

REPORT BY INTERNAL AUDITOR
THE ANNUAL AUDIT 2019/20 AND OTHER MANAGEMENT MATTERS
BISHOP AUCKLAND TOWN COUNCIL

BACKGROUND TO REPORT

Under the provisions of:-

- a) the Accounts and Audit Regulations 2015 Councils, and in accordance with
- b) the guidelines contained within the J.P.A.G. Document “The Governance and Accountability for Smaller Authorities in England - A Practitioners’ Guide to Proper Practices to be applied in the preparation of statutory annual accounts and governance statements March 2019”

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”) in the Annual Governance and Accountability Return (AGAR) 2018/19 – Part 3 to which he/she is asked to state if they Agree (YES), disagree (NO) or state N/A or Not Covered to each entry marked A-M on the checklist included in the return.

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

The audit was carried out several weeks after the usual timescale owing to the delays arising from Covid-19 and to the Town Clerk resigning from his post and arrangements being made to appoint an interim Clerk.

I was advised that during the pandemic period arrangements were set in place to deal with Council business as per the following Minute (Full Council Meeting, by Zoom, 28th July 2020).

F.C. 7.0/2020 Delegated Authority due to COVID Pandemic

“The Interim Town Clerk reported to members that following consultation with members in March the Mayor, Deputy Mayor, Chair of Finance in conjunction with Officers had been given delegated power to act in the best interest of the Council during this period. A report covering all financial payments was tabled for members to consider”.

Bearing in mind the need to observe social distancing I conducted my audit enquiries. with the Admin Assistant and the Assistant Town Clerk via Skype and numerous emails between 20th and 27th August 2020.

In preparing my report I had to download a great many background papers, and spend more time with staff members than usual, due to these somewhat changing circumstances. This will be reflected in my account when submitted.

FINANCE

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

Approval of budget for the year ending 31st March 2021

Detailed report on setting the budget for 2020/21 was approved by the Finance Committee at a meeting held on 14th January 2020 (Minute No FC 45/19) and to the Town Council, at a meeting held on 21st January 2020 (Minute No TC 115/19), following which it was agreed that the Precept for 2020/21 be increased by approx 1.76%.

The new Precept is £221,471 compared with £213,292 for 2019/20.

The Council Tax Base increased from 4145 to 4166 and the new Precept increased the Council Tax Band D amount by £0.90 from £51.20 to £52.10.

I understand that since receiving their Council Tax demands no resident has raised any enquiries re the increase.

One matter which needs to be kept under review is the annual reduction in the Local Council Tax Reduction Scheme (LCTRS) grant which has fallen significantly in recent years and now stands at less than £9,000 from £12,065 in 2019/20.

Durham County Council deadline for Precept demand was 24th January 2020 which I understand was submitted by the Town Council on 22nd January 2020.

Review of the Budget for 2019/20

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

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

Reserves

The Council had healthy reserves of around £343,688 at the year end (31st March 2020) although some of the reserves will be used to fund outstanding accounts for building works being carried out on the new office premises, furniture for the offices and a new and varied events programme (Covid-19 permitting).

The main reason for the Reserves being considerable was mainly due to the Council not funding the purchase price paid for the new office and all of the work subsequently carried

out. This was funded by a Public Works Loan Board loan and part funded out of reserves.

There were 3 minor unrepresented cheques at the year end.

It is anticipated that apart by the end of the current financial year (31st March 2021) the reserves could be about £250,000/£275,000.

The guidance from the External Auditor on the level of balances was in 2018 as follows:-

a) for the lower level 25% of the Precept, excluding earmarked reserves

the balances therefore for the y/e 31.03.20 would need to be around £55,000 + £100,000 (earmarked Reserves for the new offices) = £105,000

b) for the upper level 115% of the reserves, again excluding earmarked reserves

the balances therefore for the y/e would need to be around £246,000 + £100,000 = £356,000

The upper figure is about the amount advised by the External Auditor (actual Reserves £344,688).

From what I can It would appear that for ascertain the Councils reserves for the end of the current financial year (31.03.21) could be around £250,000/£275,000 (assuming no unforeseen costs).

Using the current yardstick adopted by Mazars, assuming that the Precept will be similar as of now, that there are no major schemes planned for 2021/22, and allowing for some earmarked reserves for items carried over from this year then the Council Reserves might well be within the upper limit set out by the External Auditor. The work on the offices having by then been completed.

These comments are subject of course to the future outcome of the LCTRS Grant scheme.

One matter however which I need to mention is that if there are to be Council elections next year there will doubtless be a period of purdah taking place within a 6 week period of the election date. Because of the timing of elections (around early May) this will only be a few weeks after Council Tax demands have been issued. The Council will therefore need to be very careful how it deals with its own precept demand at this time.

