

**REPORT BY INTERNAL AUDITOR TO
BISHOP AUCKLAND TOWN COUNCIL
ANNUAL AUDIT 2015/2016**

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 (BDO Stoy Hayward for 2015/16) to which he/she is asked to state if they Agree (YES) or disagree (NO) to each entry marked A-K on the checklist. 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.

ISSUE FROM 2014/15

I have been advised that the external auditor raised an issue concerning the inclusion of the Council's balances held in the CCLA Public Sector Deposit Fund under box 8 of Section 1 of the Annual Return for the Financial Year ended 31st March 2015 ("Total cash and short term investments") rather than under box 9 ("Total fixed assets plus other long term investments and assets").

There does appear to have been an element of confusion as to which box the balances from this particular deposit should be placed although I understand that this has now been clarified with the issue of the updated Practitioners Guide.

CARRYING OUT THE AUDIT

I met with the Clerk and Chairman of the Finance Committee on 26th April and 5th May 2016.

The purpose of the meeting was to examine the year end accounts for 2015/16 in accordance with the guidelines set down by the Audit Regulations and more recently the BDO Audit Briefing for March 2016.

THE BDO LOCAL COUNCIL SPRING BRIEFING MARCH 2016

Firstly some comments on the Briefing note for March 2016.

This note covers several changes from the Accounts and Audit Regulations 2015, how this

impacts on future reviews, the layout of the Annual Return and changes to the period of electors rights.

Other topics are addressed but it is the changes to the Regulations which need to be given careful consideration which, if not dealt with correctly, could result in some potential financial costs to the Council and the possibility of a Qualified Certificate being issued by the External Auditor.

The Council need to incorporate the keys dates from these changes into its audit diary to ensure that they are dealt with and in the correct chronological order.

I have also contacted the Town Clerk on the question of when a notice should be displayed to advise the public when it is has the right to inspect the Council's accounts as there appears to be some confusion on this. I have since been advised that the relevant public notice can be displayed on the first day when the public can examine the accounts.

KEY DATES / TIMELINE

The BDO Audit Briefing for Winter 2014 highlighted Key Dates/Timeline for Administration, Governance and Accounts & Accounts.

Whilst no similar Key Dates/Timeline are included in the latest Briefing Note the Council has completed the activities referred to well within the guidelines quoted previously.

The main ones being:-

Approval of budget for the year ending 31st March 2017

BATC Actual date 8th December 2015 – Minute TC 120/15 refers

Durham County Council deadline – 29th January 2016 – returned by the Town Council on 22nd December 2015.

Review and minute the Effectiveness of Internal Controls (including Risk Assessment)

BATC Actual date – 8th March 2016 Minute No TC 166/15.

Review the level of Fidelity Guarantee insurance cover before receipt of first precept instalment

BATC actual date – 6th May 2015 which, I understand, was when the Clerk contacted the Council's Insurer Zurich Municipal and increased the fidelity guarantee insurance to a more realistic level of £500,000 without any additional premium being incurred.

FINANCE

Budget 2015/16

It was noted that the Council received 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 in some areas there was a substantial underspend, amounting to £20,000, which has now been earmarked as per the comments under Budget/Precept for 2016/17 below.

Any significant variations will be reported by the Clerk to the External Auditor when submitting the Return.

Budget/Precept for 2016/17

Alternative budgets were presented to the Full Council at a meeting held on 8th December 2015 following which it was agreed that the Precept for 2016/17 be increased by 7.32%. After taking into account the reduction in Council Tax Support Grant and an increase in Council Tax Base, Council Tax increased by 4.73% (£1.80 at Band D). The Town Council continues to ensure that it has sufficient balances available in order to:-

- 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.

More on this later.

- b) address the impact on future income should the Council Tax Support Grant be further reduced by the County Council.
- c) deal with some major repair work on a retaining wall at the South Church allotments.
- d) meet the cost of the Town Council elections scheduled for May 2017.
- e) floodlighting in the skatepark

Underspend/Carrying Forward to the new Financial Year

I noted that the Council had underspend in some areas of its budget for 2015/16 and that these has been carried forward to a related budget or Earmarked Reserves in its accounts.

See also under the Budget/Precept for 2016/17 above.

Balances

See also under the Budget/Precept for 2016/17 above.

Accounts

I carried out a random selection of accounts submitted to and approved by a meeting of the Finance Meeting. The invoices, cheques and scheduled provided were all in order.

General deposits

I noted that that the Council continues to invest substantial funds with CCLA's Public Sector Deposit Fund (PSDF) and, whilst only earning a fairly low rate of interest (0.48%) can be accessed at reasonably short notice.

As the Council will be aware the Financial Services Compensation Scheme (FSCS) covers

up to the first £75,000 in appropriate cases. According to my information, from the FSCS website, small Councils are covered by the FSCS provisions. The Town Clerk is currently clarifying whether this would include Bishop Auckland Town Council.

In the meantime the Town Clerk has ascertained from the Council's Insurers that it does not provide cover in the event of Councils losing any deposits not protected by the FSCS Compensation scheme (where covered - up to £75,000).

To compound the situation it also appears that the FSCS provisions do not cover the Council's deposits with the PSDF.

Whilst the Council has deposits with Lloyds Bank these are under £75,000 whereas the deposit with the PSDF is in excess of this threshold.

Whilst accepting that the PSDF interest rates are very competitive the Council should consider whether it continues investing with this investment if not protected by the FSCS provisions or consider alternative "protected" investments and to keep any amounts held below the £75,000 threshold.

