

Audit and Governance Committee Report



22 January 2015

Report of **Audit Manager**

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To: Audit and Governance Committee

DATE: 22 January 2015

Internal audit activity report quarter three 2014/2015

Recommendations

- (a) That members note the content of the report

Purpose of Report

1. The purpose of this report is to summarise the outcomes of recent internal audit activity for the committee to consider. The committee is asked to review the report and the main issues arising, and seek assurance that action will be/has been taken where necessary.
2. The contact officer for this report is Adrianna Partridge, Audit Manager for South Oxfordshire District Council and Vale of White Horse District Council, telephone (SODC) 01491 823544 and (VWHDC) 01235 547615.

Strategic Objectives

3. Managing our business effectively.

Background

4. Internal audit is an independent assurance function that primarily provides an objective opinion on the degree to which the internal control environment supports and promotes the achievements of the Council's objectives. It assists the Council by evaluating the adequacy of governance, risk management, controls and use of resources through its planned audit work, and recommending improvements where necessary. After each audit assignment, internal audit has a duty to report to management its findings on the control environment and risk exposure, and recommend changes for improvements where applicable. Managers are responsible for considering audit reports and taking the appropriate action to address control weaknesses.

5. Assurance ratings given by internal audit indicate the following:

Full assurance: There is a good system of internal control designed to meet the system objectives and the controls are being consistently applied.

Substantial assurance: There is a sound system of internal control designed to meet the system objectives and the controls are being applied.

Satisfactory assurance: There is basically a sound system of internal control although there are some minor weaknesses and/or there is evidence that the level of non-compliance may put some minor system objectives at risk.

Limited assurance: There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.

Nil assurance: Control is weak leaving the system open to significant error or abuse and/or there is significant non-compliance with basic controls.

6. Each recommendation is given one of the following risk ratings:

High Risk: Fundamental control weakness for senior management action

Medium Risk: Other control weakness for local management action

Low Risk: Recommended best practice to improve overall control

2014/2015 Audit Reports

7. Since the last Audit and Governance Committee meeting, the following audits and follow up reviews have been completed:

Completed Audits

Full Assurance: 2

Satisfactory Assurance: 1

Limited Assurance: 2

Nil Assurance: 0

	Assurance Rating	No. of Recs	High Risk Recs.	No. Agreed	Medium Risk Recs.	No. Agreed	Low Risk Recs.	No. Agreed
Travel and Subsistence 1415	Full	2	0	0	0	0	2	2
Petty Cash 1415	Satisfactory	8	0	0	3	3	6	6
Bank Contract 1415	Full	1	0	0	0	0	1	1
1. Payroll 1415	Limited	8	1	1	4	4	3	3
2. S106 1314 - 1415	Limited	9	3	3	4	4	2	2

Follow Up Reviews

	Initial Assurance Given	No. of Recs	Implemented	Partly Implemented	Not Implemented	Ongoing
Cash Office 1314	Satisfactory	5	5	0	0	0
3. Temporary Accommodation (2) 1415	Limited	4	1	2	1	0

8. **Appendix 1** of this report sets out the key points and findings relating to the completed audits which have received limited or nil assurance, and satisfactory or full assurance reports which members have asked to be presented to committee.
9. Members of the committee are asked to seek assurance from the internal audit report and/or respective managers that the agreed actions have been or will be undertaken where necessary.
10. A copy of each report has been sent to the appropriate service manager, the relevant strategic director, the section 151 officer and the relevant member portfolio holder. In addition to the above arrangements, reports are now published on the council intranet and committee members are alerted by e-mail when reports are published.
11. Internal audit continues to carry out a six month follow up on all non-financial and non-key financial audits to establish the implementation status of agreed recommendations. All key financial system recommendations are followed up as part of the annual assurance cycle.

Overdue Recommendations

12. **Appendix 2** of this report summarises all overdue recommendations within each service area. The report has been circulated to the relevant service manager, heads of service, the strategic management board and the portfolio holder, and internal audit will continue to monitor progress against the recommendations.

Financial Implications

13. There are no financial implications attached to this report.

Legal Implications

14. None.

Risks

15. Identification of risk is an integral part of all audits.

ADRIANNA PARTRIDGE
AUDIT MANAGER

1. PAYROLL 2014/2015

1. INTRODUCTION

- 1.1 This report details the internal audit review of procedures, controls and the management of risk in relation to payroll. The audit has been undertaken in accordance with the 2014/2015 audit plan agreed with the audit and governance committee of Vale of White Horse District Council (VWHDC). The audit has a priority score of 22.
- 1.2 The following areas have been covered during the course of this review to provide assurance that:
- appropriate policies and procedures are in place regarding pay which are available to relevant council staff.
 - payroll system parameters are up-to-date and appropriate.
 - amendments to standing data are appropriately authorised, documented and actioned promptly, including:
 - starters and leavers;
 - overtime;
 - additions/deductions or variations to pay, i.e. pay rises;
 - personal data.
 - data and information is held and transferred between payroll, HR and finance, securely, accurately and in a timely manner.
 - payroll reconciliations are accurate, timely and independently reviewed.
 - payroll records are regularly reconciled with HR's establishment listing and appropriate actions are taken to address any discrepancies.

2. BACKGROUND

- 2.1 Since 1 February 2012, Capita have provided the council's payroll service from their offices based in Carlisle. Payments are made through BACS and Capita process payroll data through the 'Ingenuity At Work' system.
- 2.2 In July 2014, VWHDC paid £346,450.54 to 218 employees including councillors (VWHDC councillors' payments amounted to £23,562.18).

3. PREVIOUS AUDIT REPORTS

- 3.1 Payroll was last subject to an internal audit review in November 2013 and 6 recommendations were raised. All were agreed. A satisfactory assurance opinion was issued.
- 3.2 Following the 2013/14 audit review, five recommendations had been fully implemented and one was partly implemented. It should be noted that the partly implemented recommendation (Rec 6) from the 2013/14 audit has been revised and incorporated into this report. (Rec 3)

4. 2014/2015 AUDIT ASSURANCE

- 4.1 **Limited assurance:** There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.
- 4.2 Eight recommendations have been raised in this review. One high risk, four medium risk and three low risk (Five recommendations for human resources team and three recommendations for Capita).

