continues to receive regular quarterly reports on its budget and that at the end of the financial year the out-turn figures (when adjusted for expenditure carried forward etc) were within close proximity of the majority of the original estimates.

N.B. Total underspend for 2017/18 was £55,231, part of which was transferred to the earmarked funds to support the future purchase of accommodation and a substantial amount of the balance to fund other long term projects.

Any significant variations with either income or expenditure will be reported by the Clerk to the External Auditor when submitting the Annual Return.

Underspend/Carrying Forward to the new Financial Year

See under the Budget 2017/18 above.

Reserves

The Council had healthy reserves of around £214,000 at the year end (31st March 2018) but a substantial amount of these reserves is earmarked for the purchase of new office accommodation.

Indeed I understand that negotiations are at an advanced stage concerning the possible purchase of new office accommodation for the Town Council.

Whilst the reserves are considerably in excess of the minimum which would normally be maintained by the Council I have concerns on this as follows:-

Recommended level of Reserves

Mazars (the external auditors) has suggested on the subject of Council reserves the range should be:-

- a) for the lower level 25% of the Precept excluding earmarked reserves -
- b) for the upper level 115% of the reserves again excluding earmarked reserves

In the case of the Town Council this would work out as follows:-

As at 1 April 2018

- a) for the lower level 25% of the Precept, excluding earmarked reserves, balances would need to be £47,700 (rounded to nearest £100)
- b) for the upper level 115% of the reserves, again excluding earmarked reserves, balances would need to be £219,400 (rounded to nearest £100)

As at 1 April 2019

As 2018/19 is likely to be one of some major expenditure I think we should look at the bigger picture to consider how the Council's reserves might look at the end of this period.

If the Council proceeds with Option 3 of the Clerks report considered at the Council meeting held on 1st May 2018 on the purchase and possible refurbishment of new offices this could result in an end of year reserves of £30,000.

The Town Council will therefore be nearly £20,000 below Mazars minimum threshold and as such may have to consider yet another 10%+ increase on its Precept, possibly resulting in an increase above the guidelines of a maximum of 2% or £5.00. Although referendum principles do not apply to local councils at the current time it would be prudent to stay within these limits.

That being the case the Council might wish to revisit the options suggested for the proposed new offices so that balances are within Mazars guidelines.

Budget/Precept for 2018/19

Alternative budgets were presented to the Full Council at a meeting held on 23rd January 2018 following which it was agreed that the Precept for 2018/19 be increased by approx 12%.

The new Precept is in the order of £190,000 compared with the Precept of £168,000 for 2017/18.

The Council Tax Base increased from 4083 to 4122 and the new Precept increases the Council Tax Band D amount by £5 pa.

I understand that since receiving their Council Tax demands only 1 resident has made an enquiry re the increase.

Whilst the Town Council has increased the Precept significantly it needs to ensure that it has sufficient balances available to inter alia:-

- a) obtain new offices bearing in mind it currently operates from somewhat inadequate

second floor office accommodation for which it is currently pays a substantial charge.

- b) address the impact on future income should the Council Tax Support Grant be reduced by the County Council.
- c) the skatepark
- d) the ongoing preparations for a Parish Plan

General deposits

The Council now holds its reserves in 6 separate accounts earning from 0.05% to 0.4% some of which can be accessed at reasonably short notice.

As the Council will be aware the Financial Services Compensation Scheme (FSCS) now covers up to the first £85,000 in appropriate cases and I was advised that all the Council's deposits are held by banks etc covered by this scheme.

However I understand that the amount held with one or more Banks exceeds £85,000 particularly at this time since the annual Precept was received from the County Council.

I would strongly advise that the Council transfers funds between Banks (subject to the appropriate notices being given) to reduce the balances below the £85,000 threshold for each Bank account.

If necessary the Council should draw cheques in the first place on such accounts where it needs to get below the said threshold and possibly look at additional Bank current accounts on offer at present.

HMRC Real Time Payments

I was advised that such payments are up to date and that no queries have been received from HMRC.

Expenditure greater than £500

I was advised that the Town Council has uploaded details of any expenditure greater than £500 (net of vat) on the Council's website. I carried out a random check and found that all such items had been listed excepting for those items which are exempt such as Staff Wages etc.