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 can retrieve, at short notice, details of any expenditure greater than £500 and that it is now available on the Council's website.

Recovery of VAT

The current arrangements appear to enable the Council to recover the vast majority of any vat paid during the relevant financial years.

Bank Charges

I noted that the Council incurred a bank charge of £35 for a returned cheque due to insufficient funds in the Council's Current Account.

I understand that the Clerk is in discussions with its Bank to address this type of situation including a limited overdraft facility.

Tenders

I noted that the Council had not carried out any works during 2015/16 where competitive tenders would have been required under the Council's Standing Orders.

Although the Council's threshold for requiring competitive quotes to be obtained (excepting for certain exclusions) is £2,500 I would recommend that this be amended to £2,500 excluding vat.

INSURANCE

Fidelity Cover

As mentioned elsewhere in this report the Council has now increased its Fidelity cover to £500,000 which is considerably in excess of the level originally suggested. I have been advised that there was no increase to the premium for the increase.

The Council should review this level of cover annually.

Risk Assessment

I noted the Council approved a schedule of identified risks at a Meeting on 8th March 2016.

Asset Register

I was advised that the Council had not added to its assets during 2015/16, however an obsolete desk top printer was disposed of (purchase cost £89.53). A schedule of assets was reported to the Council on 12th April 2016.

Trees

I was advised that there will be a survey of the Council's trees during 2016/17.

Business Interruption

I was advised that despite discussions with the Council's Insurers there is still no cover in place for this risk.

Whilst the potential losses are likely to be fairly limited I would nevertheless still recommend that some cover (say £2,000) is taken out for removal costs, reconnection of telephone and broadband, change of address etc) should the Council have to vacate its offices at short notice.

I agreed to check how other Councils dealt with the question of Business Interruption within its Insurance Cover.

Public Liability Cover

I was advised that the Council's Public Liability Cover extends to the Council's allotments.

DONATIONS / GRANTS

I noted that the Council had amended its standard grant application forms to enable the Council to consider any request with better background information, including the highlighting of that part of the form stating that *Incomplete Forms would not be considered*.

I also randomly selected a request for a donation and was satisfied that it had been dealt with in an acceptable manner.

I was advised that out of 21 applications for funding 11 had been successful.

All donations in the year had been awarded in accordance with the powers contained

within the Localism Act 2011.

FOOD FESTIVAL

I understand that this was a success attended by a large number of people and generating a substantial amount to the local economy. Although it ran at a loss, as was expected, it was considered to be a worthwhile event for the area and over a third of those in attendance were 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 some major work was required on a retaining wall on the Council's South Church allotments and that this was programmed to be undertaken during 2016/17.

There are currently several vacant allotments available and the Council is examining incentive schemes to relet them. Some sites are in particularly poor condition and the Council might wish to consider inviting a Government sponsored community service team, or similar group, to clear these sites to bring them up to a state fit for allotment use.

I understand that the Council does not intend to increase the allotment rents for 2017/18 and has advised tenants of this in line with regulations.

NEW OFFICES

I was advised that the Council is pursuing a firm interest in acquiring some alternative office accommodation in the Lightfoot Institute in Kingsway, Bishop Auckland.

Indeed it has proceeded as far as paying a bond of £3,000 to retain some form of option in purchasing the property – the “option” lapses mid July 2016 or possibly later by agreement with the owners.

I noted that some detailed reports had been presented to the Council during the period January – March 2016 including the appointment of architects (by some form of competitive tender) and other related disciplines and that some detailed reports, with costings, were anticipated shortly.

One issue which needs to be addressed as soon as possible is for a qualified Valuer's report to be obtained in connection with the estimated open market value of the property.

Whilst a bid of £150,000 (subject to survey etc) has been made the Council is advised to obtain a qualified Valuer's report on the property - possibly one based on its existing use/condition and another reflecting the value of the property following any works proposed by the Council.

Such valuation(s) might be required either by the external auditor or, should the Council seek financial support towards the purchase/refurbishment of the property by a reputable lender. Should the Council be considering a loan from the Public Works Loan Board it is possible that any loan will not be secured against the property but as an automatic charge

on the revenues of the Council.

I have noted that at a Meeting of the Town Council reference was made to allowing “... necessary checks, reports and surveys to be completed”. This no doubt includes the costs of appointing a Valuer.

Finally I understand that the Council has explored possible grants towards the purchase/refurbishment of this building to no avail.

OTHER MATTERS

Members Training

I noted that there has been a comprehensive Members Training Scheme during 2015/16.

Staff Pay Scales

The Council should review the staff salaries annually.

MAIN MATTERS REQUIRING ATTENTION

General Deposits

Review the policy of investing the majority of the Councils substantial investments in one account which is not apparently covered by the FSCS Compensation scheme.

Whilst a considerable amount of the Councils balances might be required at short notice, towards the purchase/refurbishment costs for some new offices, it should nevertheless consider other deposit accounts covered by the FSCS scheme initially with instant access.

However once the possible purchase of the Lightfoot Institute is a little clearer the Council should then be in a position to decide if it can make any long term deposits and clarify what rates are available from organisations covered by the FSCS.

Office accommodation

The Council has almost reached the point of committing some substantial capital into new offices. It is recommended however that a valuers report is obtained to support any price which might be paid by the Council for the Lightfoot Institute, or for any other property which it might wish to purchase.

THE RESPONSES TO SECTION 4

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 2015/16.

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 Finance Committee Chairman, the Town Clerk and other members of staff for their help in carrying out this audit.

M. G. Ackroyd
Internal Auditor

May 2016