

Audit and Governance Committee

Report of Assurance Manager

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To: Audit and Governance Committee

DATE: 3 July 2017

Internal audit activity report quarter one 2017/2018

Recommendations

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 at both councils 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, Assurance Manager for South Oxfordshire District Council (SODC) and Vale of White Horse District Council (VWHDC), telephone 01235 422485.

Strategic Objectives

3. Running an efficient council.

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 councils 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

2017/2018 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: 1

Substantial Assurance: 2

Satisfactory Assurance: 4

Limited Assurance: 6

Nil Assurance: 0

	Assurance Rating	No. of Recs	High Risk Recs	No. Agreed	Medium Risk Recs	No. Agreed	Low Risk Recs	No. Agreed
Joint								
1. HR Recruitment (Second Report) 15/16	Limited	3	2	2	1	1	0	0
General Ledger 16/17	Satisfactory	4	0	0	1	1	3	1
Council Tax 16/17	Satisfactory	3	0	0	2	2	1	1
Housing Benefit & Council Tax Reduction 16/17	Substantial	2	0	0	1	1	1	1
NNDR 16/17	Substantial	2	0	0	0	0	2	2
Pro-Active Anti-Fraud Review 16/17 (Private)	Limited	4	3	3	0	0	1	1
2. Payroll 16/17	Limited	11	5	5	4	4	2	2
Capital Management & Accounting 16/17	Satisfactory	5	0	0	2	2	3	3
3. Training & Development (Second Report) 16/17	Limited	4	2	2	2	2	0	0
4. Performance Management 16/17	Limited	5	5	5	0	0	0	0
SODC								
5. Environmental Protection 16/17	Limited	11	1	1	3	3	7	6
LEADER Project Assurance 17/18	Full	2	0	0	0	0	2	2
VWHDC								
5. Environmental Protection 16/17	Satisfactory	9	0	0	2	2	7	6

Follow Up Reviews

	Initial Assurance Given	No. of Recs	Implemented	Partly Implemented	Not Implemented	Ongoing	No longer applicable
Joint							
Health & Safety 16/17	Substantial	4	2	2	0	0	0
SODC							
None							

VWHDC							
None							

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 reports 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 strategic management board, the section 151 officer and the relevant member portfolio holder. In addition to the above arrangements, reports are now published on the councils' intranet.
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.

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
ASSURANCE MANAGER

1. HR Recruitment (Second Report) 2015/2016

1. INTRODUCTION

- 1.1 This report details the findings from internal audit's additional testing and a follow-up review of HR recruitment 2015/2016. The original fieldwork was undertaken in April 2016 and the final report was issued in June 2016. Further testing was agreed to reflect the migration of the HR services to Capita in August 2016. Follow-up work has been undertaken in accordance with the 2016/2017 audit plan agreed with the audit and governance committee of South Oxfordshire District Council (SODC) and Vale of White Horse District Council (VWHDC), to ensure that the agreed recommendations have been implemented within the timescales provided.
- 1.2 The second audit review specifically focused on the following areas from the original review to provide assurance that:
- all recommendations agreed following the previous audit (April 2016) have been implemented and are being adhered to;
 - for each appointment all the relevant pre-employment checks have been undertaken prior to commencement in employment.

2. BACKGROUND

- 2.1 The council entered into a Five Council's Partnership (5CP) on 1 August 2016. Services affected by the 5CP included the council's HR services (based in Sheffield) which was fully outsourced to Capita on 1 October 2016. Internal audit conducted a follow up audit of HR Recruitment (April 2016) during the period of January and February 2017. Additional audit checks were also conducted for the pre-employment checks performed by the new Capita HR service from 1 October 2016, to ensure that they were in line with the agreed HR recruitment procedures and processes.
- 2.2 Capita are currently in the process of migrating information from the council's HR systems (OpenHR) to their system called ResourceLink. This migration will fully integrate the council's HR and payroll information to Capita's systems. Capita are working with the council and the 5CP HR client team to ensure this takes place as soon as possible. The current projected deadline for all HR and payroll services to be fully integrated is April 2017.
- 2.3 From the 1 October 2016 to the 8 January 2017, 27 SODC and 14 VWHDC have been recruited as new employees through the Capita HR service.

3. PREVIOUS AUDIT REPORTS

- 3.1 HR Recruitment was last subject to an internal audit review in April 2016 and seven recommendations were raised. Four recommendations were agreed, two were agreed in principle and one was not agreed. A limited assurance opinion was issued.

4. 2016/2017 ADDITIONAL 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 From checks undertaken within the current review, internal audit found that two recommendations had been implemented (Recs 1 and 4) and four were still outstanding (Recs 2, 5, 6 and 7). Revised implementation dates have been provided where required.
- 4.3 Three additional joint recommendations have been raised in this review from the new testing conducted. Two high risk and one medium risk (Recs 8 - 10).

5. MAIN FINDINGS

5.1 Pre-employment checks – additional testing

- 5.1.1 As stated in 2.1, internal audit performed additional testing at the follow-up stage to incorporate audit testing of the new HR recruitment process brought in by the Five Council Partnership (5CP) on 1 August 2016 and fully migrated to Capita HR (Sheffield) on 1 October 2016. It was identified that although the HR function is now wholly managed by Capita, there are still similar weaknesses that were found in the previous audit (April 2016) in the pre-employment checks performed for new starters as stated in the HR recruitment and selection policy.
- 5.1.2 Internal audit established that the following pre-employment checks are undertaken by the Capita HR support team (based in Sheffield):
- Two references;
 - Medical clearance;
 - Proof of ID;
 - Right to work in the UK;
 - DBS checks, if applicable to the post.

From the sample of 10 officers selected, testing was conducted and reviewed to ensure that the pre-employment checks are carried out in accordance with the council's policy. Internal audit identified that from the sample selected, 80% did not have all the required checks and correct HR procedures performed in full.

- 5.1.3 The internal audit test also identified other weaknesses in the current system, i.e. service manager status not being clearly defined in the HR policies and procedures, and no full HR recruitment process initiated for officers' posts as stipulated by the council's recruitment and selection policy.
- 5.1.4 **Area assurance: Limited**
Three recommendations have been made as a result of our work in this area (Rec 8 - 10).

6. CATEGORISATION OF RECOMMENDATIONS

6.1 To assist management in using our reports, we have categorised our additional recommendations according to their level of priority as follows:

High risk	Fundamental control weakness for senior management action	Recs 8 and 9
Medium risk	Other control weakness for local management action	Recs 10
Low risk	Recommended best practice to improve overall control	

OBSERVATIONS AND RECOMMENDATIONS

1. Request to recruit forms

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Checks are made to ensure that sufficient funds are available prior to the recruitment process taking place.</p> <p><u>Findings</u> The current procedure for recruitment requests does not document the recruiting manager has ensured that there is adequate budget available to fund the post.</p> <p><u>Risk</u> If the funding stream is not reviewed prior to recruitment the budget could become over or under spent and could lead to inefficient use of council resources and financial losses.</p>	The request to recruit form should include a section in the form that confirms that the recruiting manager has ensured that there is adequate budget available to fund the post.	N/A
Management Response		Implementation Date
<p>Recommendation is Agreed We have added a specific note to the request to recruit form asking; <i>Please confirm you have checked that your budget can afford this recruitment.</i></p> <p>Management response: Human Resources Manager</p>		Implemented
Follow-up observations		
A copy of the amended request to recruit form was provided to internal audit and it can be confirmed that this recommendation has been implemented.		Implemented

2. Service area recruitment procedure

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Recruitments are conducted in line with the council recruitment and selection policy.</p> <p><u>Findings</u> Internal audit identified two candidates from the development and housing team who were interviewed and recruited by the recruiting manager without following the councils' recruitment and selection policy. The following procedures were not completed:</p> <ul style="list-style-type: none"> Request to recruit form not completed showing details of post and the proposed budget it will be covered by. HR not informed that vacancies need to be filled to ensure all recruitment and selection is completed in line with HR policies and procedures. Job descriptions and person specifications not available or provided to HR for both vacancies. <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 permanent and fixed term contract staff positions should be supported by a request to recruit form.</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>
Follow-up observations		
<p>The Client Manager – HR confirmed that an email will be sent to line managers reminding them of the importance of the request to recruit form. It was noted that the email to managers reminding them to completed request to recruit forms prior to recruiting to the post has not been undertaken, therefore internal audit does not consider this recommendation to be implemented and it has been restated (recommendation 9) in this review.</p>		<p>Ongoing</p> <p>See Recommendation 9</p>

3. Disclosure Barring Service (DBS) Scope

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> All posts that are deemed to warrant a DBS check is undertaken in a timely manner and prior to commencement of</p>	<p>Consideration is given to widening the range of officers who are subject to DBS checks who have financial responsibilities</p>	<p>N/A</p>

