

Faversham Town Council

Internal Audit Report for the year ended 31 March 2016

I am pleased to report to Members of the Faversham Town Council (the "Council") that I have completed the year-end internal audit of the Council's records and final accounts for the 2015-16 financial year ended 31 March 2016. There are no significant matters to report and I have accordingly completed and signed off the Annual Return on 17 May 2016, the day of my audit visit.

Members should be aware that my work cannot be relied upon to identify the occasional omission or insignificant error, nor do I actively seek evidence of breaches of trust or statute, neglect or fraud, which may have taken place. It is the responsibility of the Members of the Council to guard against such events, but if during the course of my audit testing such events are discovered I am duty bound to disclose such events to the Council.

I would like to take this opportunity to thank the Town Clerk, Louise Bareham and Finance Assistant, Katie Stringer for their assistance given to me leading up to the audit and during the audit itself.

Previous Audits:

External Audit 2014-15

The external auditors PKF Littlejohn LLP signed off Section 3 of the Annual Return for the year ended 31 March 2015 on 24 September 2015. There was one minor matter raised by the Auditors concerning a blank box in Section 2 of the Return relating to Trust Funds, which should have been marked "not applicable".

Internal Audit 2014-15

The appointed Independent Internal Auditor, Mr Kenneth R Neame signed off the Section 4 of the Annual Return (the Annual internal audit report 2014-15) on 23 April 2015. Mr Neame had not provided a separate audit report, so there were no outstanding matters for me to follow up from last year.

Internal Audit 2015-16:

Findings

This is my first Internal Audit for the Council. The internal audit covered all the internal control objectives listed in the Annual Internal Audit Report section of the Annual Return. The visit concentrated on the year-end accounts and the requirements for the completion of the Annual Return Section 2 (Accounting Statements), the Asset Register, VAT claims, inspection of the payment arrangements including payroll and the income received by the Council. Other matters included risk management, insurance cover and service specific records.

Following my visit there are some observations I wish to bring to Members' attention.

Council's Website:

By the time Members get to see this Report the Annual Return for 31 March 2016, will have been approved by the Town Council. The Town Clerk will have reported on the change of emphasis when approving the Annual

Return in that the Annual Governance Statement has to be approved prior to the Accounting Statements AND once approved and signed off a copy of the Annual Governance Statement and Accounting Statements (Section 1 & 2) has to be posted onto the Council's website as well as the Town Council Noticeboards alongside the Notification of the Public Rights of Inspection. This is part of the Governments push for greater accountability and transparency. It is becoming increasingly important for Council's to have a good website, which is up to date and easy to navigate. The Council's website is now a statutory requirement for this year's Annual Return 2015-16 as well as for the publication of Councillors register of interests, more frequently referred to as Disclosable Pecuniary Interests (DPI's). The website can be a good shop-window for the Council and an excellent way of communicating with those residents that have access to the internet. Currently the Town Clerk is regarded as the "webmaster" to the Council's website. The Council's Tourism Officer manages the www.visitfaversham.org website.

At the time of writing this Report the 2015-16 Annual Return had been posted on the website under the "Finance" section of the Strategic Documents webpage and the DPI's were accessible via a link to the Swale BC website containing all the parish/town council details across the Borough. The Strategic Documents webpage included access to the recently approved Standing Orders along with other policy documents approved by the Council. The information provided on the Council's Meetings includes the agenda, the minutes including draft minutes of the more recent meetings and the supporting papers to the agenda such as the Town Clerks Report. The Finance section includes the latest schedule of Receipts and Payments, the matching Bank Reconciliation and even has the Borrowing Approval letter concerning the proposed purchase of a property to house the Council Offices and Museum. Well done.

Standing Orders and Financial Regulations:

Both the Standing Orders (31 May 2016) and the Financial Regulations (4 April 2016) have been reviewed and updated in recent months and published on the Council's website.

Risk Management/Insurance/Asset Register:

The Council's insurers during 2015-16 was Zurich Municipal whose Long-term Agreement (LTA) was due to finish 1 April 2016. The Town Clerk sought quotations for a new LTA, which was considered by the Council in March 2016. Tenders were received from Zurich Municipal, Aon Ltd and Aviva. The quotation for a new 3—year LTA to 1 April 2019 was approved by the Council (Min 8 – 7 March 2016). Included in the insurance policy is a £2m Fidelity Guarantee cover an acceptable level of cover.

Risk Management and individual Risk Assessments could be improved. There is evidence of event risk assessments being undertaken and a risk assessment for the Front Brents Jetty. I have provided the Town Clerk with some Risk Management templates used by other councils to use as a guide to revising the Council's over-arching Risk Management document, which would be supplemented by more detailed Risk Assessments. The Town Clerk advised me of the appointment of Cllr Wilcox as the nominated Councillor to undertake financial internal control duties periodically, to randomly check the cash book report, bank reconciliation, payments list, VAT and salaries.