5. MAIN FINDINGS

5.1 Policies and Procedures

- 5.1.1 Internal audit identified that the council has relevant policies and procedures covering all aspects of pay. These are readily available for all staff on the council's intranet website. The hr/pay policies reviewed by internal audit were up to date and showed evidence of being updated on a regular basis. Capita have adopted a comprehensive payroll handbook which is available to all Capita staff dealing with payroll issues and is reviewed on a regular basis. Internal audit identified that there has been a change in the calculation of holiday pay in July 2014 that had been agreed by the council's hr team and the Capita payroll team. The last amendments documented in the current payroll handbook are dated as January 2014.
- 5.1.2 Area assurance: Satisfactory
One recommendation has been made as a result of our work in this area (Rec 1).

5.2 Payroll system parameters

- 5.2.1 The nominated officer responsible for maintaining payroll system (Ingenuity At Work - IAW) parameters is the Capita payroll team leader. Internal audit reviewed a sample of the budget codes and tax coded on the system and no issues were identified. Any changes made in the system parameters are authorised by the Capita payroll team leader prior to instructing the IAW IT support team to implement the changes.
- 5.2.2 Internal audit reviewed the IAW user access policy and identified that there is sufficient security in regards to allocating access to the payroll system. All requests are made through the Capita payroll team leader who then instructs the IT support team to set up the necessary access levels. Additional security has been implemented into the system as a user requires more than one password to gain access into the payroll records in the IAW system. Internal audit identified 2 user access names that were scheduled to be deleted in 2013/14 on the current profile list. A member of staff who left the council in August 2014 was still appearing on the user profile list.
- 5.2.3 Area assurance: Satisfactory
One recommendation has been made as a result of our work in this area (Rec 2).

5.3 Management of changes to data

- 5.3.1 The council's human resources department provide information to Capita in

regards to any amendments to data for all employees. This is done through the human resources input spreadsheets detailing the employees' current information and the action that is required from payroll. All changes sent through to Capita are checked and authorised by the business support manager or the human resources manager in her absence. Capita's payroll handbook includes detail of the procedure their staff should follow, including that all changes and/or inputs to the payroll records need to be checked by a separate payroll officer to ensure accuracy.

5.3.2 Internal audit reviewed the procedure between Capita and the council for starters (16)* and leavers (19)*; overtime (20); additions/deductions or variations to pay, i.e. pay rises (20); maternity/paternity (4)* and personal data changes (10). Five related recommendations have been made. Internal audit's observations noted that changes in the remuneration of pay is authorised through the correct channels in the human resources although this is not communicated to the head of finance as documented in the council's constitution.

5.3.3 Area assurance: Limited
Six recommendations have been made as a result of our work in this area (Recs 3-8).
*100% of sample in audit period selected

5.4 **Transfer of payroll and human resources data**

5.4.1 Vale of White Horse District Council and Capita have put in place sufficient measures to ensure that all data transfers are held and transferred securely. All information used by both parties is retrieved from password controlled systems accessible to relevant officers. A monthly payroll checklist is used in Capita to ensure that they receive and process all data received from human resources and the finance team prior to payments being made in the relevant accounts. These completed checklists are checked by a senior staff member confirming that all data processed for the respective month has taken place accurately and in a timely manner.

5.4.2 Complaints and queries raised by the council to Capita are recorded in a spreadsheet and are monitored by the Capita business leadership team on a quarterly basis.

5.4.3 Area assurance: Full
No recommendations have been made as a result of our work in this area.

5.5 **Payroll reconciliations**

5.5.1 The council's accountancy team perform monthly reconciliations which include checks to payroll postings made in the general ledger, budget codes, cost centre codes and tax codes used in the payroll process. The head of finance authorises the reconciliations with any issues identified being investigated through the hr and payroll teams.

5.5.2 Area assurance: Full
No recommendation have been made as a result of our work in this area.

5.6 Establishment lists and payroll reconciliations

5.6.1 An establishment list which records the authorised posts within the council including information of the contracted hours, grade for each post and vacant posts is retained in the council's human resources department. The previous audit recommended that this list be reconciled to the Capita payroll system on a quarterly basis through the Capita payroll team. Internal audit identified that one reconciliation took place just after the period where the majority of the pay changes take place for council employees (April 2014). As this is a labour intensive process, internal audit recommend that the number of reconciliations taking place be reduced as most irregularities can be picked up in the monthly payroll reconciliations. No other recommendations have been made as a result of our work in this area.

5.6.2 Area assurance: Satisfactory
No recommendations have been made as a result of our work in this area.

OBSERVATIONS AND RECOMMENDATIONS

POLICIES AND PROCEDURES

1. Capita payroll handbook

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> All policies and procedures need to be kept up to date.</p> <p><u>Findings</u> Internal audit identified two changes in the calculation of a day's pay from the date of last audit completed in 2013/14. The first agreed change to the holiday pay calculation for leavers was 1 January 2014 and next was 1 July 2014. There is no evidence of these changes recorded in the current Capita handbook manual. It was also noted that the last review of the Capita manual took place on 22 January 2014.</p> <p><u>Risk</u> There is a risk of error in calculations of final pay leading to under or over payments being processed by the payroll staff.</p>	<p>The Capita payroll handbook should be updated as soon as possible when agreed changes have been made.</p>	<p>Payroll Team Leader (Capita)</p>
Management Response	Implementation Date	
<p>Recommendation is Agreed Handbook will be updated to show the change in calculations.</p> <p>Management response: Payroll Team Leader (Capita)</p>	<p>31 January 2015</p>	

