

REPORT OF THE HEAD OF FINANCE
TO THE AUDIT AND GOVERNANCE COMMITTEE
27 JUNE 2007

Internal Audit Reports 2006/07

1.0 **Introduction and Report Summary**

1.0 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 has been or will be taken where necessary.

1.2 The Contact Officer for this report is Harry Oliver, Senior Auditor; telephone 01235 547615

2.0 **Recommendation**

To note the content of the report.

3.0 **Relationship with the Council's Vision, Strategies and Policies**

- (a) Vision strands A and C.
- (b) No specific strategy
- (c) Anti Fraud and Corruption Policy

4.0 **Background**

4.1 Internal Audit's primary role is to provide an independent and objective opinion on the effectiveness of the control environment. This ranges from checking that effective arrangements for good governance are in place, through to testing that internal controls within systems are operating as they should.

- Reports are produced at the end of the audit fieldwork, the aim being to:
- set out the scope of the audit work
- communicate the results of the audit assignment
- provide the internal auditor's overall opinion on the area under review
- secure acceptance on audit recommendations and a commitment to action where improvements are suggested

- 4.2 The work undertaken and reports produced focus on a review of the internal controls and integrity of the system rather than on performance or outputs from that system. Not all aspects of a service or function will be examined in each audit, but over successive audits there will be a comprehensive review of the systems involved. The scope of each audit is agreed in advance with the manager of the service.
- 4.3 Every recommendation made for improvement is allocated a risk rating (High, Medium or Low), this leading to an opinion statement for the system under review. The context in which an issue arises will dictate the risk category and the auditor will consider both the likelihood of a risk being triggered and the consequences should it occur in arriving at an overall risk level.
- 4.4 Following the issue of a final report, Managers, Deputy Directors, client officers and contractors are expected to implement all agreed recommendations by the agreed implementation dates contained in that report. They will be charged by the Head of Finance (South Oxon DC and Vale of White Horse DC) to sign off their agreement to implement those agreed recommendations and by the implementation dates contained in the final report action plan and also to confirm that the control weaknesses/risks identified will be assessed and where applicable incorporated into the risk management process. This will include their own assessment of the likelihood and impact of the risks, and actions will be included in the risk management action plan.

5.0 **2006/07 Audit Reports**

- 5.1 **Appendix A** of this report sets out the key points and findings relating to the following completed audit

Audit	Audit Opinion
Staff Allowances	Satisfactory

- 5.2 Members of the Committee are asked to seek assurance from the Service Manager that the agreed action will be or has been undertaken where necessary.
- 5.3 A copy of the summary report has been sent to the appropriate Service Manager and the Executive Member for Finance.
- 5.4 A 6 month follow up is undertaken on all audits undertaken to establish the implementation status of agreed recommendations. The follow up for Staff Allowances has been programmed for September 2007.

HARRY OLIVER
SENIOR AUDITOR

WILLIAM JACOBS
HEAD OF FINANCE

Background papers: None

VALE OF WHITE HORSE DISTRICT COUNCIL INTERNAL AUDIT

Summary Report

STAFF ALLOWANCES AUDIT 2006/07

The audit fieldwork was undertaken in November 2006 and the final report was issued to Assistant Director – Human resources in March 2007.

The review was undertaken as part of the 2006/07 Internal Audit Plan. Not all allowances available to staff employed by Vale of White Horse District Council were reviewed as part of this audit. This audit focussed on travel and subsistence and relocation allowances.

The aims of the review were to ensure that controls within the system were adequate and operating effectively, and that working practices were in accordance with approved procedures.

The control objectives identified were:

- All claims and payments relating to officers travel and subsistence and relocation allowances are made in accordance with appropriate policies
- All claims and payments are bona fide, forms are completed promptly and correctly, and adequate records in support of any claim have been provided
- All claims are processed promptly and accurately
- In relation to travel and subsistence, details of users' cars and adequate insurance are maintained in all appropriate cases
- The appropriateness of essential user allowance is reviewed
- Where appropriate, any relocation allowances paid have been recovered from an employee where they have left the Council within three years

The review also sought to establish that all recommendations agreed following the 2004/05 audit had been implemented and were being adhered to.

Audit Opinion

The Internal Audit Teams from Vale of White Horse District Council and South Oxfordshire District Council have recently merged and due to this reporting arrangements are being harmonised. Historically Internal Audit has not given an overall opinion as to the controls operating within the system. However, with effect from 1st April 2007 all audit reports will have the opinion within the management summary.