<p>their employment.</p> <p>Findings Internal audit has recognised from undertaking this review of DBS checks that the council has chosen to only undertake DBS checks for a specified categories of employee, for example those working with children who would fall within standard disclosure. Internal audit also noted that HR does not conduct any vetting of staff who have access to the councils' bank accounts, financial information and payment facilities.</p> <p>It should be noted that this recommendation was raised in the human resources 2008/09 audit and has been amended to reflect the 2015/16 findings.</p> <p>Risk Failure to ensure that officers follow procedures relating to employment references and DBS checks, could result in employees being recruited for positions for which they are not suitable/qualified and lead to adverse criticism of the council recruitment process.</p>	<p>and/or access to sensitive personal information. The scope should include the basic level of disclosure for officers. This could also assist with compliance to 2014 HMG (Her Majesty's Government) baseline personnel security standard.</p>	
Management Response		Implementation Date
<p>Recommendation is Not Agreed The councils do not have discretion to carry out DBS checks at will. There is strict legislation governing eligibility for DBS checks and I cannot agree any audit recommendation that is at odds with the legislation.</p> <p>Auditors and accountants Chartered accountants and certified accountants are eligible for a DBS check on entry to the profession only. Internal auditors are not eligible for a check. I therefore do not agree with recommendation 3.</p> <p>Management response: Head of HR, IT and Technical Services</p>		N/A
Follow-up observations		
<p>Not followed up as the recommendation was not agreed. However, internal audit is currently discussing with Capita HR their approach to DBS checks.</p>		N/A

4. Disclosure Barring Service (DBS) checks

(High Risk)

Rationale	Recommendation	Responsibility
<p>Best Practice All posts that are deemed to warrant a DBS check is undertaken in a timely manner and prior to commencement of</p>	<p>DBS checks and disclosures should be undertaken for all posts that require one in a timely manner. Internal audit would also recommend that</p>	<p>Head of HR, IT and Technical Services</p>

<p>their employment.</p> <p>Findings Internal audit selected a sample of 15 employees that had been recruited in the period 1 April 2015 to 1 April 2016. From the sample selected, it was identified that:</p> <ul style="list-style-type: none"> • Two out of the 15 required DBS checks as part of the job description. Further testing was undertaken through the request of the Head of HR, IT and Services and it was identified that three lettings officers and two housing needs officers required checks as part of their job description. These had not been undertaken at the time of the audit even though the officer was in post for more than six months. • In internal audit's opinion, there were two out of the 15 officers (Casual Assistant Duty Manager – Leisure Centre and Accelerated Housing and Development Manager – Development and Housing team) who were not DBS checked that should be checked. This is a risk whereby the officers are dealing with the community (including vulnerable people) and payment processing. <p>Risk Failure to ensure employee references and DBS checks have been obtained and verified in a timely manner, could result in the employee commencing their employment without the necessary supporting references being in place.</p>	<p>is undertaken prior to the commencement of their employment.</p>	
<p>Management Response</p>		<p>Implementation Date</p>
<p>Recommendation is Agreed in Principle The HR business support team will ensure that:</p> <ul style="list-style-type: none"> • they review the recruitment process to make sure there are no gaps in the procedure • they check lettings and housing needs team have all received DBS checks, and carry out any which are missing. <p>Casual assistant duty manager - leisure centre: I do not agree that a DBS check is required for the casual assistant duty manager, whose role at the Beacon Leisure Centre does not meet the eligibility criteria.</p> <p>Accelerated housing and development manager:</p>		<p>31 July 2016</p>

<p>This role is a strategic one and does not involve frequent interaction with children or vulnerable adults. A meeting with a community group is not an activity which needs a DBS check. The role is not eligible for a DBS check and I do not agree this part of the recommendation.</p> <p>Management response: Head of HR, IT and Technical Services</p>	
Follow-up observations	
<p>From 1 October 2016, all new starters undergo the HR checks which are performed by the recruiting manager, using the checklist provided by Capita HR team. The checks performed include assessing whether the role requires a DBS check and undertaking one if required. The head of service – HR (Capita) confirmed that this is undertaken by the appropriate recruiting manager and information is forwarded to the Capita HR team (Sheffield) for filing in the appropriate personnel files. Internal audit additional testing performed in this review identified that no issues were found in the DBS checks undertaken by the recruiting managers.</p>	Implemented

5. Agency and Casual worker staff records

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> HR keeps a record to monitor temporary staff hired through the recruitment agency to ascertain if it is cost effective.</p> <p><u>Findings</u> From the sample of 15 new starters selected, it was identified that one new starter was recruited through Champion recruitment agency on 7 March 2016 and one new starter was an East Cambridgeshire Council employee who had been seconded to SODC for 6 month from 4 August 2015. From the two posts, it was noted that HR kept insufficient records of temporary staff hired through an agency or secondment as required in the recruitment and selection policy.</p> <p><u>Risk</u> If insufficient records are kept, HR cannot monitor the information required and related cost; therefore the council could incur financial costs which could be prevented.</p>	<p>a) A record of staff hired through an agency or other establishments should be retained by HR to monitor the numbers, working arrangements and cost to ensure and determine if the approach is cost effective and efficient.</p> <p>b) HR should create a form for councils that enter into staff exchange or secondments with SODC and/or VWHDC, confirming the pre-employment checks they undertake on the respective staff member. Any pre-employment checks documented as not undertaken would need to be performed by HR, in line with the council's recruitment and selection policy.</p>	Human Resources Manager
Management Response		Implementation Date
<p>Recommendation is Agreed Recommendation a) The Hays reporting system now enables us to access and report on these records Recommendation b) We have produced a form to ensure that staff exchanges with other councils have correct pre-employment</p>		Implemented

check (provided).	
Management response: HR Manager	
Follow-up observations	
<p>a) Agency staff are now recorded through Hays 3SS reporting system. Since the implementation of the Five Council Partnership (5CP), there has been no evidence of monitoring agency workers contracts. A recommendation has been raised in the 2016/17 Payroll audit to this effect and will be followed up in that audit.</p> <p>b) Internal audit can confirm that the pre-employment checks form for staff exchanges or secondments has been created and will be managed by the councils' retained services under the head of HR, IT and technical services.</p>	<p>Ongoing</p> <p>Implemented</p>

6. Pre-employment checks (Pre 1 October 2016)

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u></p> <p>All officers have had relevant pre-employment checks required for their position.</p> <p><u>Findings (April 2016)</u></p> <p>Internal audit identified that the administration of the pre-employment checks were not being completed in accordance to the agreed procedures. A random selection of 15 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 for one out of the 15 starters; • Three out of 15 starters received only one reference which is not in line with the council's agreed recruitment procedures; • Two out of the 15 starters had incomplete medical questionnaire recorded with no follow up being performed by HR; • Three out of the 15 starters did not have all the relevant certificates obtained by HR to support their qualifications as stated on the application forms and required by the role; • Five out of 15 starters had no qualifications received from the successful candidate; • One out of the 15 starters did not have a signed contract retained in the HR personnel file. 	<p>HR should review the pre-employment checks process to ensure that all officers are given the appropriate checks required for their jobs as soon as possible.</p>	<p>Human Resources Manager</p>

<p><u>Risk</u></p> <p>Failure to carry out a comprehensive pre-employment check could result in officers being recruited to positions which they are not suitable for and this could lead to adverse criticism and legal action towards the council.</p>		
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>Management response: HR Manager</p>		Implemented
Follow-up observations		
<p>From 1 October 2016, the HR recruitment process is now undertaken by Capita in Sheffield. A sample of 10 new starters were selected for audit testing to ensure that Capita perform the necessary pre-employment checks in accordance to the agreed HR policies and procedures. It was noted that the pre-employment checks are not being undertaken as stated in the HR recruitment and selection policy and therefore internal audit does not consider this recommendation to be implemented and it has been restated (recommendation 8) in this review.</p>		<p>Ongoing</p> <p>See Recommendation 8</p>

7. Induction process

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u></p> <p>All officers received induction training as soon as they start their role.</p> <p><u>Findings</u></p> <p>Internal audit identified that the three officers that had been employed by the council for over a year and nine officers that had been employed for more than six months before receiving their induction training.</p> <p><u>Risk</u></p> <p>Failure to carry out prompt induction training for new starters could result in officers not being fully aware of how their role supports the council's aims and objectives.</p>	<p>Reviews of new starters should be undertaken to ensure that they are provided with induction training on the first available session.</p>	<p>HR Business Partner (Learning and Development)</p>
Management Response		Implementation Date
<p>Recommendation is Agreed in Principle. Agreed that induction should be attended as soon as possible after starting with the council.</p> <p>Induction is organised on a regular basis according to the number of new starters and they are asked to book on a course. HR can't be responsible if new starters fail to book onto the course in a timely fashion and we don't have the capacity to chase. People</p>		<p>Capita's responsibility from 1 August 2016</p>

<p>who have been here for more than a year are not specifically invited to attend (with agreement of the Chief Executive), although we cannot prevent people from booking themselves on if they want to.</p> <p>Management response: HR Business Partner (Learning and Development)</p>	
Follow-up observations	
<p>The head of service – HR (Capita) confirmed that an email will be sent to line managers reminding them to ensure all new starters are booked in on the council’s induction course as soon as possible. The head of service (HR) also noted that corporate induction is currently being reviewed by Capita as part of the new service implementation. Some of the induction will be on line as well as face to face. Full service is due to be in place at SODC and VWHDC by end of June 17.</p>	<p>Not Implemented</p> <p>Revised Implementation date: 31 July 2017</p>