PAYROLL SYSTEM PARAMETERS

2. User access of payroll system

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Regular reviews should be implemented for all systems' user</p>	<p>Capita need to ensure that all user lists for the payroll systems are reviewed on a</p>	<p>Payroll Team Leader (Capita)</p>

<p>access lists.</p> <p><u>Findings</u> Internal audit identified users on the Payroll system who did not require/use the system. These included a user who had left Capita in August 2014 and two generic read only 'audit' users which were inherited when the function moved to Capita. These generic users were scheduled to be deleted in 2013/14 audit. They were still active when the 2014/15 audit was completed.</p> <p><u>Risk</u> There is a risk of unauthorised use and access of the payroll system leading to potential fraudulent activities.</p>	<p>regular basis.</p> <p>Capita needs to ensure that the user access list is up to date i.e. leavers are deactivated as soon as possible and unused generic users must to be removed.</p>	
Management Response		Implementation Date
<p>Recommendation is Agreed User access list has been amended and leavers have been deleted.</p> <p>Management response: Payroll Team Leader (Capita)</p>		With immediate effect

MANAGEMENT OF CHANGES TO DATA

3. Starters

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> A full audit trail needs to be available for all amendments made to standing data.</p> <p><u>Findings</u> Internal audit identified that the administration of the starters' process was not being completed in accordance to the agreed procedures. A random selection of 20 starters were tested and it was identified that:</p> <ul style="list-style-type: none"> • There was no evidence for proof of identification being obtained in five out of 20 starters. • Two out of 20 did not produce photographic identification. • Five out of 20 starters received only one reference which is not in line with the agreed recruitment procedures. <p><u>Risk</u> Insufficient audit trails detailing that the starters process has been completed accurately may lead to a risk of ineligible or inappropriate personnel being employed by the council.</p>	<p>All starter processes should comply with the council's agreed policies and procedures i.e.</p> <ol style="list-style-type: none"> Evidence of proof of identification being obtained prior to start of employment. At least one of the proof of identification produced should be photographic e.g. passport or driving licence. Two references must be received for all starters and filed within the personnel records. 	Human Resources Manager
Management Response		Implementation Date
<p>Recommendation is Agreed a) Agreed. I have noted in our recruitment policy that references should be received prior to the prospective employee commencing their role except when there is a particularly short lead time from offering the</p>		With immediate effect

<p>position to start date, when they may be received after employment begins.</p> <p>b) Agreed in principle. A driving licence is not considered an acceptable document by the home office to prove someone can work in the UK. Our offers of employment are in line with home office advice and requests:</p> <ul style="list-style-type: none"> • proof of your right to work in the UK on or before your first day, by providing: <ul style="list-style-type: none"> • an original British / EEA passport. If you do not hold a British / EEA passport you will need to provide original work permit / visa documentation. or • a full birth or adoption certificate issued in the UK which includes the name(s) of at least one of the holder's parents or adoptive parents, together with an official document giving your permanent National Insurance number and your name issued by a government agency or a previous employer. <p>c) Agreed. I have amended our recruitment policy to allow for exceptional circumstances when we will accept one reference instead of two (for example if the prospective employee has been with their employer for many years, thereby nullifying the benefit of a reference prior to this).</p> <p>Management response: Human Resources Manager</p>	
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4. Payroll Checks - Overtime

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Effective separation of duties should be in place for all procedures and processes.</p> <p><u>Findings</u> Internal audit identified that there is insufficient evidence to show that checks are always performed to ensure data is input accurately onto the payroll system for payment. Seven out of 20 overtime forms did not show evidence that checks had been made to ensure data had been input accurately into the payroll system by Capita.</p> <p><u>Risk</u> There is a risk of information being entered onto the payroll system in error leading to over or under payments to employees. Misuse of the payroll system which could lead to fraudulent activities.</p>	<p>Capita need to ensure that all amendments or new entries made in the payroll system show adequate separation of duties.</p>	<p>Payroll Team Leader (Capita)</p>
Management Response		Implementation Date
<p>Recommendation is Agreed All input will be signed and dated by the administrator once input has been completed and signed and dated by the administrator checking the input</p> <p>Management response: Payroll Team Leader (Capita)</p>		<p>With immediate effect</p>

5. Changes in remuneration policies

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> The council's constitution must be adhered to at all times.</p> <p><u>Findings</u> Internal audit identified that changes to policies affecting the remuneration of pay are being made in the human resources department with the head of human resources being informed. There is no evidence of this information being relayed to the head of finance as stated in the council's constitution.</p> <p><u>Risk</u> If the head of finance is not aware of the amendments to remuneration of pay then budget variations may not be identified promptly, resulting in unexpected overs and unders.</p>	<p>The head of human resources needs to inform the head of finance of any changes made that affect the remuneration of pay as stated in the council's constitution.</p>	<p>Human Resources Manager</p>
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>Management response: Human Resources Manager</p>		<p>With immediate effect</p>

6. Standard Overtime Form

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Overtime calculations should be consistently applied in accordance with the councils agreed methods and any variances investigated.</p> <p><u>Findings</u> Internal audit testing identified that three of the six authorised standby/call-out/out of hours overtime claims sent by the council employees to Capita were not completed using the council's standard standby/call-out/out of hours overtime forms.</p> <p><u>Risk</u> If overtime calculations are not made in a consistent manner then the council may be making under or over payments to employees.</p>	<p>a) Line managers should always adequately check and authorise overtime claims that have been submitted on the appropriate overtime form prior to being sent to Capita for processing, to ensure that claim totals are valid and completed correctly.</p> <p>b) Human resources team should engage with line managers to ensure they understand the correct process of authorising forms and the appropriate overtime form to be used.</p>	<p>Human Resources Manager</p>
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>a) Agreed We will re-send the correct overtime form to the Operational Management Group (after amending it as in recommendation 7).</p> <p>b) Agreed See management response a) above.</p> <p>Management response: Human Resources Manager</p>		<p>31 January 2015</p>