Key Points, Findings and Recommendations

- Two recommendations made following the 2004/05 audit remain outstanding. One relates to the amending of the 'Allowances to Newly Appointed Staff Claim Form' to include specific instructions for the claiming of full weeks and not calendar months. The other relates to the checking of calculations and supporting evidence received from staff. This issue is addressed later in this summary.

(Recommendation made Report Ref. 4.1.5)

- The review found that an employee had claimed both accommodation and excess travel allowances. This claim was authorised and paid despite the Relocation Policy stating that the excess travel allowance is an alternative to the accommodation allowance. Internal Audit considers that in this instance, the claim and payment was not made in accordance with the Relocation Policy.
(Recommendation made Report Ref. 4.2.7)
- Internal Audit considers that the policy relating to accommodation allowances is open to misinterpretation. The lodging allowances are based on full weeks and it appears that an officer may claim the full weekly allowance despite not staying at an establishment for a full week.
(Recommendation made Report Ref. 4.2.10)
- In relation to the disturbance allowance, a review of the claim forms and supporting receipts identified that claims were for purchases such as gardening equipment, cutlery and a vacuum cleaner. Internal Audit considers the reimbursement to this officer for such purchases not to be in accordance with the policy and there is clearly confusion relating to the claiming of a disturbance allowance.
(Recommendation made Report Ref. 4.2.12)
- A review of the claims for accommodation allowances highlighted in one case that the invoice did not state the name of the accommodation provider and the invoice requested payment for the actual permitted maximum allowance amount. Further inspection suggested that the address of the accommodation is that of the employee's next of kin. Whilst lodging with a relative is acceptable and weekly rent may have been payable, there remains an issue of claiming the full lodging allowance which is considered appropriate for lodging at a bed and breakfast establishment rather than the weekly allowance which is available to assist in the costs of renting a property privately.
(Recommendation made Report Ref. 4.2.14)
- Employees should be reminded to complete claim forms fully and provide supporting evidence where necessary.
(Recommendation made Report Ref. 4.2.22)
- Policy documentation states that the Council has no set rate for overnight stays as hotel prices vary in different parts of the country. Internal Audit suggests that there is an opportunity for the Council to introduce such approved rates by setting an allowance for 'inside and outside London'. This practice has been adopted by South Oxfordshire District Council.
(Recommendation made Report Ref. 4.2.24)
- There are no documented procedure notes for the processing of claims in relation to relocation allowances. However, work instructions are available to staff involved in the processing of travel and subsistence claims.
(Recommendation made Report Ref. 4.3.2)
- It was recommended following the 2004/05 review that staff should submit a copy of their authorised flexi sheet to support excess travel claims. This recommendation had not been implemented.
(Recommendation made Report Ref. 4.3.6)
- The review confirmed that overall claims for relocation allowances are being submitted promptly and correctly with adequate supporting evidence being provided. There is a need for

the Human Resources Team to obtain car details as held on the Payroll system (CASE) prior to calculating the allowance due for excess travel claims.

(Recommendation made Report Ref. 4.3.9)

- Control and housekeeping issues relating to travel and subsistence claims were highlighted during testing.
(Five (5) recommendations made Report Ref. 4.3.13, 4.3.16, 4.3.18, 4.3.20 and 4.3.22)
- From the testing undertaken, Internal Audit is satisfied that the payroll processing of relocation and travel and subsistence claims is accurate and prompt.
- There appears to be no issues relating to the vehicle details held on CASE. However, employees are not given the opportunity to check their vehicle details held on CASE. Internal Audit considers that an exercise should be undertaken regularly in which employees are asked to confirm their car details, as held on CASE, as being correct.
(Recommendation made Report Ref. 4.5.4 – Not agreed by management)
- It was ascertained that employees are not required to submit a copy of their car insurance to the Council. Internal Audit considers that by obtaining such a document, the Council has assurance that employees who use their car on official business possess valid and appropriate insurance for their vehicle.
(Recommendation made Report Ref. 4.5.7)
- The Council does not undertake reviews to assess the appropriateness of essential user allowances. Internal Audit considers that this entitlement should be reviewed to ensure the allowance remains appropriate to the post, especially where it has been awarded through the high mileage that an employee may have to undertake.
(Recommendation made Report Ref. 4.6.4 – Not agreed by management)
- Testing identified that the essential user allowance payable to employees on maternity leave has not been officially agreed.
(Recommendation made Report Ref. 4.6.7)
- Providing a leavers form is completed fully and passed to the Human Resources Team, Internal Audit is satisfied that adequate controls are in place to ensure any relocation allowances to be repaid to the Council can be identified. However, a recent audit of Payroll highlighted that some managers are not returning leavers forms in all instances. Therefore, when Human Resources are notified that an employee is leaving, their details should be checked to ensure that they are not required to repay any relocation allowances received.
(Recommendation made Report Ref. 4.7.6)

Management Response

Twenty (20) recommendations were made and eighteen (18) were agreed. Various implementation dates were provided.