Recovery of VAT

The current arrangements for recovery have now been changed by HMRC and in many cases whilst the April – December claims should be dealt with by the financial year end the January – March claims will in future more than likely roll over to the next financial year.

Whilst this would have been the case here due to other changes at HMRC, and the considerable delay in being allocated a UB number, the Council will not be recovering its vat payments for November – April (£5,896.34) until probably June this year at the earliest.

I carried out a random check and found that all payments made on those invoices checked had been recovered from HMRC.

Bank Charges

I was advised that no bank charges had been incurred by the Council during 2017/18.

Cheque counterfoils

I carried out a random cheque on both the Council's current account cheque book and the Mayor's Charity Account and found that all counterfoils had been signed by 2 designated Councillors.

Debit card used by the Clerk

I understand that in accordance with the Council's Financial Regulations the Clerk used the Council's Debit card on 33 occasions for transactions under £100 gross excepting one for just over £600 which had been authorised by the Mayor and Chairman of Finance Committee before the order was placed.

I have asked the Clerk to clarify with the Council's insurers if any special provisions need to be made within the Council's insurance cover in connection with the use of the debit card particularly as it is being used on so many occasions.

The Skatepark

I understand that the Council has now arranged for the lights to be turned off at 20.00 hours in order to comply with the relevant planning permission.

It was agreed that at the end of the relevant season the Council will obtain quotes from other suppliers to service the skatepark lights.

QUOTATIONS

General comment

I understand that the Council has 3 forms of estimates/quotations/tendering (where such rules apply). - Fin Regs have reviewed annually, or when amendments are made to the model. No changes have been made to the rules and amounts in the last year.

- i) £1,000 - £ 2,499 (net of vat) strive to obtain 3 estimates
- ii) £2,501 - £25,000 (ditto) 3 written quotations obtained
- iii) £25,001+ - 3 or more tenders obtained

I was advised that the Council had 4 projects where quotations had been invited as follows:-

South Church Allotments – retaining wall

About 175 metres of a retaining wall was in need of repair. The Clerk had invited 5 contractors to submit quotes to carry out work as identified by them as necessary to bring

the wall up to a reasonable state of repair.

5 quotes received and the lowest accepted. It was noted that the successful contractor had carried out work to the satisfaction of an adjacent authority.

Pest Control at Tindale Crescent

3 quotes invited and 3 received. Lowest quotation acceptable

Work at West Mill Allotments

3 quotes invited and 3 received. Lowest quotation acceptable

Compost toilet arranged by the Pollards Allotment Association

3 quotes invited and 3 received. The second lowest quotation was accepted as the lowest quote was for a basic facility which did not meet the requirements of the Allotment Association.

The Town Council part funded this scheme.

I was advised that all the lowest quotations received were within close proximity of the Council's original budget price for the work involved.

INSURANCE

Premium

The Council is now into its 2nd year of a 3 year cover.

Claims

I was advised that no claims were made by the Council during 2017/18.

Fidelity Cover

As mentioned elsewhere in this report the Council has Fidelity cover of £500,000 which is currently adequate for the Council.

The Council should review this level of cover annually.

Money in Transit

There are occasions when staff might be asked to handle money prior to it being deposited into a Council Bank account eg the Horticultural Show. As this is not currently on cover I would recommend that this "risk" be added to the Council's insurance policy. I understand that this is in hand.

Risk Assessment

I was advised that the Council had included the Skate Park lighting in its schedule of

identified risks.

Asset Register

I was advised that the Register had been updated with a few minor changes

Trees

I was advised that there was a survey of the Council's trees in April 2017 and some work carried out by a tree surgeon.

I understand that Clerk intends to have tree surveys carried out every 2 years.

Business Interruption

I was advised that there is still no cover in place for this risk but it will be considered if the Council's moves to new offices. I understand that the Council's Insurers may well offer business interruption cover.

Review of the existing cover

The Clerk to clarify with the Council's insurers whether any additional cover is required to deal with the GDPR and the Transparency Code.

SEARCH FOR NEW TOWN COUNCIL OFFICES

I was advised that the Council is still considering its options for new offices in the town.

I stressed the importance that whenever the Council takes the initiative in buying, or renting, alternative accommodation it obtains reports from the appropriate professional advisors before committing to an agreement.

DONATIONS / GRANTS

I was advised that 15 applications had been received, of which 14 were successful.