7. Payment for Breaks and Overtime forms

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Pay calculations for employees should be consistent and in accordance with working time directives or an alternative formally agreed formula which is advised to officers.</p> <p><u>Findings</u> Testing conducted on overtime showed that claim forms are being authorised by management without a clear identification of breaks being taken off from the time claimed as stated in the <i>European Working Time Regulations</i>.</p> <p>It was also identified that overtime is being authorised without the standard breaks being removed from the hours claimed, as specified in the European Working Time regulations. From the sample of 20 selected, a total of 25hours 30mins was paid in overtime claims that should have been deducted as a break.</p> <p>The overtime form does not allow for staff to record the start time and end time of the shift to ensure that breaks are indicated and calculated properly prior to the authorisation being given.</p> <p><u>Risk</u> If the council does not calculate pay for employees in accordance with the working time directive then, in the absence of an alternative agreement, it may be incorrectly paying employees and subject to challenge.</p>	<p>The formulas for calculating pay for employees should be reviewed and a consistent approach considered which should be suitably agreed and documented in accordance with European Working Time Regulations. Otherwise the working time directive formula should be used and applied consistently.</p> <p>All council's standard overtime forms and timesheets must allow for employees to record any breaks taken to ensure that they are correctly indicated prior to the authorisation being given to Capita for payment processing.</p>	<p>Human Resources Manager</p>
Management Response		Implementation Date
<p>Recommendation is Agreed We will amend the overtime form to emphasise that breaks are not paid.</p> <p>Management response: Human Resources Manager</p>		<p>31 January 2015</p>

8. Maternity Pay

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Clear maternity pay policies and procedures in place in the council.</p> <p><u>Findings</u> Testing on maternity pay identified that the keeping in touch (kit) days were not being paid in accordance to the council's maternity leave, paternity leave and adoption policy. One out of four sample tested (100% tested for the audit period) was paid using the hours worked which is not in line with policy. The policy states that payment will be made and considered as a full day regardless of the hours worked in</p>	<p>Consideration should be given as to whether payment (over/under payments) should be recovered/paid to staff affected by the policy in place at the time of their maternity.</p> <p>The maternity/paternity pay policy should be reviewed to ensure that the policy is documented clearly to avoid misinterpretations.</p>	<p>Human Resources Manager</p>

<p>the day by the staff employee using the kit days.</p> <p><u>Risk</u> There is a risk of over and under payments in cases where the policy is not clearly outlined to staff.</p>		
<p>Management Response</p>		<p>Implementation Date</p>
<p>Recommendation is Agreed in Principle</p> <p>The policy states that employees using a KIT day will be paid for the hours worked (less any maternity/paternity/adoption pay the individual receives that week). Distinct from this, any hours worked will be considered as a full KIT day in terms of KIT days used. For example, if someone normally works 6 hours a day and works 3 hours on a KIT day they will be paid for 3 hours (less any maternity/paternity/adoption pay the individual receives that week), although they will have 9 KIT days remaining, not 9 ½. I have reworded the policy to make this clearer.</p> <p>Management response: Human Resources Manager</p>		<p>With immediate effect</p>

2. S106, COMMUTED SUMS AND CIL 2013/2014 - 2014/2015

1. INTRODUCTION

- 1.1 This report details the follow up of the 2013/2014 internal audit investigation of S106 calculations along with a wider review of procedures, controls and the management of risk in relation to S106, commuted sums and Community Infrastructure Levy (CIL). The audit has been undertaken in accordance with the 2013/2014 audit plan agreed with the audit and governance committee of Vale of White Horse District Council (VWHDC), but extended to cover 2014/2015 as well due to changes in the planning service area. The audit has a priority score of 21. The audit approach is provided in the audit framework in Appendix 1.
- 1.2 The following areas have been covered during the course of this review to provide assurance that in respect of S106 and commuted sum agreements:
- The council has agreed, and is using, standard policies and appropriate methods for correctly calculating contributions and securing agreements with clearly identified responsibilities.
 - To ensure the council has a robust process for monitoring arrangements to ensure contributions are collected and recorded in accordance with agreed timescales.
 - To ensure that expenditure is appropriately monitored and recorded, and appropriate decision-making processes are in place for the use of contributions.
 - To ensure that there is clear documentation evidencing income and expenditure of funds, and that financial records are reconciled to their respective agreements on a regular basis.
 - To ensure that adequate reporting arrangements are in place, including details of schemes which have made contributions, that have had funds used or have funds still to be received.
- and
- There are appropriate preparations underway for the implementation of the Community Infrastructure Levy (CIL).

2. BACKGROUND

- 2.1 Section 106 of the Town and Country Planning Act 1990 provides the legislation covering the planning obligations necessary to provide the required infrastructure supporting a planned development and make the development acceptable in planning terms. The planning obligations set out within a S106 can be financial and/or 'in kind' commitments. A commuted sum is an amount paid by a developer for the council to provide the service or facility specified in a section 106 agreement rather than the developer providing it directly.
- 2.2 The Community Infrastructure Levy (CIL) is a new levy that councils can choose to charge on new developments to contribute towards infrastructure. This is not intended to replace the S106 obligations, which would still be sought for site specific measures and for affordable housing, but will be a set charge that can replace some elements of infrastructure currently negotiated within S106 agreements. As at the end of July 2014, Planning Resource listed on their website 49 authorities that had adopted CIL schedules and 130 that were in progress at various stages from preliminary draft charging schedules

to publishing an examiners report.

- 2.3 As at 11 September 2014, a total of 827 S106 agreements were recorded within the Ocella S106 module. Not all of these will have financial obligations and the agreements may include, or be with, third parties such as Oxfordshire County Council.