Audit Review Timetable

A follow up review has been programmed for September 2007 to ensure the accepted recommendations have been implemented.

Annex A, the Action Plan for Staff Allowances detailing the recommendations made and the management response follows.

Report Ref.	Internal Audit Recommendations	Priority Rating H/M/L	Management Response	Responsible Officer	Implementation Date
4.1.5	<p>Implementation of 2004/05 audit recommendations</p> <p>As previously agreed, the 'Allowances to Newly Appointed Staff Claim Form' should be amended with specific instructions that claims for accommodation or lodging allowances should be for whole weeks and not calendar months. Alternatively, the calculation of this allowance should be changed to a daily rate i.e. £60 multiplied by 52 weeks and divided by 365 or 366 days.</p>	Medium	HR will action changes on form, as agreed by HR Manager	Assistant Director – Human Resources / HR Team Leader	31.10.07
4.2.7	<p>Claims and Payments are made in accordance with appropriate policies</p> <p>Relocation Allowance</p> <p>Working practices and procedures should be enhanced to ensure officers are only paid allowances to which they are entitled in accordance with the Relocation Policy.</p>	Medium	Relocation/Disturbance allowance procedures to be reviewed by HR	Assistant Director – Human Resources / HR Team Leader	31.10.07

Report Ref.	Internal Audit Recommendations	Priority Rating H/M/L	Management Response	Responsible Officer	Implementation Date
4.2.10	The accommodation allowance should be reviewed and a calculation performed to give a nightly rate for the allowance to be based. This will ensure that any claims received for part weeks are reimbursed accordingly.	Medium	HR to review policy and documentation and implement changes	Assistant Director – Human Resources / HR Team Leader	31.10.07
4.2.12	<p>a) The guidance for disturbance allowance within the policy should be updated to expand on the types of acceptable and unacceptable expenditure and the policy redistributed to staff.</p> <p>b) Working practices and procedures should be enhanced to ensure that future claims for disturbance allowances are scrutinised and verified to the policy prior to authorisation.</p> <p>c) All managers should be made aware of the revised policy to ensure that future claims are certified accordingly.</p>	High	To be reviewed as in 4.2.7	Assistant Director – Human Resources / HR Team Leader	31.7.07
4.2.14	Checks should be introduced to ensure supporting documentation for accommodation costs are bona fide. The Council must be satisfied that expenditure has been incurred prior to certifying the claim.	High	Procedures for obtaining copies of contracts and/or receipts to be reviewed	Assistant Director – Human Resources / HR Team Leader	30.9.07

Report Ref.	Internal Audit Recommendations	Priority Rating H/M/L	Management Response	Responsible Officer	Implementation Date
4.2.22	Travel and Subsistence Allowance Staff should be reminded to complete the travel and subsistence form with all necessary information. In addition, where future claims are received which are not completed fully, the claim is not paid but passed back to the originating officer.	Medium	HR to issue reminder including reference to Payroll deadlines. Payroll procedures to be enhanced to ensure such claims are not paid	Assistant Director – Human Resources / HR Team Leader	31.10.07
4.2.24	To encourage employees to consider the use of alternative establishments, for example using a bed and breakfast rather than a hotel, consideration should be given to the introduction of approved rates for overnight stays. This could include rates for stays 'inside and outside London'.	Medium	HR is aware of the need to such costs as low as realistically possible. Allowances for inside and outside London to be set and published	Assistant Director – Human Resources / HR Team Leader	31.10.07
4.3.2	Claims and payments are bona fide, forms are completed promptly and correctly, and adequate records in support of any claim have been provided Relocation Allowance In relation to relocation allowances, procedure notes should be produced and updated where necessary.	High	Part of policy review in 4.2.7	Assistant Director – Human Resources / HR Team Leader	31.10.07