PRE-EMPLOYMENT CHECKS – ADDITIONAL TESTING

8. Pre-employment checks (Post 1 October 2016)

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> All officers have had relevant pre-employment checks required for their position.</p> <p><u>Findings (Jan/Feb 2017)</u> Internal audit identified that the administration of the pre-employment checks were not being completed by Capita in accordance to the agreed council procedures. A random selection of 10 starters who commenced employment on 1 October 2016 onwards, were tested and it was identified that:</p> <ul style="list-style-type: none"> • There was no evidence for proof of identification being obtained for three out of the 10 starters; • Five out of the 10 starters received only one reference which is not in line with the council’s agreed recruitment procedures; • Five out of the 10 did not have evidence of a request to recruit form retained in HR files to show that the post had been adequately financially assessed and approved by the relevant officers • Eight out of 10 starters had no medical questionnaire recorded with no follow up being performed by HR; • Eight out of 10 starters had no qualifications received from the successful candidate; 	<p>HR should review the pre-employment checks process to ensure that all officers are given the appropriate checks required for their jobs as soon as possible.</p>	<p>Head of Service HR and Payroll (Capita)</p>

<ul style="list-style-type: none"> • Three out of the 10 did not have the right to work checks retained in the files as evidence that they had been undertaken; • Three out of 10 starters did not have a signed contract retained in the HR personnel file. <p><u>Risk</u> Failure to carry out a comprehensive pre-employment check could result in officers being recruited to positions which they are not suitable for and this could lead to adverse criticism and legal action towards the council.</p>		
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>Capita will perform a review of the new starter process including pre-employment checks. Capita will also ensure an inclusion to escalate to recruiting manager if experiencing problems getting references. New online recruitment system being introduced end of June 17, will review as part of implementation.</p> <p>Management response: Head of Service HR and Payroll (Capita)</p>		31 July 2017

9. Service area recruitment procedure (Post 1 October 2016)

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Recruitments are conducted in line with the council recruitment and selection policy.</p> <p><u>Findings –Jan/Feb 2017</u> Internal audit identified one candidate from the development and housing team who was recruited by the recruiting manager without following the councils’ recruitment and selection policy. The following procedures were not completed:</p> <ul style="list-style-type: none"> • HR not informed that the vacancy needed to be filled to ensure all recruitment and selection is completed in line with HR policies and procedures. • There was no full HR recruitment process initiated for the post of Enterprise Zone Manager as stipulated by the council’s recruitment and selection policy, i.e. no advertisement made for post; no interviewing process undertaken; emails of termination of secondment by 	<p>All permanent and fixed term contract staff positions should be supported by a completed request to recruit form with sufficient evidence to show that the councils’ HR recruitment and selection procedures have been completed.</p>	<p>Head of Service HR and Payroll (Capita)</p>

<p>EY and, communication between EY and the council to show agreement of contractual changes.</p> <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>		
Management Response		Implementation Date
<p>Recommendation is Agreed. As part of the recruitment review recently completed, HR admin will not process any recruitment unless a 'Request to Recruit' form is fully completed.</p> <p>Management response: Head of Service HR and Payroll (Capita)</p>		30 April 2017

10. Service manager classification

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> A clear definition of service managers and non-service managers is documented in the HR policies and procedures.</p> <p><u>Findings</u> There is no clear definition of how HR classify a new starter as a service manager (i.e. 32 days annual leave and no annualised hours) or a non-service manager (i.e. 23 days annual leave with annualised hours).</p> <p><u>Risk</u> No clear definition of a service manager and a non-service manager at employment may result in the new starter being issued with incorrect terms and conditions leading to legal implications and reputational damage to the council.</p>	<p>A definition and classification of a service manager needs to be added to the HR policies and procedures to ensure that the correct employment terms and conditions are applied to the new starter e.g. annual leave entitlement; flexible working arrangements and addition to relevant management groups.</p>	<p>Head of Service HR and Payroll (Capita)</p>
Management Response		Implementation Date
<p>Recommendation is Agreed A checking system will be agreed with the council's Head of HR, IT and Technical Services and implemented to assist in giving assurance that correct service manager classifications are awarded. Recruiting managers will be responsible for informing HR via the 'Request to Recruit' form. Will be including in implementation of new recruitment module which is planned to go live by end of June 17. Management response: Head of Service HR and Payroll (Capita)</p>		31 July 2017

2. Payroll 2016/2017

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 a priority score of 29. The draft report was issued on 24 March 2017 and the final report was issued on 27 April 2017.
- 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, e.g. 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; and
 - payroll records are regularly reconciled with HR's establishment listing and appropriate actions are taken to address any discrepancies.

2. BACKGROUND

- 2.1 Capita have provided the councils' payroll service from their offices based in Carlisle with the HR function provided by the council's in-house services from 1 February 2012. At the time of this review, the council had entered into a Five Council's Partnership (5CP) from 1 August 2016. As a part of 5CP, Capita continue to provide the payroll service and the councils' HR service was fully outsourced to Capita on 1 October 2016.
- 2.2 Payroll payments are made through BACS and Capita process payroll data through the 'Ingenuity At Work' system. Capita are currently in the process of migrating information from the council's HR system (OpenHR) to the Capita ResourceLink system. This migration will fully integrate the council's HR and payroll information to Capita's systems. Capita are working with the council and the 5CP HR client team to ensure this takes place as soon as possible and at the time of review is currently pending a go live decision.
- 2.3 As at the end of February 2017, the number of employees that had their payments processed through Capita payroll was 385. This comprised of 238 SODC employees (including 10 casual employees) and 147 VWHDC employees (including seven casual employees). From reviewing the general ledger as at February 2017, payroll costs were £724,558.48, of which £449,472.07 is for SODC and £275,086.41 is for VWHDC.

3. PREVIOUS AUDIT REPORTS

- 3.1 Payroll was last subject to an internal audit review in February 2016, and five recommendations were raised. All recommendations were agreed and a limited assurance opinion was issued.
- 3.2 From checks undertaken within the current review, similar issues were identified highlighting that none of the five recommendations have been implemented. Four recommendations have been updated and incorporated within revised recommendations arising from the current review (Recs 1 & 5). One recommendation has been restated (Rec 11).

4. 2016/2017 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 Eleven joint recommendations have been raised in this review. Five are high risk, four medium risk and two low risk.

5. MAIN FINDINGS

5.1 Policies and Procedures

- 5.1.1 Internal audit identified that whilst HR policies are in place that cover pay, a formal review process and version control has not been in place from before the 5CP contract commenced on 1 August 2016. There are HR/payroll policies that have not been updated dating back to July 2013 and, since Capita took full ownership of the HR and payroll functions, there have not been any updates to policies and procedures to reflect the new ways of working.
- 5.1.2 Since 1 April 2016, Hays Specialist Recruitment Limited has been contracted to recruit and provide the council with agency staff as and when required. Since the commencement of the 5CP, there has been no clear ownership of the contract management and no evidence of regular meetings taking place between Hays and the council to ensure that both parties are adhering to the contractual terms.
- 5.1.3 **Area assurance: Limited**
Three recommendations have been made as a result of our work in this area (Recs 1 - 3).

5.2 Payroll system parameters

- 5.2.1 The Capita payroll team leader is responsible for maintaining the Ingenuity At Work (IAW) payroll system parameters. HMRC notify changes to statutory deductions and tax codes and other changes to officers pay, such as new starters, leavers and increments, are notified by HR. Internal audit reviewed a sample of 20 officers from each council that had tax codes updated effective from April 2016 and no

issues were identified. Changes made to the system parameters were seen to have been reviewed and authorised by Capita's payroll team leader.

5.2.2 Requests for payroll system access 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. Accessing other than from within Capita's network requires a remote desktop link and security control before reaching the payroll system security. From review of a list of IAW users, two of four council officers no longer required access and two of 18 Capita officers needed to be removed.

5.2.3 Area assurance: Full
One recommendation has been made as a result of our work in this area (Rec 4).

5.3 **Management of changes to data**

5.3.1 Prior to 1 August 2016, the council's HR team provided details of starters, leavers and variations to pay to Capita via control spreadsheets which were password protected. The data was input by Capita's payroll team and verified by another payroll officer. Internal audit sample tested the payroll process for:-

- 20 starters for each council,
- 20 leavers for each council,
- 20 overtime claims for each council,
- 20 additions/deductions or variations to pay for each council,
- 10 SODC and five VWHDC (100 per cent) maternity/paternity payments and
- 10 personal data changes for each council.

The testing identified weaknesses in the administration process regarding documentation for new starters, leavers and overtime claims. Further issues were identified relating to payroll checks and line manager authorisation. Four related recommendations have been made as a result of the checks undertaken.