General deposits

The Council now holds its reserves in 5 separate accounts earning fairly nominal rates of interest which I understand can be accessed at reasonably short notice.

As the Council will be aware the Financial Services Compensation Scheme (FSCS) covers 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 advise that if it is anticipated that the balances of some accounts will exceed the £85,000 threshold then the Council should transfers some funds to alternative Banks with the FSCS cover (subject to the appropriate notices being given).

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 needs to update its website details has uploaded details of any expenditure greater than £500 (net of vat) on the Council's website.

Recovery of VAT - change

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

I was advised that £2921.15 of vat was outstanding for 2019/20 but this has been recovered during 2020/21.

I did however have some difficulty in cross referencing some of payments made as reports to the Council on payments seldom show vat.

I have asked that this be changed for future reports to the Council.

Bank Charges

I was advised that no bank charges had been incurred by the Council during 2019/20 although there had been one transaction not properly recorded by one Bank although this was quickly rectified.

Cheque counterfoils

I carried out a random cheque on both the Council's current account cheque book and found that all counterfoils had been signed by 2 designated Councillors and that there were matching transactions on the Bank statements.

Debit card used by the Clerk

I understand that in accordance with the approval contained within the Council's Financial Regulations the Clerk used the Council's Debit card on 22 occasions during in 2019/20 with the majority being for Postal Services purchases.

The Skatepark

I understand that the skatepark was well used with minimum running and maintenance costs including the lighting facilities.

QUOTATIONS

General comment

I understand that the Council maintains the same arrangements for dealing with estimates/quotations/tendering as follows:-

- 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 3 projects where quotations had been invited as follows:-

Photocopier

3 quotations had been obtained to replace the existing photocopier.

The quotation from Total Business Group was considered to be the best one giving value for money.

Quotation approved at the Town Council Meeting held on 25th June 2020 (TC 48/19).

Office Accommodation

Tenders received for proposed extension and other works.

Tender from VEST approved at Town Council Meeting held on 10th September 2019 (TC 78/19)

Insurance Cover 2019/2022

3 quotations had been obtained to provide the Council with cover for the next 3 years.

The quotation from CAS Ltd had been accepted.

Quotation approved at the Town Council Meeting held on 29th October 2019 (TC 87/19)

Mill Race Allotments – Water Supply

3 quotations had been obtained to replace approx 365 metres of 25mm mdpe water pipe.

The lowest received from Teesdale Building and Construction had been accepted.

Quotation approved at the Town Council Meeting held on 18th February 2020 (TC 123/19)

I understand this work has not yet been commissioned.

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

I was advised that there were 2 instances where no quotations had been obtained for work

subsequently cost over £1,000.00 exc vat namely:-

Hanging Baskets

No option other than to contract the County Council to provide, and maintain, the baskets as they were to be attached to its street lighting columns.

Detecting water leak at Mill Race

This matter was considered as urgent and therefore a contractor familiar with the site was engaged as a matter of priority which resulted in the section of pipe requiring attention being identified and quotes obtained to carry out that work.

INSURANCE

Premium

I was advised that the Council had obtained various quotations for its insurance cover and that this is now being provided by CAS Ltd.

The only major changes in cover that I noted were the reduction in the Fidelity Guarantee Cover (see below), the addition of Business Interruption cover (see separate note on this), the addition of the new offices and some pc items.

Claims

I was advised that no claims were made by or against the Council during 2019/20.

Fidelity Guarantee Cover

As mentioned elsewhere in this report the Council has Fidelity Guarantee Cover of £250,000 which is inadequate for the Council as there have been occasions during the year when the Council has balances well over £250,000.

I was advised that this had now been increased to £350,000 which is below the highest figure which the Council had held in various accounts sometime during 2020/21.

However it appears that the Council's Reserves are now levelling off at under £350,000 and perhaps this figure can be left in situ for the time being.

Asset Register

Whilst I didn't note an actual Minute adopting the Asset Register as a separate item I noted that it had been updated and reported to the Council at various stages during the year.

I was advised that included in the updates to include some additional pcs and the new offices.

Trees

I was advised that a survey had been carried out on Pollards allotments site which identified some non urgent work. It would be advisable for this work to be undertaken in the next financial year.

The Tree Surgeon's report also indicated that there could be some issues arising from overhanging branches from the railway line which adjoins one of the allotment boundaries.

I would recommend that the Council raises this matter with the Weardale Railway Company.

I understand that Council intends to have tree surveys carried out annually unless the Tree Surgeon advises otherwise.