Report Ref.	Internal Audit Recommendations	Priority Rating H/M/L	Management Response	Responsible Officer	Implementation Date
4.3.6	Staff should submit a copy of their authorised flexi sheet together with their excess travel claim form. The days for which excess mileage was claimed can then be verified to the actual days worked.	Medium	Line manager to check – HR will issue reminder to them	Assistant Director – Human Resources / HR Team Leader	31.10.07
4.3.9	The car details as held on the Payroll system (CASE) should be obtained by the Human resources Team prior to calculation the allowance due for excess travel claims.	Medium	To eliminate the problem, consideration to be given to only one amount being payable for excess claims, irrespective of engine size	Assistant Director – Human Resources / HR Team Leader	31.10.07
4.3.13	Travel and Subsistence Allowance Working practices and procedures are enhanced to ensure that travel and subsistence claims are coded to the correct element code.	Low	Procedures to be enhanced so that payroll staff are aware of the need to code correctly	Assistant Director – Human Resources / HR Team Leader	31.10.07
4.3.16	To ensure payments are made in accordance with the Travel and Subsistence Policy, where receipts are not submitted in support of a claim form, the claim should be reimbursed following the deduction of VAT.	Medium	HR to issue reminder and enhance procedure so that, where receipts not attached, VAT will be deducted	Assistant Director – Human Resources / HR Team Leader	31.10.07

Report Ref.	Internal Audit Recommendations	Priority Rating H/M/L	Management Response	Responsible Officer	Implementation Date
4.3.18	Working practices and procedures should be enhanced to ensure that claims submitted for more than three months after the expenses were incurred are only paid once authorised by a Strategic Director.	Medium	(Strategic Director may decline to pay it). HR to issue guidance	Assistant Director – Human Resources / HR Team Leader	31.10.07
4.3.20	Staff should be reminded of the requirement to fully complete the travel and subsistence claim form. In addition, where future claims are received which are not completed fully, the claim should not be paid but passed back to the originating officer.	Medium	Same as 4.2.22	Assistant Director – Human Resources / HR Team Leader	31.7.07
4.3.22	The instances of mileage rate anomalies highlighted during testing should be investigated to ensure the details on the Case system are accurate.	High	Payroll staff to correct anomalies	Senior Payroll Assistant	31.7.07
4.5.4	Details of users cars and adequate insurance is maintained in all appropriate cases An exercise in which employees are asked to confirm their vehicles, as held on CASE, as being correct should be undertaken on an annual basis.	Low/Medium	Not agreed. The current travel claim forms require current car details to be entered, including permanent changes. This should give up to date information and allows changes to be notified by the employee. It is not therefore proposed to introduce an additional system	N/A	N/A

Report Ref.	Internal Audit Recommendations	Priority Rating H/M/L	Management Response	Responsible Officer	Implementation Date
4.5.7	All officers who use their vehicles on official business should be identified and an exercise undertaken whereby copies of insurance certificates are obtained and retained on file. The exercise should continue to be undertaken on an annual basis.	High	Wording of declaration on travel and subsistence claim form to be amended to include that the Council is indemnified against all third party claims arising out of the use of the car on official business	Assistant Director – Human Resources / HR Team Leader	31.8.07
4.6.4	The appropriateness of essential car user allowance is reviewed A review should be conducted to ensure that the essential user allowance paid to officers remains appropriate in accordance with the NJC conditions and the Travel and Subsistence Policy. In addition, the Travel and Subsistence Policy should be amended to include the requirement for the essential user allowance to be reviewed on an annual basis.	Medium	Not agreed. Many allowances are approved on the basis that they meet more than one of the criteria and it is hard to identify those which should be considered on the basis that the annual mileage has dropped. A reduction in mileage may be temporary and so any review should be less frequently than annually. Such reviews would be relatively resource-intensive, particularly as the post holder would be likely to appeal against the removal of an allowance. Currently the allowances are reviewed at the point that the post becomes vacant. The HR Manager considers this to be adequate given the resources available.	N/A	N/A

Report Ref.	Internal Audit Recommendations	Priority Rating H/M/L	Management Response	Responsible Officer	Implementation Date
4.6.7	The essential user allowance payable to officers on maternity leave should be officially agreed and the policy updated where necessary.	Medium/High	HR have reviewed contracts for essential users on maternity leave – full rate will be paid during OML (first 6 months). This is in accordance with statutory requirements. Payroll procedures to be up dated to ensure that the practice is in accordance with the statutory requirement	HR Team Leader Senior Payroll Assistant	31.7.07
4.7.6	Where an officer leaves the employment of the Council, their details should be checked to the spreadsheet maintained by the HR Team Leader to ensure the employee is not required to repay any relocation allowances.	Low	This check is already carried out by HR Team Leader	HR Team Leader	Already implemented