5.3.2 From 1 October 2016, it has been the responsibility of the council's individual recruiting officer to send all the relevant information to Capita HR/Payroll team to ensure the new starter is entered on the system correctly and paid in the correct period. For starters and leavers, the line manager is now required to perform checks previously carried out by the council's HR team. Details of variations in pay are also sent directly by the councils' individual line managers to the Capita HR solutions team in Sheffield. There is no longer a need for a monthly control spreadsheet to be sent to Capita and checks on notified variations are undertaken on a case by case basis by the responsible Capita HR officer in Sheffield. Guidance has been provided for recruiting officers by Capita's HR team with support on hand if required. Further testing was undertaken on a sample of starters and leavers since 1 October 2016 and similar issues to those above were identified. The findings are incorporated within the recommendations raised.

5.3.3 Area assurance: Limited
Four recommendations have been made as a result of our work in this area (Recs 5 - 8).

5.4 **Transfer of data**

5.4.1 Internal audit identified that there are suitable measures in place between the councils and Capita payroll to ensure that all payroll data is held and transferred securely. Capita utilise a secure email system called Voltage SecureMail. This encrypts the email and it can only be opened by the recipient after their email address has been verified, by setting up an email and password, so that they can then log in to access the email and any attachments.

5.4.2 The council's head of finance authorises the monthly payroll run following checks made by the 5CP client teams for finance and for HR. As the authorisation does not contain any personal data, it is sent to Capita payroll through the standard unencrypted email system. Up to 1 August 2016, the council's chief accountant was the deputy S151 who was able to sign off payroll in the absence on the head of finance. Since 1 August 2016, the finance team was outsourced to Capita as a part of the 5CP arrangements. Therefore, there is currently no nominated substitute for signing off payroll in the absence of the head of finance.

5.4.3 Capita payroll has in place a complaints and queries log, which assists in managing and dealing with queries efficiently. Review of the complaints & queries log confirmed that the queries are appropriately managed and efficiently dealt with however a query was raised regarding the calculation of response times.

5.4.4 Area assurance: Limited
Two recommendations have been made as a result of our work in this area (Rec 9 and 10).

5.5 **Payroll reconciliations**

5.5.1 The council's accountancy service was outsourced to Capita as a part of the 5CP contract effective from 1 August 2016. Capita's accountancy team are now responsible for the monthly payroll reconciliations previously undertaken by the in-house team. These reconciliations cover checks on the payroll amounts coded within the general ledger system, checks on pay-overs made to both HMRC and to third parties, such as Unison, and checks on child care vouchers.

5.5.2 Monthly payment run reports are cross-checked and reconciled prior to the amounts being authorised for payment. Prior to the 5CP arrangements, these checks were made by the in-house HR and accountancy teams and were signed off by authorised signatories, which were the head of finance and, in cases of absence, the chief accountant. From 1 October the HR service was also outsourced to Capita. Payment runs are now carried out by Capita payroll with

checks performed by the 5CP's client team's finance officer and HR officer. The council's head of finance then checks and authorises the reconciliations in liaison with the relevant officers in the 5CP client team and any issues identified are investigated prior to sign off.

- 5.5.3 Internal audit have reviewed documentation for three consecutive months of payroll and general ledger reconciliations for each council and can confirm that there is evidence that the system reconciliations are performed in a timely manner and signed by the appropriate officers. Where differences are identified these are reviewed by Capita's accountancy team and, when needed, are journaled within the financial system or resolved with payroll officers.
- 5.5.4 At the time of reporting, a new payroll system is to be introduced and also the Agresso financial system is due to migrate to Integra. This will impact upon how reconciliations are carried out in future but progress on implementing the new system is not at a stage that can be covered within the current review.
- 5.5.5 Area assurance: Full
No recommendations have been made as a result of our work in this area.

5.6 Establishment lists reconciliation

- 5.6.1 Prior to 1 August 2016, an establishment list which recorded the authorised posts within the council, including information of the contracted hours and grade for each post, was maintained by the council's Human Resources (HR) team. The establishment list was reviewed by senior management board and heads of service on a monthly basis and reconciled with Capita payroll records on a bi-annual basis. At the time of review, the most recent reconciliation was as at 30 June 2016 and Capita payroll identified 135 differences. Of these, 128 were corrected between HR and Capita payroll. However, seven queries raised by Capita payroll did not appear to have been resolved. The queries related to post references, service teams and local government start dates so did not affect pay.
- 5.6.2 Following the commencement of the 5CP contract, the 5CP HR manager and Capita's head of service for HR are in discussion regarding the establishment list and reconciliation process. In future, reports will be provided from the Resource Link system which has not yet gone live.
- 5.6.4 Area assurance: Full
One previous year recommendation has been revised and restated as a result of our work in this area (Rec 11).

6. CATEGORISATION OF RECOMMENDATIONS

- 6.1 To assist management in using our reports, we have categorised our recommendations according to their level of priority as follows:

High risk	Fundamental control weakness for senior management action	Rec 3, 5, 6, 9 and 10
Medium risk	Other control weakness for local management action	Recs 1, 2, 7 and 8
Low risk	Recommended best practice to improve overall control	Recs 4 and 11

OBSERVATIONS AND RECOMMENDATIONS

POLICIES AND PROCEDURES

1. Policies and procedures – HR

(Medium Risk)

Rationale	Recommendation	Responsibility
<p>Best Practice Policies are up to date, version controlled and reviewed in accordance with agreed timescales.</p> <p>Findings From review of the following HR policies relating to pay, they date from:-</p> <ul style="list-style-type: none"> • Travel and expenses, November 2014, (refers to Crowmarsh Gifford offices); • Recruitment and Selection, November 2014; • On call and standby, April 2014; • Market premium, July 2013; • Overtime and allowances, November 2014; • Maternity, Paternity, Adoption and Surrogacy, May 2015; • Options to purchase additional annual leave, unknown date; • Pension Scheme, July 2014; • Eye test and payment for glasses procedure, April 2014. <p>As stated in the previous audit review, there is insufficient version control within the policies and the travel and expenses policy still contains reference to the council site at Crowmarsh.</p> <p>Furthermore, although it is acknowledged that policies will be harmonised across the 5CP, there is no evidence of recent review and update of the above policies.</p>	<p>a) Version control on the policies should be enhanced to include:-</p> <ul style="list-style-type: none"> • the author of the policy; • the date the policy was approved and by whom; • the next review date. <p>b) Policies that still refer to Crowmarsh Gifford, i.e. travel and expenses policy, should be reviewed and amended to reflect Milton Park as the council's base premises.</p> <p>c) The HR policies should be reviewed in accordance with agreed timescales and reflect any changes due to the 5CP arrangements.</p>	<p>HR and Payroll Manager (Capita)</p>

<p><u>Risk</u> If version control is not fully completed and up-to-date, there is a risk of policies not being reviewed and updated in a timely manner and not reflecting current practices, which may lead to incorrect practices being followed.</p>		
Management Response		Implementation Date
Recommendation is Agreed		31 May 2017
Management response: HR and Payroll Manager (Capita)		

2. Capita payroll procedures

(Medium Risk)

Rationale	Recommendation	Responsibility
<p>Best Practice All policies and procedures need to be kept up to date.</p> <p>Findings There is no SLA in place with Capita regarding payroll, however a payroll processes reference document is in place which outlines and makes reference to the various processes and procedures required to process payroll. The payroll process reference document has not been updated to reflect the new working arrangements (from 1 August 2016) in regards to the council, Five Council Partnership (5CP) and contractors.</p> <p>Capita also use payroll handbooks and, whilst these cover the processing of new starters, leavers and changes through payroll, they have not yet been updated to reflect the new process and responsibilities for payroll under the 5CP contract. They still include contact details for council officers no longer employed by the councils.</p> <p>Risk There is a risk of error in processing and calculating of final pay in line with the new payroll arrangements, leading to under or over payments being processed by the payroll staff.</p>	<p>a) The payroll process reference document should be updated and also clarify the role of the council, Five Council Partnership (5CP) client and contractors.</p> <p>b) Capita's payroll handbooks should be updated to reflect changes resulting from the 5CP.</p>	HR and Payroll Manager (Capita)
Management Response		Implementation Date
Recommendation is Agreed		30 June 2017
Management response: HR and Payroll Manager (Capita)		

3. Agency staff contract management – (Hays Specialist Recruitment Ltd)

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Contractors' performance is monitored and reviewed regularly by the appropriate officer.</p> <p><u>Findings</u> From 1 April 2016, Hays plc has been contracted to recruit and provide the council with agency staff as and when required. Since the implementation of the Five Councils' Partnership (5CP) on 1 August 2016, there has been no clear working arrangement in regards to the overall contract management. There is also no evidence of regular meetings taking place between Hays plc and the council to ensure that both parties are adhering to the agreed contractual terms.</p> <p><u>Risk</u> No regular reviews or monitoring of the information received from the council's contractor providing agency staff could lead to unidentified poor performance and result in potential financial losses in the council.</p>	<p>A decision must be made in regards to who is responsible for the management and the proactive oversight of the Hays Specialist Recruitment Ltd contract. This must include quarterly meetings with both parties to ensure that there is adequate monitoring of key performance indicators, performance against budgets, compatibility with council priorities and delivery of services (i.e. issues log).</p>	<p>Head of HR, IT and Technical Services</p>
Management Response		Implementation Date
<p>Recommendation is Agreed This has been identified as part of a council review of strategic HR capabilities and will be addressed as part of that review.</p> <p>Management response: Head of HR, IT and Technical Services</p>		<p>31 October 2017</p>