Business Interruption

I was advised that there is now cover in place for this risk and if it transpires that the recent pandemic occurred after the policy was taken out then the Council will need to consider whether any additional costs arose as a result of Covid-19. This will be dependant on the outcome of a recent case – see press release below:-

A trial to decide who should pay for the rising costs associated with the coronavirus pandemic is about to start in London.

The UK financial regulator took Europe's largest insurers to court in a case that starts Monday to establish whether they should pay out pandemic-related claims. Hiscox Ltd., RSA Insurance Group Plc, Zurich Insurance Group AG and five other companies will represent the industry at the eight-day trial.*

A ruling against the insurers could mean tens of millions of dollars in additional claims, hitting a sector that is already facing its biggest test to date. Lloyd's of London, the world's largest insurance exchange, estimated the global pandemic could cost insurers more than \$200 billion.

"Critically, where any policy wording is ambiguous, the court will interpret it against the insurers," said Sarah Jane Mahmud, an analyst with Bloomberg Intelligence.

The trial is one of a number of global cases over business interruption claims. AXA SA, France's largest insurer, was ordered by a court to pay a Parisian restaurateur two months of lock down-related revenue, and the firm has since agreed to cover losses sustained by several hundred cafes during the shutdown.

Insurers didn't respond to requests to comment ahead of the hearing.

The Financial Conduct Authority brought the UK case on behalf of aggrieved policyholders, and the court decision would also affect more than 20 other insurers including Allianz SE, American International Group Inc., and Chubb Ltd.

Policies held by around 370,000 policyholders could be affected by the case.

* The Town Council's Insurers I believe.

PATS

I noted that an inspection had not been carried out by a qualified electrician since October 2018 due to transferring across to new premises but this will be arranged shortly

NEW TOWN COUNCIL OFFICES

The new offices

There is a long history attached to the search for new offices but I was pleased to note that it has finally been resolved by the purchase of premises in Kingsway and that refurbishment works should be completed shortly.

I have previously advised that any purchase of a property, or any works to be carried out on that property, should be dealt with by using appropriately qualified persons.

Without repeating the contents of many reports to the Council a brief summary of the history of this case appears to be as follows.

When this property became available in 2018 two surveys/valuation reports were received but one appeared to have based on an incomparable property whereas the second on a much more realistic comparison. The second report was therefore accepted by the Council

Once an initial price had been agreed (subject to the owner being responsible for certain works), planning permission obtained for the change of use, schedules prepared for the alteration works and tenders invited for the refurbishment and other work there was still an issue of finalising the price in order to reflect some further expenses incurred by the then owner (architects fees etc) on the property.

This was eventually finalised by way of a detailed report to the Town Council at its Meeting held on 3rd March 2020 Council when it was agreed that a revised offer should be made to the owner. This new and slightly increased was accepted to enable Solicitors to be instructed to proceed with the sale/purchase.

Completion of the sale took place on 6th March 2020.

In order to fund part of this acquisition/work the Council decided to seek a 50 year loan of £207,161 from the Public Works Loan Board (PWLB) at a rate of 3.18%. The remaining costs of the work to funded out of the Council's General Reserves.

I noted that the original Committee approval was for a loan based upon an interest rate of 2.02% as agreed at a Meeting of the Town Council on 10th September 2019 (Minute No TC.78/19 refers). However shortly after that agreement, and before the Council could access the funding at that rate, it was increased by the PWLB to 3.18%.

I understand that the Clerk reported the action in proceeding with the loan at this new rate at a subsequent Meeting held on 28th October 2019.

Future Leases on the property

I understand that work is still ongoing in the property which involves the Council staff in using some accommodation which ultimately be available to let.

I noted that it is intended to use a local Estate Agent to arrange any such lettings (possibly 2 separate lease) and I would advise that wherever possible separate meters are installed (particularly for any gas/electricity serving the premises).

If it is intended to let any accommodation on a formal lease, and include a service charge, then it would be advisable to make any lessee responsible for their general rates (once determined by the Valuation Officer).

In certain circumstances the Council might be exempt from general rates under the Small Business Rate Relief Scheme (this needs to be checked out) as it could relate to premises with Rateable Values up to £15,000.

From my understanding it is anticipated that the rateable value of the area to be occupied by the Council is likely to be less than £15,000.

DONATIONS / GRANTS

I was advised that 13 applications had been received during the year, of which 11 were successful.

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

All donations appear to have been made under Power of Competence contained within Localism Act 2011.

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 2019

I understand that this was a success generating a substantial amount to the local economy.

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

That said I would ask the Council to obtain a financial statement from the County Council on the income and expenditure arising from this event (2019) so that the Council can at least be satisfied that its contribution is actually underwriting a loss leading event as was the original intention.