3. PREVIOUS AUDIT REPORTS

- 3.1 S106, commuted sums was last subject to an internal audit review in 2009/2010 and 12 recommendations were raised. All of the 12 recommendations were agreed. A limited assurance opinion was issued. In addition, an investigation into s106 calculations undertaken in June 2013 resulted in a further five recommendations. These five recommendations were also agreed.
- 3.2 The 2009/2010 audit follow up in September 2011 identified that one of the twelve recommendations had been implemented. From findings of the current review, a further six have been implemented and one is considered no longer to be relevant. One recommendation has been partly implemented and is restated together with the remaining three outstanding recommendations. (Recs 4 – 7)
- 3.2 An investigation into the calculation process in June 2013 raised a further five recommendations. Two of these have been implemented and one is no longer relevant as consultants now calculate leisure contributions. One recommendation has been partly implemented, so is restated together with the one which has not been implemented. (Recs 8 – 9)

4. 2013/2014 – 2014/2015 AUDIT ASSURANCE

- 4.1 **Limited assurance:** There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.
- 4.2 Nine recommendations have been raised in this review. Three are high risk, four medium risk and two low risk. However, before finalising this report, six of the recommendations have been implemented. Two of the medium risk and one of the low risk recommendations remain with implementation dates agreed.

5. MAIN FINDINGS

5.1 Policies and procedures

- 5.1.1 The council is developing the new Local Plan 2031, which has been through the public consultation stage, and has also introduced a 'Delivering Infrastructure Strategy' which includes comparisons of CIL and S106. As part of the introduction of CIL, a S106 supplementary planning document will be developed setting out the council's approach to S106 following the introduction of CIL. In preparation for this, work is underway on a planning obligations position statement which will collate existing guidance.
- 5.1.2 Procedures are in place covering the recording and monitoring of agreements but not for the entire process from securing the agreements to expenditure of

funds.

5.1.2 Area assurance: Limited

No recommendations have been made as a result of our work in this area but three previous recommendations have been restated. (Recs 4, 5 and 8)

5.2 **Monitoring and income**

5.2.1 The S106/commuted sum agreements are recorded within the Ocella system which is used for planning purposes. The agreements themselves are legal documents that are recorded, held and managed by the legal team. The elements within the agreement are captured within Ocella and any contributions received are recorded through the council's Agresso financial system and then manually updated within Ocella. A listing of agreements is available on the council's intranet and also through the councils website.

5.2.2 Ten agreements were reviewed to ensure details had been correctly recorded within the Ocella system. Although significant improvements in recording agreement details was observed since 2009/10 audit, three of the ten were found to have a difference which was corrected during the review. Differences were noted in a further two cases within the intranet listing which were explained by a bug in the system that was fixed promptly. Two duplicate records were identified whilst reviewing a list of agreements. During the review arrangements for invoicing developers was reviewed and a revised process introduced.

5.2.3 Area assurance: Satisfactory

Two recommendations have been made as a result of our work in this area. (Recs 1 -2)

5.3 **Expenditure**

5.3.1 Council spending is recorded through the Agresso financial accounting system. There is currently no facility within the S106 module in Ocella to record expenditure details. A new module is being tested which is expected to include this functionality. Whilst evidence was seen during checks undertaken within this review that agreements are made when expenditure is passed to third parties, there is no protocol or procedure setting out how expenditure is managed.

5.3.2 Area assurance: Limited

No recommendations have been made as a result of our work in this area but a previous recommendation has been updated and restated. (Rec 6)

5.4 **Documentation and reconciliation**

5.4.1 The S106 officer recently undertook a reconciliation which matched income recorded in the Agresso financial system with that recorded on the Ocella system. Supporting evidence for the reconciliation was not available during the review and there does not appear to be a documented process for undertaking the reconciliations.

5.4.2 Area assurance: Limited

No recommendations have been made as a result of our work in this area but a previous recommendation has been restated. (Rec 7)

5.5 Reporting

5.5.1 Reporting on S106 agreements tends to be sporadic as opposed to a formal and regular process. Details of the individual agreements are recorded within an intranet listing which extracts key data from the Ocella system. This is also available through the council's internet site and agreements can be listed by the town or parish the agreement relates to, or by the relevant party for example, Oxfordshire County Council or the district council.

5.5.2 Area assurance: Satisfactory

One recommendation has been made as a result of our work in this area.
(Rec 3)

5.6 CIL

5.6.1 The implementation of CIL requires key plans and policies to be in place and approved beforehand. The council is required to evidence the infrastructure requirements and carry out a viability assessment before the CIL can be progressed. The council's infrastructure requirements are set out in an Infrastructure Delivery Plan and a viability assessment which have recently been produced. The council has appointed a Community Infrastructure Officer and at the time of review, consultation was underway on a Preliminary Draft Charging Schedule which sets out proposed charging rates. The next stage will be preparation of a Draft Charging Schedule prior to independent examination.

5.6.2 Area assurance: Full

No recommendations have been made as a result of our work in this area.

OBSERVATIONS AND RECOMMENDATIONS

MONITORING AND INCOME

1. Recording S106

High Risk

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Details of S106 agreements recorded in Ocella should match the agreement details.</p> <p><u>Findings</u> From review of ten S106 agreements, three differences were noted. Whilst these were corrected during the review a quality check mechanism was not in place.</p> <p>Whilst reviewing a list of agreements, two were identified that appear to be duplicate records within Ocella:-</p> <ul style="list-style-type: none">• 98V14 does not have financial duplication but appears to be recorded twice.• 00V28 appears to be recorded twice with an obligation for £22,000.	<ul style="list-style-type: none">• The possible duplications identified should be reviewed and corrected.• A method of quality checking data input to ensure all relevant agreements are captured and not duplicated should be considered.	N/A

<u>Risk</u> If incorrect amounts are recorded then incorrect advice may be given resulting in under or over payments being received.		
Management Response		Implementation Date
Recommendation is Agreed a. The two duplicates have now been deleted. b. A quality control method for data entry has been identified as part of the S106 Partnership and Process Project. A quality check of a sample of data entered into Ocella is being carried out on a monthly basis. Management response: Planning Policy Manager		Implemented