PAYROLL SYSTEM PARAMETERS

4. User access - payroll system

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Regular reviews are in place to ensure access to the payroll system is restricted to relevant officers.</p> <p><u>Findings</u> Internal audit reviewed a list of users on the payroll system and identified that:-</p> <ul style="list-style-type: none"> Of four council users, two internal auditors from previous reviews were still listed. One had left but would 	<p>a) All leavers and inactive user accounts should be deactivated or removed from the payroll system as soon as possible.</p> <p>b) A regular pro-active review of users on the payroll system should be undertaken to ensure all officers still require access.</p>	<p>HR and Payroll Manager (Capita)</p>

<p>not have been notified as a leaver due to them being a contractor.</p> <ul style="list-style-type: none"> Of 18 Capita employees listed, two no longer require access to payroll system. <p><u>Risk</u> If user access to the payroll system is not regularly reviewed then there is a risk of unauthorised use which could result in potentially fraudulent activities.</p>		
Management Response		Implementation Date
Recommendation is Agreed		31 March 2017
Management response: HR and Payroll Manager (Capita)		

MANAGEMENT OF CHANGES TO DATA

5. HR checks – starters

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> A full audit trail is available for all new starters in accordance to the agreed policies and procedures.</p> <p><u>Findings – Pre October 2016</u> From review of documentary evidence in HR personnel files, and payroll records, for a sample of 40 new starters comprised of 20 for each council:-</p> <ul style="list-style-type: none"> Six did not have a recruit to recruit form to evidence the vacancy had been approved prior to recruiting for the post (3 SODC, 3 VWHDC). 12 starters had no references on file (3 SODC, 9 VWHDC). 10 starters had only one reference which is not in line with the council agreed recruitment procedures (9 SODC, 1 VWHDC). Four did not have proof of identification on file (1 SODC, 4 VWHDC). 26 did have proof of qualifications on file (12 SODC, 14 VWHDC). Three did not have a signed contracts on file (3 VWHDC). <p><u>Findings – Post October 2016</u> A further review of a sample of five new starters for each council was undertaken to assess the process after the transfer of HR</p>	<p>All starter processes should comply with the council's agreed policies and procedures i.e.-</p> <ol style="list-style-type: none"> A request to recruit form should be completed, approved and retained in the personnel files prior to the vacancy being advertised for recruitment, and the following documentary evidence should be obtained and held within the personnel records:- Two references. Proof of identification. Proof of qualifications. A signed contract of employment. 	<p>HR and Payroll Manager (Capita)</p>

<p>services to Capita on 1 October 2016. From review of documentary evidence in HR personnel files, and payroll records:-</p> <ul style="list-style-type: none"> • Five did not have a request to recruit form to evidence the vacancy had been approved prior to recruiting for the post (4 SODC, 1 VWHDC). • Five starters had no references on file (3 SODC, 2 VWHDC). • Five starters had only one reference which is not in line with the council agreed recruitment procedures (2 SODC, 3 VWHDC). • Five did not have proof of identification on file (2 SODC, 3 VWHDC). • Nine did not have proof of qualifications on file (5 SODC, 4 VWHDC). • Five did not have a signed contracts on file (4 SODC, 1 VWHDC). <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>		
Management Response		Implementation Date
Recommendation is Agreed Management response: HR and Payroll Manager (Capita)		31 March 2017

6. HR/Payroll checks – leavers

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> A full audit trail is available for all leavers in accordance with the agreed policies and procedures.</p> <p><u>Findings – Pre October 2016</u> From review of documentary evidence in HR personnel files, and payroll records, for a sample of 40 leavers comprised of 20 for each council:-</p> <ul style="list-style-type: none"> • One VWHDC leaver had an underpayment of their final pay. An annual leave payment was due for 24.84 hours at £21.27 per hour. Internal audit identified that the amount actually paid per 	<ul style="list-style-type: none"> a) A management decision should be made on how to resolve both the underpayment and overpayment identified. b) In addition, HR should ensure that all final pay calculations are checked and paid out correctly to the leaver. c) All leaver processes should comply with the council's agreed policies and procedures i.e. all leaver records within the personnel files and HR system should be complete and 	<p>Head of HR, IT and Technical Services</p> <p>HR and Payroll Manager (Capita)</p>

<p>hour was £17.78. The underpayment amounted to £86.61. The error was that the hourly rate in the payroll system had not been updated when salary was last changed. This did not affect the monthly salary payments. HR calculate the amount of hours due and payroll check the correct number of hours have been recorded.</p> <ul style="list-style-type: none"> • One SODC leaver did not have their reason for leaving documented and recorded in the OpenHR system. • One VWHDC leaver did not have a resignation letter recorded in the HR personnel files. <p><u>Findings – Post October 2016</u> A further review of a sample of four SODC leavers and three VWHDC leavers was undertaken to assess the process after the transfer of HR services to Capita on 1 October 2016. From review of documentary evidence in HR personnel files, and payroll records:-</p> <ul style="list-style-type: none"> • Two leavers did not have a resignation letter recorded in the HR personnel files (1 SODC, 1 VWHDC). • One leaver received an overpayment due to an incorrect annual leave balance being paid. The leaver was owed three unused leave days out of 11 that they were entitled to. A payment of 11 days were made resulting in an overpayment of 8 days amounting to £3,255.62 (pre-tax). <p><u>Risk</u> Insufficient audit trails supporting leavers details may lead to inability to justify actions taken and amounts paid should queries arise.</p>	<p>documentary evidence is retained.</p>	
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>a) The underpayment identified has now been rectified. I am currently in discussion with Capita HR about recovering the overpayment.</p> <p>Management response: Head of HR, IT and Technical Services</p>		<p>31 July 2017</p>

b) Agreed – Capita c) Agreed - Capita Management response: HR and Payroll Manager (Capita)	31 March 2017
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7. HR - Amendments to pay details

(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> From review of documentary evidence in HR personnel files, and payroll records, for a sample of 40 changes to pay comprised of 20 for each council, no evidence of the officers being notified of the change could be found for:-</p> <ul style="list-style-type: none"> • one SODC adjustment to remove an excess mileage amount of £51.25. • one VWHDC car lease/salary sacrifice change. • one VWHDC deduction of four hours unpaid leave. • one VWHDC deduction for childcare vouchers . <p><u>Risk</u> Insufficient audit trails detailing amendments to standing data has been completed accurately may lead to a risk of inaccurate or inappropriate changes being made for council employees.</p>	HR must inform officers of amendments made to their pay to ensure they are aware of and are in agreement with the changes being processed.	HR and Payroll Manager (Capita)
Management Response		Implementation Date
Recommendation is Agreed Management response: HR and Payroll Manager (Capita)		31 March 2017

8. Overtime payments

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> A full audit trail is available for all overtime payments with effective authorisation of claims, detailed records of time claimed and accurate checks on payroll input.</p> <p><u>Findings</u> Internal audit testing of 40 overtime claims (20 SODC and 20 VWHDC) identified the</p>	<p>a) Capita must ensure that all payments processed in the payroll system are checked robustly, including verification that claims are signed as authorised.</p> <p>b) A reminder must be sent to line managers to ensure that all overtime</p>	HR and Payroll Manager (Capita)

<p>following:</p> <ul style="list-style-type: none"> • One SODC overtime claim was paid at 20 hours instead of 24 hours despite the claim form being initialled by the person entering information into the payroll system and the person checking the entry for accuracy. The total value underpaid was £114.56. • Four VWHDC overtime forms were processed for payment without an authorising signature. Three of these were for casual employees (the Beacon). • Two overtime claimants (one SODC, one VWHDC) used an old form that does not require a record of start and end times for work undertaken or evidence required breaks have been taken. • One SODC overtime claimant used a new form but claimed 11 hours, from 8am to 7pm, with no breaks deducted from the claim. <p>Risk If overtime calculations are not made in a consistent manner then the council may be making under or over payments to employees. Furthermore if breaks are not recorded, there is no evidence that the council is complying with working time directives.</p>	<p>claims:-</p> <ul style="list-style-type: none"> • are completed on the council's current claim form which allows recording of breaks; • have been checked and signed as authorised prior to being sent to Capita for processing. 	
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>Management response: HR and Payroll Manager (Capita)</p>		30 April 2017

TRANSFER OF DATA

9. Approval of monthly payroll

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> There is an appropriate officer assigned to sign off and authorise monthly payroll in the absence of the S151 officer.</p> <p><u>Findings</u> Following the commencement of the Five Council Partnership (5CP) on 1 August 2016, internal audit identified that there is no assigned officer to sign off the</p>	<p>A decision should be made on an officer able to approve the payroll in the absence of the S151 officer as soon as possible.</p>	<p>Head of HR, IT and Technical Services</p>