Linked with insurance cover and risk management is the Council's Asset Register. This is another area that needs reviewing in that the asset values within the Asset Register should be based on the original cost of the asset. According to the supporting notes to the Accounts for the year ending 31 March 2015, the valuations are based on insurance values.

Although I do not think this Council has received a comment from the External Auditor, PKF Littlejohn to date, they have been picking up parish councils for re-valuing their assets in the Asset Register in line with the insurance valuation used to set the insurance premium. This has been a common problem for many Councils, where the asset values have been regularly indexed to match the insurance valuations. The NALC Model Financial Regulations adopted by the Council refers to proper practices in Paragraph 1.15:

“In these financial regulations the term ‘proper practice’ or ‘proper practices’ shall refer to guidance issued in *Governance and Accountability for Local Councils - a Practitioners’ Guide (England)* issued by the Joint Practitioners Advisory Group (JPAG), available from the websites of NALC and the Society for Local Council Clerks (SLCC).”

With regard to the valuation of assets the proper practice is to value the asset at their “original purchase price or proxy values”, where the original cost is not known. The commercial concepts of depreciating assets or re-valuation of assets does NOT apply to local council accounting. Hence the maintenance of an Asset Register is quite simple, new assets should be added at the time of their purchase at their cost (excluding VAT) and any disposal of assets should correspondingly reduce the total value of assets by their original cost. The biggest asset the Council has in terms of insurance value is the Guildhall. Ideally, the Town Clerk should try and find any original deeds/purchase documents that may have the original cost. Failing this a proxy value could be established. This applies to all the assets held by the Council. During my Audit visit the Town Clerk and I agreed that it would be sensible to leave the value of the Council’s Assets as they are allowing time to find these original costs during the next twelve months. In due course a suitable note will need to be provided to the External Auditor to explain the change in the valuation of assets and the figures for the Fixed Assets on the Annual Return Box 9 “restated”.

The Asset Register is a living document and ideally should contain notes relating to the assets, such as date of purchase, the location and perhaps a Minute Reference in some cases. It is not unusual for a parish council to have several “community assets” valued at a nominal £1, such as land bequeathed to the council for recreational purposes or for a village green etc. There is no reason why the insurance values cannot be shown within the Asset Register in a separate column, which will provide a quick reference point as to what assets are insured and what assets are not insured, BUT these values are not used in any of the accounting records including the Annual Return Box 9. I have provided the Town Clerk with some examples of an asset register.

One of the examples of “best practice” that I have accumulated over the years of independent auditing is the inclusion of a comprehensive digital photographic library as part of the Asset Register. The Town Clerk and her staff could build up the digital library as and when it could be fitted into their workloads and referenced on the Asset Register.

Budgetary Control & Bookkeeping:

Prior to the arrival of the new Town Clerk, Ms Louise Bareham, the bookkeeping arrangements were based on a manual cashbook. Not surprisingly this was one of the first things the new Town Clerk wanted to change. The Rialtas Business Solutions (RBS) system now in place is probably the market leader amongst the larger town and parish councils. I am very familiar with the two versions of the system available one based on an Income & Expenditure basis of accounting like Faversham and the other based on Receipts & Payments used by smaller parish councils. Both systems have a year-end routine, which provides the figures for the Accounting Statement in the Annual Return, making life for the Town Clerk and me a lot simpler. During my Audit visit I was introduced

to other members of the staff including Katie Stringer, the Finance Assistant, who only started work with the Council at the beginning of March 2016. With the help of staff from RBS, Ms Stringer had entered all the manual cashbook entries onto the RBS system and apart from some minor adjustments had produced the year-end figures for me to audit.

The Council received quarterly Budget Monitoring Reports during the year supporting the monthly schedules of items for payment presented to Members at each Council meeting. Any income received during the month was reported with the payment schedule. The Town Clerk presented a comprehensive 2016-17 Budget Paper and Draft Budget to the 18 January 2016 Finance Meeting of the Council. The Draft Budget compared the actual spend for 2014-15 against the Budget for 2015-16, the actual spend to 31 December 2015 and the proposed Budget for 2016-17. The Budget Paper included notes on the Special Provision Budget and a forecast of the Reserves held by the Council as at 31 December 2015. The Town Clerk showed the calculated 2016-17 Band D cost for the proposed Draft Budget. The approved Precept of £322,814 for 2016-17 resulted in an increase in the Band D Council Tax of £9.91 for the year.