2. Payment information

Medium Risk

Rationale	Recommendation	Responsibility
<u>Best Practice</u> Details of how payments are to be made to the council for S106 agreements should be readily available. <u>Findings</u> Once officers are aware that a contribution is due an invoice can be raised. However, the council does not readily provide details to agreements holders on how payments should be made when developers are aware a trigger point has been reached. <u>Risk</u> If developers are aware that a payment is due and the council does not proactively provide details of the payment process then delays may occur in receipt of the amounts due.	Information should be made readily available to developers covering the process to follow for making payments to the council when trigger points have been reached.	N/A
Management Response		Implementation Date
Recommendation is Agreed This information has been drafted and will be made available on our website. This task is being put into the programme of the appropriate officer. Management response: Planning Policy Manager		Implemented

REPORTING

3. Internet and intranet register

Low Risk

Rationale	Recommendation	Responsibility
<u>Best Practice</u> Information for section 106 agreements including amounts due, paid and spent should be readily available. <u>Findings</u> Whilst monies received are displayed in the register of agreements, details of expenditure are not yet recorded. It is understood that the facility to record expenditure is being discussed with the software provider. <u>Risk</u> If section 106 agreement information is not readily available then the council may	When expenditure is recorded within Ocella, this should also be made available within the intranet and internet listings.	S106 Monitoring Officer

not be seen to be open and transparent.		
Management Response		Implementation Date
<p>Recommendation is Agreed in Principle</p> <p>An upgrade to Ocella is required to implement this recommendation as the system currently does not have capacity to store information on expenditure. The upgrade is due to take place in January 2015. Subject to satisfactory testing of the system this information can be made available on the intranet and internet by the end of March.</p> <p>In the interim we are storing all information on financial transactions in an Access database. This allows us to record details of all S106 funds spent, who by and on what. This data can be migrated by IT to the new Ocella system once it is upgraded. In the event that the upgraded Ocella system requires further development we will investigate the creation of internet / intranet reports from the Access database. We have therefore suggested an implementation date of May 2015 to allow for a period of testing and refinement of the upgrade.</p> <p>Management response: Planning Policy Manager</p>		31 May 2015.

PREVIOUS RECOMMENDATIONS RESTATED FROM 2009/10 AUDIT

4. Calculation Model

Low Risk

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Details of calculation methods are available as stated.</p> <p><u>Findings</u> As in the 2009/10 audit, the council publishes a Supplementary Planning Document Open Space, Sport and Recreation Future Provision which refers to a calculation model spreadsheet being available on the website. This was not available at the time of review.</p> <p><u>Risk</u> If documents detailing the calculation of developers' contributions are not publicly available as stated then the council may not be seen to be consistent in its approach.</p>	The calculation model referred to within the Supplementary Planning Document should be made available as stated within the document itself.	N/A
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>The S106 Planning Obligations Interim Statement has superseded the calculation model spreadsheet referred to in the Open Space, Sport and Recreation Future Provision SPD and provides calculations. This statement provides guidance and formula for the calculation of open space contributions.</p> <p>Management response: Planning Policy Manager</p>		Implemented

5. Procedures, Roles and Responsibilities

Medium Risk

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Up to date procedures should be in place with clearly identified roles and responsibilities.</p> <p><u>Findings</u> Whilst standard operating procedures have been introduced covering the</p>	<p>a) Procedures should cover all stages of the s106 process including calculating, securing, and spending of monies.</p> <p>b) Roles and responsibilities should</p>	N/A

<p>recording, monitoring and invoicing of S106 agreements, procedures do not cover the entire process such as calculating and securing agreements or managing expenditure. Roles and responsibilities are not clearly defined and whilst a S106 officer has been appointed there does not appear to be a job description for the role.</p> <p><u>Risk</u> If staff are not aware of, or not using, up to date policies and procedures they may not be carrying out their duties effectively and appropriately.</p>	<p>be clearly stated.</p>	
<p>Management Response</p>		<p>Implementation Date</p>
<p>Recommendation is Agreed</p> <p>a. An Interim S106 Statements provide guidance to planning officers on the calculation and securing of S106 agreements. There is a SOP on expenditure protocols for the Monitoring Officer.</p> <p>b. Roles and responsibilities of officers responsible for s106 have been agreed as follows and reflected in up to date job descriptions and personal objectives.</p> <p>The Community Infrastructure Officers at South and Vale have responsibility for the management Section 106 processes including expenditure. The S106 Monitoring Officer is responsible for recording, monitoring, invoicing and making payments out in relation to S106 agreements. This clarification of roles has resulted in these members of staff driving forward and taking responsibility for improvements in the council's procedures and the information available to the public in relation to s106 and CIL.</p> <p>The case officer has responsibility for the calculation of S106 agreements in relation to specific planning applications, with other officers in Leisure, Development and Housing and County feeding in as required.</p> <p>Management response: Planning Policy Manager</p>		<p>Implemented</p>

6. Expenditure Protocol

High Risk

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> When s106 monies are paid to third parties such as parish councils, appropriate documentation is retained supporting the expenditure and evidence sought that expenditure was appropriate and within agreed timescales.</p> <p><u>Findings</u> An expenditure protocol, as recommended in the 2009/10 audit, has not yet been implemented.</p> <p>The Ocella S106 module does not currently have a facility to record expenditure against the agreement. It is understood that a newer version of the module being tested at the time of the review may provide that facility but an implementation date is not yet known.</p> <p><u>Risk</u></p>	<ul style="list-style-type: none"> A protocol should be developed covering the requirements to demonstrate that s106 monies are expended in accordance with the terms of the agreement particularly where third parties are involved. This should include what steps are needed to identify appropriate expenditure, what documentation is required prior to making funding available and evidence in support of actual expenditure. A suitable mechanism for recording expenditure against 	<p>N/A</p>