<p>monthly payroll run in the absence of the S151 officer.</p> <p>Risk Without a contingency plan in place for a substitute, there is a financial and reputational damage risk that critical services such as payroll are not processed in a timely manner.</p>		
Management Response		Implementation Date
<p>Recommendation is Agreed This has been identified as part of a council review of strategic HR capabilities and will be addressed as part of that review.</p> <p>Management response: Head of HR, IT and Technical Services</p>		31 October 2017

10. Roles and responsibilities

(High Risk)

Rationale	Recommendation	Responsibility
<p>Best Practice A resilient control environment to support SODC and VWHDC HR/payroll service requirements and interests is in place.</p> <p>Findings Currently two 5CP client team officers employed by SODC and VWHDC deliver the monthly checking and review payroll process prior to S151 approval. This role is not clearly defined within the client team structure and there is a lack of resilience should the two officers be absent.</p> <p>Risk If roles and responsibilities are not clearly defined and resilient there is a risk that SODC & VWHDC HR/payroll services are not independently reviewed and monitored to ensure that the council's interests are being met.</p>	<p>A review of the current council resources should be undertaken to ensure there is sufficient knowledge of SODC and VWHDC HR/payroll services requirements and employee environment.</p>	<p>Head of HR, IT and Technical Services</p>
Management Response		Implementation Date
<p>Recommendation is Agreed This has been identified as part of a council review of strategic HR capabilities and will be addressed as part of that review.</p> <p>Management response: Head of HR, IT and Technical Services</p>		31 October 2017

PREVIOUS RECOMMENDATIONS RESTATED

11. Establishment listing reconciliation

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> The establishment list and the payroll system is regularly reconciled with any discrepancies dealt with appropriately and efficiently.</p> <p><u>Findings</u> The most recent reconciliation between the Capita payroll system and the HR establishment list was undertaken as at 30 June 2016. 135 differences were identified and 128 were resolved between HR and Capita payroll. Seven queries remained covering post references, service teams and local government start dates. Whilst these do not affect pay there was no evidence that Capita HR had resolved the queries raised by Capita payroll.</p> <p><u>Risk</u> If discrepancies between the establishment list and the payroll system are not dealt with appropriately and efficiently, there is a risk that staff could be paid at the incorrect pay scale.</p>	<p>Discrepancies found from the reconciliation between the establishment list and the payroll system should be dealt with completely and efficiently to ensure that records held by both Capita HR and Capita payroll are accurate.</p>	<p>HR and Payroll Manager (Capita)</p>
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>Management response: HR and Payroll Manager (Capita)</p>		<p>30 April 2017</p>

3. Training & Development (Second Report) 2016/2017

1. INTRODUCTION

- 1.1 This report details the findings from internal audit's additional testing and a follow-up review of training and development. The original fieldwork was undertaken in August 2016 and the final report was issued in September 2016. Follow-up work has been undertaken in accordance with the 2016/2017 audit plan agreed with the audit and governance committee of South Oxfordshire District Council (SODC) and Vale of White Horse District Council (VWHDC), to ensure that the agreed recommendations have been implemented within the timescales provided.
- 1.2 The second audit review specifically focused on the following areas from the original review to provide assurance that:
- all recommendations agreed following the previous audit have been implemented and are being adhered to;
 - for staff that have undertaken external training, i.e. professional qualifications, appropriate measures are taken to ensure compliance with the councils' policy.

2. BACKGROUND

- 2.1 The councils entered into a Five Councils' Partnership (5CP) on 1 August 2016. Services affected by the 5CP included the councils' HR services, which was outsourced to Capita on 1 October 2016. However, it is noted that the training budget was kept by the councils and managed by the HR team (5CP client). Additional audit checks were conducted as a control environment concern was raised during the review of March 2017 pay run relating to the repayment of the training fees.

3. PREVIOUS AUDIT REPORTS

- 3.1 Training and development was last subject to an internal audit review in August 2016 and one recommendation was raised and was agreed. A satisfactory assurance opinion was issued.

4. 2016/2017 ADDITIONAL 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 From the review undertaken, internal audit found that the recommendation had not been implemented. A revised implementation date has been provided (Rec1).
- 4.3 Three additional joint recommendations have been raised in this review from further testing undertaken. One high risk and two medium risk

(Recs 2-4).

5. MAIN FINDINGS

5.1 External training - additional review

- 5.1.1 From the 1 October 2016 to the 31 March 2017, 18 (12 SODC and six VWHDC) officers left the councils of which one SODC officer had undertaken a professional qualification and owed the council the course fee due to leaving within two years of completion. Review of the one SODC officer established that Capita HR are not aware of the councils' process when an officer leaves and owes the councils' course fees. The officer owed £2,015.00 and Capita HR agreed an arrangement to recoup the course fee, however did not consider taking part of the fee owed from their final salary, which included a payment to the officer of £1,272.50 for annual leave owed. This has now been rectified and part payment has been taken. However, at the time of this follow up review (April 2017), a sales order had not been raised and a sundry invoice issued to the officer to ensure that the full fee is repaid to the councils and if the arrangement is broken is subject to recovery process. The recommendation raised during the full audit review is not implemented (Rec 1).
- 5.1.2 Internal audit established during the follow up review that there has been changes to the process of paying the course fees for external training. After the external training is approved on OpenHR, the service team are now required to complete a training purchase order request form and submit the form to the policy and partnerships team to raise on the Agresso system. It is noted that this arrangement was made due to Capita HR not having access to the Agresso system. The HR officer (5CP client) developed a spreadsheet to record paid external training which is completed by the policy and partnerships team. Review of the spreadsheet found that from 241 (156 SODC and 85 VWHDC) paid external training courses, 101 (69 SODC and 32 VWHDC) did not state if the training was approved on OpenHR. From a sample of ten (five SODC and five VWHDC) courses without a record of OpenHR approval, review found that two training courses were not approved by management on OpenHR prior to the purchase order being raised and payment being made.
- 5.1.3 Due to the findings above, internal audit also reviewed the learning and development policy that the councils have in place and is available to staff via the intranet. Review found that the policy requires updating as the roles and responsibilities of Capita HR, the HR team (5CP client) and councils' staff have not been clarified as part of the 5CP.
- 5.1.4 Area assurance: Limited
Three recommendations have been made as a result of our work in this area (Recs 2-4).

6. CATEGORISATION OF RECOMMENDATIONS

6.1 To assist management in using our reports, we have categorised our additional recommendations according to their level of priority as follows:

High risk	Fundamental control weakness for senior management action	Recs 1 and 2
Medium risk	Other control weakness for local management action	Recs 3 and 4
Low risk	Recommended best practice to improve overall control	

OBSERVATIONS AND RECOMMENDATIONS

AUDIT REVIEW FOLLOW UP

1. Repayment of training fees

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> An invoice is raised and issued to leavers that cannot repay their outstanding fee from their final salary.</p> <p><u>Findings</u> Review of the qualification records, since April 2014, found that there were two leavers that had undertaken professional qualification in the last two years that required to pay the fees back. Review found that:-</p> <ul style="list-style-type: none"> One leaver owed £1,041.67 and paid back the amount through their final salary, and calculation of the amount owned confirmed the appropriate amount was charged. The other leaver owed £3,019.00; however an invoice was not raised and issued to the leaver, so it could not be confirmed if the amount was repaid. <p><u>Risk</u> If an invoice is not raised, there is a financial risk to the councils due to no audit trail to confirm that the debt has been repaid.</p>	<p>If leavers cannot repay the outstanding fees from their final salary, the leaver should be made a debtor and an invoice should be raised and issued to ensure that the outstanding amount is repaid to the councils and subject to recovery processes.</p>	<p>5 Councils' Client Team - HR representatives</p>
Management Response		Implementation Date
Recommendation is Agreed		31 October 2016

Management response: HR Manager	
Follow-up observations	
See main findings section 5.1 above.	Not Implemented Revised Implementation date: 30 June 2017

EXTERNAL TRAINING - ADDITIONAL REVIEW

2. Written procedures

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Written procedures are in place detailing the process required when an officer leaves the councils.</p> <p><u>Findings</u> Review of one SODC officer established that Capita HR are not aware of the councils' process when an officer leaves and owes the councils' course fees. The officer owed £2,015.00 and Capita HR agreed an arrangement to recoup the course fee, however did not consider taking part of the fee owed from their final salary, which included a payment to the officer for annual leave owed.</p> <p><u>Risk</u> If procedures are not written regarding the process for recouping course fees, there is a financial risk to the councils as leavers are not being asked to repay their fees when leaving within two years of completing their training.</p>	Written procedures should be developed providing step-by-step guidance of what Capita HR should be undertaking when receiving a leavers' notification form, so that course fees are recouped from leavers that have completed a professional qualification within two years of leaving.	Capita HR
Management Response		Implementation Date
<p>Recommendation is Agreed Will review end to end process including identifying whether activities need to be referred to the training budget holder.</p> <p>Management response: Head of Service HR and Payroll (Capita)</p>		30 June 2017

3. Approval of training

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> All training is approved via OpenHR prior to the policy and partnerships team receiving the training purchase order request form, and raising and issuing the purchase order.</p>	A process should be in place to ensure that prior to the policy and partnerships team raising a training purchase order, checks are undertaken to ensure that the training is approved on	Capita HR