The Council has employed a local computer company to assist with the back-up of the computer records using a “cloud based” system for sharing documents.

Payments, Income and VAT:

The Council has a few standing orders and direct debits set-up, which are reviewed annually (Min 34 – 31 May 2016). The majority of payments are made by cheque. As part of the audit I randomly checked a sample of payments made during the year from authorisation of the works etc. to the payment hitting the Councils bank account. All payments had been made correctly.

The VAT paid by the Council has been reclaimed on a quarterly basis throughout the year apart from the last period from 1 October 2015 to 31 March 2016. A claim of £4,855 has already been submitted for this period. **Post Audit Note:** - The re-imburement from the VAT Office has been received on 8 June 2016.

The Council receives income from Front Brents mooring fees, Guildhall lettings and subscriptions for the Faversham Area Tourism Association. At the moment no VAT is charged on any of these items. However, my view is that the mooring fee should attract VAT at the Standard Rate of 20%. I would strongly recommend that the Town Clerk checks the VAT position and if VAT is applicable then the Council should register for VAT purposes to enable the correct accounting for the VAT receivable from the mooring fees. In theory local councils should register with the VAT Office if they have any vatable income, although HMRC appear to allow some leeway of up to £1,000, but over the years the Council will have exceeded this threshold.

There is a company called Elysian Associates who has given several presentations at KALC Conferences on VAT, PAYE and NI issues, who are familiar with the quirky nature of town and parish council activities. It would be worth contacting them for a view on the mooring fees and VAT Registration. This could be particularly timely due to the pending purchase of a property in the Town to use as a museum and council offices. There will be substantial sums of VAT on the purchase and the associated fees, which will immediately “set alarm bells ringing” at the VAT Offices, when the Town Clerk submits the quarterly VAT claim including these large sums. Some professional advice now will at least alert the Town Clerk and Members of any VAT issues that may arise from the property purchase. VAT terms such as “partial exemption” and “option to tax” spring to mind!

Payroll:

The Council employs 6 members of staff ranging from the full-time Town Clerk to the Town Sergeant who escorts the Mayor as required. In addition, there are two self-employed people, a Deputy Town Sergeant and a Planning Consultant, who advises on all planning applications especially involving buildings of historical and/or strategic importance to the Town. The Town Clerk is aware that HMRC are looking closely at off-payroll working in the public sector and anticipate both these positions being affected. The payroll was managed by the Deputy Town Clerk using the HMRC software but the Finance Assistant has just taken over now. I checked the submissions to HMRC and the two P45's issued during the year and the year-end P60's. All staff meeting the criteria to be offered a pension have access to the Local Government Pension Scheme administered by Kent CC (currently 3 staff). As part of the 2016-17 Budget/Precept discussions Members considered in private any incremental progression for the staff effective from 1 April 2016.

Bank Reconciliation and Balances:

The Council has two accounts with NatWest the main current account and a deposit/business account. At the year-end the bank balances in these accounts totalled £218,440.

In July 2015 parish and town councils cash funds became eligible for the investment protection afforded to individuals by the FSCS which from 1 January 2016 reduced to £75,000 total investment holding per FSCS registration. The main purpose of raising this matter is to encourage the Council to diversify its cash holdings to take advantage of the FSCS protection regardless of how short-term these level of cash balances is held. The protection threshold is per FSCS registration, which are available on the FSCS website www.fscs.org.uk/ as some banking groups have one registration (e.g. Barclays Bank is linked with Barclays Direct as one registration, Lloyds Bank is linked with Cheltenham & Gloucester). NatWest has a stand-alone FSCS registration. To maximise the FSCS protection the Council should look to transfer at least £150,000 to two other financial institutions. The Town Clerk did advise that the Council has been actively looking at Unity Trust Bank, which has a very good on-line banking system, although their proposal to introduce bank charges has put off some councils. However, internet banking is worth pursuing, the time saved in administering/writing out cheques, the postage of the cheques and the benefits to the Councils "creditors" like myself in receiving an electronic payment, especially where there is no local branch to cash the cheque is at least worth serious consideration by the Council. The Unity Trust Bank also has a prepaid MasterCard (called "alto"), which could be used to pay for all the incidental expenses currently being re-imbursed to staff/members or via the petty cash float. **Post Audit Note:** - Approval has been given to open an account with Lloyds Bank for internet banking.

The other aspect of the FSCS protection is to ensure that the banks and building societies acknowledge that the cash holdings with them are eligible for the FSCS protection. From speaking to some parish councils it is obvious that staff at the "local branches" are unaware of this change in the FSCS rules and others are still waiting a response from their banks to written requests for confirmation.



David J Buckett CPFA DMS

18 July 2016