

REPORT BY INTERNAL AUDITOR
THE ANNUAL AUDIT 2018/19 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

I met with the Town Clerk on 25th April 2019 and 2nd May 2019.

The purpose of the meeting was to examine the year end accounts for 2018/19 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 2020

Detailed report on setting the budget for 2018/19 approved by the Town Council at

meetings held on 8th January 2019. (Finance Committee Minute No FC 44/18) and at a Full Council Meeting held on 15th January 2019 Minute No TC 129/18).

Durham County Council deadline for Precept demand – 25th January 2019 – returned by the Town Council on 21st January 2019.

Review of the Effectiveness of Internal Controls

Reviewed and approved at a Council Meeting held on 25th March 2019 (Minute No TC 154/18).

Review of Risk Assessment

Reviewed and approved at a Council Meeting held on 25th March 2019 (Minute No TC 152/18).

Review of Audit Planning

Reviewed and approved at a Council Meeting held on 25th March 2019 (Minute No TC 153/18)

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 2018/19

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.

However there were some substantial underpends particularly on the proposed new offices although progress is being made with completion anticipated late summer 2019.

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 2018/19 above.

Reserves

The Council had healthy reserves of around £263,000 at the year end (31st March 2019) but a substantial amount of these reserves is earmarked for the purchase of new office accommodation.

Whilst the reserves are considerably in excess of the minimum which would normally be maintained by the Council, when adjusted to allow for a range of earmarked reserves, the projected level of General Reserves is £62,500 which equates to around 3 months average annual running costs in "normal" year. This is about the minimum level to which

general reserves should be allowed to fall.

Budget/Precept for 2019/20

A detailed budget report was presented to the Full Council, at a meeting held on 25th January 2019, following which it was agreed that the Precept for 2019/20 be increased by approx 12.25%.

The new Precept is in the order of £213,292 compared with £190,000 for 2018/19.

The Council Tax Base increased from 4122 to 4145 and the new Precept increases the Council Tax Band D amount by £4.92 pa equivalent to 10.63%

I understand that since receiving their Council Tax demands not one resident has made an enquiry re the increase.

General deposits

The Council now holds its reserves in 5 separate accounts earning from 0.05% to 0.4% most of 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 strongly advise that the Council transfers 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.

I have made the Clerk aware of other Banks (within the FSCS) that might be able to accept funds from the Council but other Banks might be available to receive such funds.

Should any alternative Bank be based in the Republic of Ireland then the Clerk will need to clarify the impact of Brexit on such accounts.

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

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

I did however have some difficulty in cross referencing some of payments to the invoices and have suggested that in future the returns submitted to HMRC Customs and Excise should quote a reference number – possibly to the cheque or ledger number.

Bank Charges

I was advised that no bank charges had been incurred by the Council during 2018/19.

Cheque counterfoils

I carried out a random cheque on both the Councils current account cheque book and the Mayor's Charity Account (now closed) 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 approval contained within the Council's Financial Regulations the Clerk used the Council's Debit card on 21 occasions in 2018/19 as follows:-

Up to £50 = 14
£50 - £100 = 5
£100 - £150 = 2

The Skatepark

I understand that in accordance with a recommendation contained with my report for the year ending 31st March the Clerk had obtained quotes from other suppliers, to service the skatepark lights and that some minor savings have been achieved.

QUOTATIONS

General comment

I understand that the Council has 3 forms of estimates/quotations/tendering (where such rules apply). - Financial Regulations are 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 3 projects where quotations had been invited as follows:-

Woodhouse Allotments – Pest control

I was advised that there were serious pest problems on this site.

3 quotations had been obtained to deal with problem and given the additional range of services being offered by one contractor the Council decided to proceed with that one.

I intend to say more on this particular site, and its rat infestation problem, later in this report.

Electricity supply to the Skatepark

Not done by competitive quotations but by a check on a comparison site which resulted in a substantial saving to the Council.

New IT equipment

3 quotes invited and 3 received.

All quotes covered different specifications and whilst not the lowest received the Council agreed to the one which was based on the specification nearest to the Council's requirements.

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

INSURANCE

Premium

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

The Council should take the opportunity of obtaining competitive quotes for its cover when the existing Policy matures.

Claims

I was advised that no claims were made by the Council during 2018/19.

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

I was advised that cover is now in place in the Council's insurance policy for this possible risk.

Asset Register

I was advised that the Register had been updated with a few minor changes although the 3 pcs recently purchased by the Council need to be added to the Register and included in the list of assets included in the Council's insurance policy.

Trees

I was advised that there was a survey of the Council's tree in Spring April 2018 and some work was subsequently carried out by a tree surgeon.

I understand that Clerk intends to have tree surveys carried out annually.

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.

PATS

I noted that an inspection had been carried out by a qualified electrician within the audit year.

NEW TOWN COUNCIL OFFICES

I was advised that the Council is now at an advanced stage in acquiring and adapting new offices and that work should be starting on the new premises shortly. I was further advised that suitably qualified persons had been involved in both the alterations required and any acquisition/leasing arrangements.

I stressed the need to ensure that adequate notice is given to the current landlords on any intended vacation date of the 4 Clocks accommodation to avoid any double costs arising with the move.

DONATIONS / GRANTS

I was advised that 13 applications had been received, of which 11 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 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

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.

ALLOTMENTS

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

I understand that the Council has resolved not to increase the allotment rents for 2020 and has advised tenants of this in line with the existing regulations.

I was also advised that some drainage works are proposed on one of the sites in 2019/20.

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

According to my information in recent years, and possibly for future years, the cost of dealing with this problem is likely to be in the order of £3000 per year.

I would strongly 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.

If the Woodhouse site is shown to be a major loss leader then the Council should give serious consideration as to the reasons behind the source of the problem and how it can be discouraged. Possibly some form of rent adjustment to discourage certain livestock/birds being kept on site.

I have some concerns that the Council is indirectly paying to deal with problems generated by several tenants on this site. Indeed unless the tenants are recharged for the costs incurred by the Council in dealing with this issue then it could be argued that the Council is indirectly subsidising their rents.

One area of possible control is the management of each site by the tenants and, if they fail to manage the site on terms outlined by the Council in the lease, then the Council should take action.

INCOME RECEIVED IN 2018/19

The Council received various income streams from:-

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

OTHER MATTERS

Members Training

I noted that only one Member had attended a training sessions for Members during 2018/19.

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 the failure of any members attending specific courses.

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 shortly be an opportune time for the Clerk to submit a detailed report on the matter.

RECOMMENDATIONS

1) Deposits

The Council to transfers 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.

2) Insurance

To review the insurance provider when the current policy matures

3) 3 pcs

To add the recent IT equipment purchased on both the Council's asset register and in its insurance cover.

4) Business Interruption

The Clerk to add this risk to the Council's cover when moving offices.

5) Allotments

See my earlier comments.

6) Members Training

The Clerk to clarify whether there are implications to the Council in Councillors not attending sufficient training sessions and to encourage Members to attend any future training sessions.

7) 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 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 2018/19.

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 in carrying out this audit.

M. G. Ackroyd
Internal Auditor

13th May 2019