<p><u>Findings</u> Review of the training records found that 101 (69 SODC and 32 VWHDC) training courses attended did not state if training was approved on OpenHR. A sample of ten (five SODC and five VWHDC) courses without a record of OpenHR approval was selected and review found that two training courses were not approved on OpenHR prior to the purchase order being raised and payment being made.</p> <p><u>Risk</u> If checks are not undertaken prior to raising the purchase order, there is a risk of payment being made for unauthorised training.</p>	<p>OpenHR, and recorded on the training record accordingly.</p>	
Management Response		Implementation Date
<p>Recommendation is Agreed in Principle OpenHR will be decommissioned at the end of May 2017. Work needs to take place to review the current process and amend to reflect the implementation of Resourcelink training module.</p> <p>Management response: Head of HR and Payroll (Capita)</p>		<p>30 June 2017</p>

4. Review of policy

(Medium Risk)

Rationale	Recommendation	Responsibility
<p>Best Practice The learning and development policy is up-to-date and both the contractors and the councils are aware of their roles and responsibilities.</p> <p><u>Findings</u> Review of the learning & development policy found that the policy requires updating as the roles and responsibilities of Capita HR, the HR team (5CP client) and councils' staff have not been clarified.</p> <p><u>Risk</u> If the learning and development policy is not up-to-date, there is a risk of contract and council staff not being aware of their responsibilities.</p>	<p>The learning and development policy should be reviewed and updated so that Capita HR, the HR team (5CP client) and council staff are aware of their roles and responsibilities.</p>	<p>Capita HR</p>
Management Response		Implementation Date
<p>Recommendation is Agreed Will need to be incorporated into the annual service plan schedule of works. Management response: Head of HR and Payroll (Capita)</p>		<p>30 September 2017</p>

4. Performance Management 2016/2017

1. INTRODUCTION

- 1.1 This report details the internal audit review of procedures, controls and the management of risk in relation to performance management. The audit has a priority score of 20. The draft report was issued on 28 April 2017 and the final report was issued on 13 June 2017.
- 1.2 The following areas have been covered during the course of this review to provide assurance that:
- the council has an up to date corporate plan that clearly defines its performance management arrangements;
 - an up to date performance management strategy/framework exists and is being adhered to;
 - within the strategy, targets are clearly defined and indicators clearly set;
 - adequate monitoring exists to assess and identify performance against said targets and indicators;
 - a reporting mechanism exists allowing sufficient information to be provided to management in a timely manner;
 - an escalation process exists where shortfalls in performance are identified and acted upon if required.

2. BACKGROUND

- 2.1 Performance management has not been reviewed since 2009, and the councils have been through significant changes since then with several different performance management approaches and leadership.
- 2.2 Performance management is the management of officers, teams and the organisation to ensure that goals and objectives are being reached efficiently and effectively. Performance management involves defining what effective performance looks like, and ensuring tools and procedures are in place to measure performance.

3. PREVIOUS AUDIT REPORTS

- 3.1 SODC
Performance management was last subject to an internal audit review in March 2009 and five recommendations were raised. All five recommendations were agreed and a satisfactory assurance opinion was issued.
- 3.2 Of the five recommendations, three have been implemented and two recommendations are no longer applicable and have been superseded. No recommendations have been restated as part of this review.
- 3.3 VWHDC
Performance management was last subject to an internal audit review in March 2009 and nine recommendations were raised. All nine

recommendations were agreed and a satisfactory assurance opinion was issued.

- 3.4 Of the nine recommendations, four have been implemented and five recommendations are no longer applicable and have been superseded. No recommendations have been restated as part of this review.

4. 2016/2017 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 Five recommendations have been raised in this review which are all high risk.

5. MAIN FINDINGS

5.1 Structure and corporate plan

- 5.1.1 Corporate plans are in place for SODC and VWHDC, which were approved at their respective council meetings in April 2016 and are published on both councils' websites. Review of the corporate plans found that they do not make any reference to performance management standards or have any targets which can be measured and reported against.
- 5.1.2 Through discussion with each service area, it was identified that there is no link between the service plans for each service area and the corporate plans. This has resulted in service priorities being unclear in some service plans. Review of seven service plans found that they were not kept up-to-date, and are not used to manage internal performance or delivery. Two service plans had not been updated with any information, and the other five reported that only between 2% and 21% of the targets for 2016/17 had been delivered.
- 5.1.4 **Area assurance: Limited**
One recommendation has been made as a result of our work in this area.
(Rec 1).
- 5.2 **Performance management strategy**
- 5.2.1 At the time of the review, it was identified that there was no defined or documented performance management strategy or system in place and there is also a lack of corporate ownership for performance management. There are individual teams throughout the councils that provide performance data on a regular basis through a corporate board report, however the information contained is not a fully comprehensive or rounded picture of the councils' activities. In addition, the report is lacking clearly defined remedial actions to address weaknesses in performance.

5.2.2 Varying levels of performance data is being recorded in each service area through performance points and mechanisms, ranging from internal management data and external supplier data. However, the approach is not consistent across service areas and information is silo based and is not being corporately reviewed to drive performance, efficiencies and service delivery.

5.2.3 Area assurance: Limited
One recommendation has been made as a result of our work in this area.
(Rec 2).

5.3 **Targets and indicators**

5.3.1 It was identified that there are no corporate targets and key performance indicators in place linked to the corporate plans, and the approach to target setting within service plans is inconsistent and in some areas completely absent.

5.3.2 An increased level of target setting and data collection was evident at an individual team level. However, this is mainly utilised to inform service delivery and does not link to service plans and corporate plans.

5.3.3 Area assurance: Limited
One recommendation has been made as a result of our work in this area.
(Rec 3).

5.4 **Monitoring**

5.4.1 The councils collect a wide ranging and significant amount of data at team level relating to operational activities and the activities partner agencies and contractors undertake. However, it is not clearly defined corporately why and when this data is collected, and how, if at all, it is analysed and utilised to inform performance management and service delivery. It was identified that some of the data collected is for the purpose of informing the monthly corporate board report which has a limited scope, whilst the majority is used to inform individual service area performance through various silo mechanisms.

5.4.5 Area assurance: Limited
One recommendation has been raised as a result of our work in this area.
(Rec 4).

5.5 **Reporting**

5.5.1 A formal performance management reporting structure is not in place. It was identified that performance is generally being reported at team level through a range of methods, but there is minimal performance data being reported and scrutinised at a senior management level. The

breadth and depth of performance data that is being reported at a senior management level does not cover all council activities.

5.5.5 Area assurance: Limited
One recommendation has been made as a result of our work in this area (Rec 5).

5.6 Escalation

5.6.1 No evidence was provided to internal audit to provide assurance that performance variances are being identified, reported, explained and escalated appropriately. Internal audit reviewed the corporate board report, which contains reported performance data against targets in a plotted bar chart. There is no explanation recorded of any variances accompanying the charts or what remedial action is to be taken to address performance weaknesses. At service team level where performance points are being utilised, internal audit could not evidence that explanations for variances or agreed actions are displayed and reported against.

5.6.3 Area assurance: Nil
One recommendation has been made as a result of our work in this area (Rec 5).

6. CATEGORISATION OF RECOMMENDATIONS

6.1 To assist management in using our reports, we have categorised our recommendations according to their level of priority as follows:

High risk	Fundamental control weakness for senior management action	Rec 1, 2, 3, 4 and 5
Medium risk	Other control weakness for local management action	
Low risk	Recommended best practice to improve overall control	

OBSERVATIONS AND RECOMMENDATIONS

STRUCTURE AND CORPORATE PLAN

1. Measurable outcomes

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> A good and robust performance management structure is in place to ensure that there is a thread from the organisations objectives through to data collected for performance management.</p>	<p>The councils should ensure that the corporate plans and service plans are linked to agreed deliverables which can be measured and the outcomes evaluated.</p>	<p>Policy & Partnership Manager</p>

<p><u>Findings</u> The councils have published corporate plans, but these do not contain any measurable targets or indicators, or define what successful delivery of the plans would look like.</p> <p><u>Risk</u> Failure to ensure that a clear vision of what successful delivery of the corporate plans would look like, and what criteria would make it a successful delivery, will lead to expected outcomes not being delivered due to individual interpretation and a lack of monitoring.</p>		
Management Response		Implementation Date
<p>Recommendation is Agreed Linking the corporate plans to service plans is the role of the corporate delivery plan, through a set of measurable actions and targets. The corporate delivery plan has been developed with input from all heads of service and is scheduled for both councils' scrutiny committees in July and cabinet meetings in August for final approval. Once agreed this will form the basis of six-monthly reports to scrutiny committees and cabinets, the first of which is scheduled for November 2017.</p> <p>The targets and actions in the corporate delivery plan feed into team performance points or service plans where these are used, and through into individual targets or actions via individual staff members annual performance review. We will carry out a review of service planning and use of performance points and develop a corporate approach for use by all teams.</p> <p>With Capita, our HR contractor, we will review our existing performance review process to strengthen links between service plans and individual workplans.</p> <p>Management response: Policy & Partnerships Manager</p>		<p>31 August 2017</p> <p>30 October 2017</p> <p>31 January 2018</p>