EVENTS

In recognition of the time being taken to deal with the large number of Community related events being organised by the Council I understand that the Council resolved to appoint an Events and Projects Officer in order to free up some of additional workload being carried

out by the Assistant Town Clerk to deal with this work.

I was advised that the staffing costs arising from this appointment can be absorbed within the existing budget.

I also understand that the budget for this service is funded under the general Powers of Competence.

ALLOTMENTS

I was advised that there is currently only one allotment available on the Council's sites and that there 25 names on that the Waiting List is quite short.

I understand that the Council resolved to increase the allotment rents for 2021 by 54p per square meter (an 8% increase) (Town Council Meeting held on 21st January 2021 Minute No TC113/19 refers). Due to the Covid-19 pandemic I understand that the Council is taking a sympathetic approach to the collection of rents for this season.

I noted that this was the first increase since April 2014.

I also noted that some drainage works were to be carried out on the Mill Race allotments.

There is one issue which needs to be addressed and it relates to the ongoing problem of pest control on the Woodhouse allotment site.

According to my information the cost of dealing with this problem is likely to be in the order of £2,000 per year.

I would recommend that the Clerk prepares a report on the running costs for this site (including water charges, general repairs, pest control etc – but for the time being not administration costs) and the income received. This should be compared with similar costs for the other allotment sites.

At some time the Council might wish to consider transferring the management of the Woodhouse site to an Allotment Association for them to look after the site on behalf of the Council.

INCOME RECEIVED IN 2019/20

The Council received various income streams from:-

- a) The annual Precept
- b) LCTRS grant
- c) Allotment rents
- d) Grant from the County Council towards the Community Toilet scheme
- e) Interest on bank accounts
- f) The loan from the PWLB

ANNUAL REVIEWS

Review of the Effectiveness of Internal Controls

Reviewed and approved at a Council Meeting held on 3rd March (Minute No TC 139/19).

Review of Risk Assessment

Reviewed and approved at a Council Meeting held on 3rd March 2020 (Minute No TC 137/19).

Review of Audit Planning

Reviewed and approved at a Council Meeting held on 3rd March 2020 (Minute No TC 138/19).

OTHER MATTERS

Members Training

I noted that some staff had attended training sessions but none had been attended by any Councillor.

I would suggest that Councillors do take the opportunity to attend any suitable training sessions on offer as if nothing else it would be a useful feature to mention on any applications to upgrade the status of the Council.

Staff Pay Scales

In accordance with best practice the Council should review the staff salaries annually particularly at this time when the resignation of the former Clerk, transferring to new premises and the Covid-19 pandemic has involved some members of staff in additional work.

RECOMMENDATIONS

1) Reserves

Monitor the balances held in Reserves bearing in mind the advice received from the External Auditor in 2018.

2) Future Precepts

Similar comment to 1) Reserves above.

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3) Deposits

To consider transferring some funds to alternative Banks with the FSCS cover (subject to the appropriate notices being given) to reduce the balances in each account held to below the £85,000 maximum.

4) VAT

To state in future reports to the Council whether any purchase/quotation is inclusive of vat.

5) Fidelity Guarantee Cover

To monitor the level of cover under this heading on the basis that it is currently set at £350,000.

6) Trees

To continue with the commissioning of annual surveys (unless the Council's Tree Surgeon recommends otherwise).

To contact the Weardale Railway Company re the overhanging branches next to the Pollards allotments.

7) Business Interruption

To monitor any possible claims under this Insurance Cover (if valid) as a result of any such interruptions which might arise under Covid-19.

8) Food Festival

The Council should request a financial statement from the County Council for the cost of running this event in order to be satisfied that it is a loss leading event but still providing value for money as a community based event.

9) Allotments

To review the costs managing the Woodhouse allotments and whether consideration should be given to transferring these allotments to an Allotment Association/Society.

10)Members Training

Councillors should endeavour to attend suitable attend suitable training sessions.

11)Staffing matters

The Council should review staff salaries on a regular basis particularly at this time when the Council has been without a new Clerk for some time, transferred its offices and has had to deal with some of issues arising during the Covid-19 pandemic.

12)The New Offices

Before granting any leases out on the new accommodation the Council should clarify whether the new premises qualify for the Small Business Rate Relief scheme.

If so any such leases should make the lessees responsible for their own general rates rather than be included in a general service charge which might work against the Council if it does not itself pay general rates.

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 except where “Not Covered” is the appropriate response.

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 2019/20.

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.

My thanks to the Admin Assistant and the Assistant Town Clerk in carrying out this audit.

M. G. Ackroyd
Internal Auditor

27th August 2020