I checked 2 of the approved applications and found the paperwork to be in order.

All donations made under Power of Competence which is within Localism Act.

I have also established that the Town Council has met the relevant criteria required under the Act and renewed its authority to use the Power of Competence after the local elections held in May 2017.

FOOD FESTIVAL

I understand that this was a success and was attended by an estimated 27,000 people - generating a substantial amount to the local economy.

I was advised that whilst the Festival, organised by Durham County Council, ran at a loss (as was expected), it was considered to be a worthwhile event for the area with a large

number of attendees from the Bishop Auckland area.

The Council's investment of £10,000 towards the Festival was considered value for money by the Council.

ALLOTMENTS

I was advised that the work required on a retaining wall on the Council's South Church allotments was carried in 2017/18 but not paid for until 2018/19.

Unfortunately the Council had to take action against one tenant to remove them from the site which incurred considerable legal costs.

There are currently no allotments available on any of the Council's sites and the Waiting List is quite short.

I understand that the Council has resolved not to increase the allotment rents for 2019 and has advised tenants of this in line with existing regulations.

INCOME RECEIVED IN 2017/18

The Council received various income streams from:-

- a) The annual Precept
- b) LCTS grant
- c) Allotment rents
- d) Grants towards composting toilet (Pollards Allotment site)
- e) Grant from the County Council towards the Community Toilet scheme
- f) Interest on bank accounts

OTHER MATTERS

Members Training

I noted that whilst there have been some training sessions for Members during 2017/18 they had not been well supported.

Following the Council Elections on Thursday 4th May 2017 I would have expected all members to have attended induction/refresher courses and I would recommend that the Clerk takes advice on whether the lack of full training to Councillors is acceptable and indeed whether there are any qualification/insurance issues involved as a result of this.

Staff Pay Scales

The Council should review the staff salaries annually and indeed with the likelihood of extra work and responsibilities arising from the purchase of new offices, and the recent changes, in the Transparency code and GDPR it might now be an opportune time for the Clerk to submit a detailed report on the matter.

RECOMMENDATIONS

1) The Councils projected Reserves for year end 2018/19

Unless the Council reviews its decision on the option to be progressed on the purchase/refurbishment of new offices then there could be serious implications on the projected level of reserves at the year end.

I would anticipate that the projected reserves could possibly fall foul of the external auditor's advice unless the Precept is increased considerably and then run the risk of a local referendum being called.

2) Deposits

The Council should endeavour to spread its deposits with a view to keep the maximum balance with any Bank below the £85,000 threshold. If possible use first the current accounts with balances exceeding £85,000.

3) Use of Council debit card

The Clerk to clarify whether the Council's insurance cover includes the use of a Council debit card and the amount of such cover included.

4) Money in Transit

The Clerk to arrange for this risk to be added to the Council's insurance cover.

5) Tree Survey

The Clerk to include reference in the Council's Audit Planner a tree survey in 2019/20.

6) Business Interruption

The Clerk to add this risk to the Council's cover in the event of moving offices.

7) The General Data Protection Regulations and Transparency Code

The Clerk to clarify whether any implications arising from these Regulations need to be included in the Council's insurance cover

8) Members Training

The Clerk to clarify whether there are implications to the Council in Councillors not attending sufficient training sessions.

9) Staff Salaries

The Council should review staff salaries on a regular basis. With the likelihood of extra work and responsibilities arising from the purchase of new offices, and the recent changes, in the Transparency code and GDPR it might now be an opportune time for the Clerk to submit a detailed report on the matter.

INTERNAL AUDITORS RESPONSE TO THE AGAR

Following a detailed discussion with the Clerk, and having reviewed a range of documents and other records, I came to the conclusion that I could response **YES** to each of the objectives identified by the external Auditor.

That said I would hope that by the date of next year's audit further that improvements have been made to the Council's financial affairs, as outlined in this report.

QUALIFICATIONS ON THE AUDIT

My report is based on a limited review of the Council's accounts and was not a full audit and should not be taken as approving the Council's accounts 2017/18.

The purpose of this report is to be satisfied that the Council has adequate systems in place to meet the numerous control objectives sought by the External Auditor and to recommend possible improvements to the Council's existing systems.

As usual my thanks to the Town Clerk and other members of staff for their help in carrying out this audit.

M. G. Ackroyd
Internal Auditor

31st May 2018