If monies cannot be proven to have been expended in accordance with legal requirements then the council may be required to return contributions it has already spent.	individual agreements should be implemented and documented.	
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>a. Expenditure procedures have been put in place and a SOP created for the Monitoring Officer. An application form has been created which can be used by third parties to apply for S106 funding.</p> <p>b. An upgrade to Ocella is our preferred method of implementing this recommendation. This upgrade should be fully operational by March 2015. Whilst we await the Ocella upgrade we are storing all information on financial transactions in an Access database. This allows us to record details of all S106 funds spent, who by and on what. This data can be migrated by IT to the new Ocella system once it is upgraded.</p> <p>Management response: Planning Policy Manager</p>		Implemented

7. Reconciliation

Medium Risk

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> A regular reconciliation of legal agreements is undertaken to ensure all agreements are appropriately recorded within Ocella. Financial transactions are reflected within Ocella so should be subject to reconciliation within the General Ledger.</p> <p><u>Findings</u> There has been an improvement in the recording of agreements including more historic agreements than at the previous review. The S106 officer has undertaken a reconciliation to match the financial data recorded in Agresso with that in Ocella. The reconciliation was not documented and there does not appear to be an agreed process for this to be a regular task.</p> <p><u>Risk</u> If there is no reconciliation of agreements then delays may occur in resolving any income not recorded in Ocella or miscoded within Agresso.</p>	A regular reconciliation of agreements recorded within Ocella should be undertaken with general ledger transactions to ensure income is accurately recorded.	S106 Monitoring Officer
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>An exercise has been carried out to reconcile Ocella with the Financial Transaction Spreadsheet (Vale). A spreadsheet was created which matched each Ocella transaction to the Financial Transaction Spreadsheet.</p> <p>The S106 Monitoring Officer is now responsible for entering information into both Agresso and Ocella and can ensure the records match at the point of entry. An annual reconciliation will take place prior to the creation of annual S106 reports.</p> <p>Management response: Planning Policy Manager</p>		30 April 2015

PREVIOUS RECOMMENDATIONS RESTATED FROM JUNE 2013 CALCULATIONS INVESTIGATION

8. Procedure notes

High Risk

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Adequate procedure notes should be in place and available to relevant officers.</p> <p><u>Findings</u> As per the June 2013 findings, there is still a lack of procedures for the calculation process itself. Whilst the case officer's role is clear, the roles and responsibilities of other officers involved in the s106 calculation process has not been agreed or documented.</p> <p><u>Risk</u> If procedures are not in place, there is a risk of inconsistent and inappropriate approaches being developed and implemented by officers. This could lead to operational difficulties, legal challenge and reputational implications.</p>	<p>Procedure notes should be drafted for the complete s106 process, specifically including:</p> <p>a) standard templates for use by case officers and those contributing to the s106 process to ensure consistency and adequate records are maintained;</p> <p>b) a list of agreed internal and external contacts for S106 calculations, and their responsibilities;</p> <p>c) guidance for officers/external parties on completing s106 calculations, and a requirement that all calculations should be subject to a second officer review.</p>	N/A
Management Response	Implementation Date	
<p>Recommendation is Agreed in part</p> <p>(a) Agreed. The S106 Planning Obligations Interim Statement provides formula and guidance for both officers and external parties on the completion of S106 calculations. An excel contribution calculator has been created to assist officers in their calculations.</p> <p>(b) Not Agreed. The contact details for internal and external consultees are stored in our planning database. Internal and external consultees are responsible for responding to planning application consultations, including in relation to S106 matters. It is considered that the creation of an additional list would duplicate data and risk creating inconsistencies.</p> <p>(c) Not Agreed. The S106 Planning Obligations Interim Statement provides formula and guidance for both officers and external parties on the completion of S106 calculations. A excel contribution calculator has been created to assist officers in their calculations. The S106 Partnership and Process project considered introducing a requirement to review all S106 calculations. It was found that the mistakes identified in the 2013 Audit were the result of an incorrect figure in a guidance document, rather than the result of incorrect calculations by officers. The project group decided that the existing committee and delegation structure provides sufficient review prior to a decision being made.</p> <p>Management response: Planning Policy Manager</p>	<p>a) Implemented b) N/A c) N/A</p>	

9. Standard approach to record-keeping

Medium Risk

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Adequate records should be maintained.</p> <p><u>Findings</u> Whilst there is a standard file structure</p>	<p>The standard approach to documenting and filing s106 calculations, negotiations and communications in the</p>	S106 Monitoring Officer

<p>within the electronic planning directories, this does not appear to be consistently followed. S106 agreement details were found within various folders during checks undertaken within the current review.</p> <p><u>Risk</u> If adequate records are not maintained, there is a risk that queries, errors and complaints can not be dealt with promptly and accurately</p>	<p>planning directory and on the planning website should be reinforced and followed.</p>	
<p>Management Response</p>		<p>Implementation Date</p>
<p>Recommendation is Agreed A working group will be established to determine what additional structure could be created within the Planning Application Case Folder (where confidential documents are stored) in order to enable officers to deal with queries and complaints and review previous application discussions more efficiently, and to ensure that cases can be handed on to new officers if necessary.</p> <p>Management response: Planning Policy Manager</p>		<p>31 March 2015</p>

3. TEMPORARY ACCOMMODATION 2ND FOLLOW UP

1. INTRODUCTION

- 1.1 This report details the findings from internal audit's 2nd follow-up review of temporary accommodation, including rent in advance, rent deposit bonds and rent accounting. The original fieldwork was undertaken in May, the final report was issued on 20 June 2014 and the first follow up report was issued on 9 September 2014. Further follow-up work has been undertaken in December 2014 at the request of the audit and corporate governance committee of the Vale of White Horse District Council, to ensure that progress has been made with the agreed recommendations within the timescales provided.

2. INITIAL AUDIT FINDINGS

- 2.1 The final report made seven recommendations (one high risk, two medium risk and four low risk), and all seven were agreed. A limited assurance opinion was issued.
- 2.2 At the first follow up review it was found that three had been implemented. Three were ongoing as the implementation date had not yet passed, however all remained on track to be implemented within the agreed timescale. One recommendation had not been implemented due to a request from accountancy to revise the implementation date to 31 December 2014.

3. FOLLOW UP MAIN FINDINGS

- 3.1 Of the remaining four recommendations, this review found that one has been fully implemented. The recommendation relating to the homelessness strategy has been partly implemented. The strategy has been drafted and approved by the portfolio holder. It now requires formal sign-off for public consultation. All councillors will be briefed and have the opportunity to comment during the consultation process. The process should be completed by March 2015. The recommendation for all policies and procedures to be reviewed should also be completed by March 2015. One recommendation remains not implemented due to action required from accountancy to restart the income reconciliation between the Abritas system and general ledger. Accountancy have indicated that this will commence in Q4 2014/15.

FOLLOW-UP OBSERVATIONS

STRATEGIES, POLICIES AND PROCEDURES

1. Homelessness strategy

(Medium Risk)

Rationale	Recommendation	Responsibility
<u>Best Practice</u> The council has in place an up-to-date & comprehensive homelessness strategy in place.	A homelessness strategy should be in place as it is a requirement of the Homelessness Act 2002.	Housing needs manager
<u>Findings</u> Internal audit established that currently a homelessness strategy is not in place as the last the strategy expired in 2013.		

<u>Risk</u> If a homelessness strategy is not in place, there is a risk of officer not knowing the strategy on dealing with homeless cases.		
Management Response		Implementation Date
Recommendation is Agreed Completion of the Homelessness Strategy is an objective in the current service plan. A project plan is in progress to complete the Strategy by October 2014 Management response: Housing Needs Manager		October 2014
1st Follow-up observations		
Internal audit was able to view a detailed project plan, and it could be confirmed that work on the Homelessness Strategy continues with completion remaining scheduled for October.		Ongoing
2nd Follow-up observations		
The housing needs manager confirmed that the homelessness strategy has now been drafted and approved by the portfolio holder, and is awaiting sign-off to be released for consultation. Internal audit reviewed the draft strategy.		Partly implemented Revised implementation date: March 2015

2. Policies & procedures

(Low Risk)

Rationale	Recommendation	Responsibility
<u>Best Practice</u> All policies and procedures relating to temporary accommodation, rent deposit bonds & rent in advance are up-to-date and version controlled. <u>Findings</u> Internal audit reviewed the policies and procedures, and established that they were not up-to-date or version controlled. <u>Risk</u> If policies and procedures are not up-to-date, there is a risk of officers not working in compliance with current housing legislation.	All policies and procedures should be reviewed, updated and version controlled.	Housing needs manager
Management Response		Implementation Date
Recommendation is Agreed A review and updating of all TA policies and procedures is included within the DPR for the Lettings Team Leader. Management response: Housing Needs Manager		December 2014 (fully implemented)
Follow-up observations		
The housing needs manager confirmed that the review and updating of all TA policies and procedures is underway and is scheduled for completion by December 2014. Internal audit noted that the recovery procedure has already been re-written and approved by finance.		Ongoing
2nd Follow-up observations		
The Rent Deposit and Rent-In-Advance policy has been reviewed and updated. The Rent Recovery policy and procedures have been reviewed and updated. The remaining procedures mainly concern tenancy management and will be completed by March 2015. All policies and procedures are now version controlled.		Partly Implemented Revised implementation date: March 2015

TEMPORARY ACCOMODATION LEGISLATION REQUIREMENTS

3. Council owned properties

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> All properties owned by the council are in line with the Housing Act 2004.</p> <p><u>Findings</u> Internal audit viewed 39 Grove Street and established that the house has damp and mould. If a tenant lives in a property with damp and mould there is a risk to their health, which is not in line with the Housing Act 2004.</p> <p><u>Risk</u> If the properties are not to standard, there is a risk that the tenants can sue the council.</p>	<p>A decision is made on the properties on Grove Street to either sell or renovate as the properties are currently in poor condition.</p>	<p>Housing needs manager</p>
Management Response		Implementation Date
<p>Recommendation is Agreed A further review of temporary accommodation stock, including a decision to sell or renovate Grove Street, is commencing shortly.</p> <p>Management response: Housing Needs Manager</p>		<p>TBC – depends upon the timescale of the review.</p>
Follow-up observations		
<p>A review of temporary accommodation, including Grove Street, is underway and due for completion in October. The decision on the future of the Grove Street properties will be taken following the consideration of the review recommendations.</p>		Ongoing
2nd Follow-up observations		
<p>The housing needs manager confirmed that following a review, all of the Grove Street properties are empty and will no longer be used as temporary accommodation. They have been transferred to the property team who will be taking this forward.</p>		Implemented

INCOME

4. Income reconciliation

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> All supporting documentations are attached to the tenant's account on the Abris system.</p> <p><u>Findings</u> The housing needs manager stated that the income reconciliation was previously carried out by the housing needs officer (Andrew Ochia), but when he left last year, the reconciliations also stopped due to the lack of resources.</p> <p>The housing needs manager also stated that he is due to have a meeting with the principal accountant (Paul Sheppard) and is due to raise this with him, to establish if accountancy require them to undertake a reconciliation.</p>	<p>Consideration should be given in resurrecting the income reconciliation between the Abris system and general ledger.</p>	<p>Housing needs manager</p>

<u>Risk</u> If the income reconciliations are not undertaken, there is a risk of inadequate monitoring of income.		
Management Response		Implementation Date
Recommendation is Agreed Reconciliations will recommence following the accounts meeting on 7 July. Management response: Housing Needs Manager		August 2014
Follow-up observations		
The housing procedures are now in place to recommence reconciliations. However, the housing needs manager confirmed that following a meeting with Accountancy, they have requested until the end of December to establish a proportionate reconciliation frequency.		Not Implemented Revised implementation date at request of Accountancy : 31 December 2014
2nd Follow-up observations		
Accountancy confirmed that this will be addressed in Q4 2014/15.		Not Implemented Revised implementation date: 31 March 2015