PERFORMANCE MANAGEMENT STRATEGY

2. Strategy and framework

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> A good performance management systems is in place including the following components:</p> <ul style="list-style-type: none"> • strategy; • framework; • targets; • indicators; • reporting arrangements; and • data quality validation. <p><u>Findings</u> The councils do not have a documented performance</p>	<p>a) A formal strategy defining the councils approach to performance management should be established and documented.</p> <p>b) To support the strategy, a clear performance management framework should be established and cascaded.</p> <p>c) Clear ownership for the performance management</p>	<p>Policy & Partnership Manager</p>

management strategy or framework in place. Risk Failure to ensure a documented performance management strategy and framework is in place could lead to inconsistent approaches, which may result in the councils objectives not being achieved.	strategy and framework should be established.	
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>Ownership of the performance management strategy and framework should rest with all staff through Heads of Service; corporate responsibility for developing, managing and reviewing this process is with the Head of HR, IT and Technical Services.</p> <p>We will review our existing processes and develop a corporate approach which includes:</p> <ul style="list-style-type: none"> • a statement of the councils' approach to performance management • a clear framework which links the corporate delivery plan to team workplans and individual staff workplans <p>Management response: Policy & Partnerships Manager</p>		<p>Completed</p> <p>30 September 2017</p>

PERFORMANCE TARGETS AND INDICATORS

3. Targets

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> There are clearly defined targets which are linked to the councils' objectives, and are embedded in service plans and individual team plans.</p> <p><u>Findings</u> A comprehensive and consistent approach to performance target setting is not in place.</p> <p><u>Risk</u> Failure to ensure performance targets are in place could result in the councils' objectives not being achieved.</p>	Clearly defined performance targets should be in place which feed through and link the corporate plans, service plans, individual team targets and officer targets.	<p>Policy & Partnership Manager</p> <p>Heads of Service (to allocate team and individual targets in the corporate delivery plan)</p>
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>The corporate delivery plan once agreed, will allocate responsibility for corporate plan activities to individual heads of service. Targets and actions to ensure that these are achieved will be allocated to teams/individuals by the relevant head of service.</p> <p>We will carry out a review of service planning and use of performance points and develop a corporate approach for use by</p>		<p>31 August 2017</p> <p>30 October 2017</p>

all teams. With Capita, our HR contractor we will review our existing performance review process to strengthen links between service plans and individual workplans. Management response: Policy & Partnerships Manager	31 January 2018
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MONITORING

4. Analysis and monitoring

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Effective analysis and monitoring of performance data is undertaken to drive the delivery of corporate objectives.</p> <p><u>Findings</u> Performance data is being collected at service team level, but there is a lack of corporate analysis and monitoring of performance.</p> <p><u>Risk</u> Failure to analyse and monitor performance could result in the councils' objectives not being achieved.</p>	<p>a) Data required to inform performance against targets should be focused against corporate objectives, and clearly defined with expected collection frequencies.</p> <p>b) Performance data should be analysed in a timely manner, and reported against with variances clearly identified.</p>	<p>Policy & Partnership Manager</p> <p>Heads of Service (allocation of individual targets in the corporate delivery plan)</p>
Management Response		Implementation Date
<p>Recommendation is Agreed In the short term this will be achieved through reporting against the corporate delivery plan. An audit of performance data requirements is currently underway; this will inform discussion on the councils' future needs for reporting performance data and how this can be achieved.</p> <p>Management response: Policy & Partnerships Manager</p>		<p>31 November 2017</p> <p>31 March 2018</p>

PERFORMANCE MANAGEMENT REPORTING

5. Reporting and escalation

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> A clearly defined performance management reporting framework is in place to ensure that performance is managed at every level within and across an organisation.</p> <p><u>Findings</u> A performance management reporting structure is not in place, and it was identified that performance variances and agreed remedial actions are not</p>	<p>The performance management framework should clearly define the governance arrangements for performance management reporting and the frequency with which performance will be reviewed across the councils.</p>	<p>Policy & Partnership Manager</p>

<p>being reported effectively.</p> <p>Risk Failure to ensure that there is adequate and timely oversight of performance, could result in weaknesses not being addressed appropriately and the councils' objectives not being achieved.</p>		
Management Response		Implementation Date
<p>Recommendation is Agreed Governance and reporting will be considered as part of the review of the councils' performance management framework.</p> <p>Management response: Policy & Partnerships Manager</p>		30 September 2017

5. Environmental Protection 2016/2017

1. INTRODUCTION

- 1.1 This report details the internal audit review of procedures, controls and the management of risk in relation to creditor payments. The audit has a priority score of 20. The draft report was issued on 28 April 2017 and the final report was issued on 9 June 2017.
- 1.2 The following areas have been covered during the course of this review to provide assurance that:
- environmental permit applications are received and appropriately processed, payment is correctly received and in a timely manner, and adequate controls are in place preventing and detecting individuals and/or organisations from operating without a permit;
 - for any fixed penalty notices issued, the fees are charged correctly and income is promptly received;
 - disabled facilities grant applications are received, appropriate checks and calculations are undertaken, written decision given within the agreed timescale, and payment is only made after satisfaction of the completed works;
 - pest control function is operating in accordance with the agreed contract and payment is received and in a timely manner (SODC only);
 - private domestic properties with private water supplies are risk assessed and the water is sampled in accordance with agreed procedures and timescales, and charges are made appropriately and received in a timely manner.

2. BACKGROUND

- 2.1 Local Authorities have statutory duties under a number of environmental Acts and have responsibilities to enforce this legislation to ensure the protection of people and the environment. This includes regulating the environmental impacts of certain types of industrial process and the issue of fixed penalty notices for environmental crimes.
- 2.2 The environmental protection team currently falls within the corporate strategy service area which is managed by the environmental protection manager and supported by two environmental protection team leaders (1 SODC and 1 VWHDC).

3. PREVIOUS AUDIT REPORTS

- 3.1 SODC
Environmental protection has not been subject to a specific internal audit review in before. However, an audit of the pest control service was undertaken in June 2011. Five recommendations were raised, four of which were agreed. A limited assurance opinion was issued.
- 3.2 A follow up in December 2011 established that none of the four agreed

recommendations had been implemented. Whilst the current review identified similar issues as far as the contract the recommendations have not been restated as there is a new contract in place. See 5.4 below for the current review findings.

- 3.3 VWHDC
Environmental protection was last subject to an internal audit review in October 2007 and four recommendations were raised. All four recommendations were agreed. The assurance opinion at that time followed a different criteria to that currently used and was described as a good (full) opinion.
- 3.4 A follow up in June 2008 established that three recommendations had been implemented and one partly implemented. The partly implemented recommendation related to reporting from the Uniform system that is no longer in use hence no further action is required within the current review.

4. 2016/2017 AUDIT ASSURANCE

- 4.1 SODC
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.

VWHDC
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.

- 4.2 Nine joint recommendations have been raised in this review and two specific to SODC. One recommendation is high risk, three medium risk and seven low risk.

5. MAIN FINDINGS

5.1 Environmental permits

- 5.1.1 The councils have a legislative requirement under the Environmental Permitting (England and Wales) Regulations 2010 to grant an operator a permit authorising the operator and the operation of a regulated facility. The regulations also requires the councils to have a public register, and review of the councils' website confirmed that the public registers are available. Defra have developed an environmental permitting general guidance manual to provide councils' with procedures relating to the making of applications, writing and granting permits and regulating approved installations under the regulation. Guidance is available on the councils' websites, including links to the Defra website, for operators. However, no internal procedures are in place for the processes undertaken by the environmental protection team.

5.1.2 The manual developed by Defra includes the information the councils should obtain and the fees the operators should be charged at the application stage. At the time of the audit review (February 2017), the most recent operator to be awarded an environmental permit was South Oxfordshire Crematorium and Memorial Park, which was in December 2014. A review of the operator's application was undertaken and confirmed that information, including supporting documentation, along with the fee was appropriate to Defra's requirement and was received prior to granting the permit.

5.1.3 Invoices are sent out to operators with a permit, to make an annual substantial payment. Review of 17 (nine SODC and eight VWHDC) operators confirmed that annual substantial payments were received for 2016. Regularity of inspections are determined on the risk assessment of the industrial process, i.e. low risk are inspected for 9-15 regulatory hours per year, medium risk for 18-30 regulatory hours per year and high risk for 27-45 regulatory hours per year. Review of 17 operators confirmed that regular inspections are undertaken in line with the risk scoring the industrial process received.

5.1.4 Area assurance: Substantial
One recommendation has been made as a result of our work in this area (Rec 1).

5.2 **Fixed penalty notices**

5.2.1 Fixed penalty notices (FPN) are issued to offenders that commit an environmental crime, however there is a different approach between the two councils on which offences are issued with an FPN. The charge for the FPN is dependent on the offence committed and set by the Government. The charges are listed on the FPN, however review of the councils' websites found that only the webpages for dog fouling and fly posting state the charges, which are not consistent with the charges on FPN. Review of 20 FPNs issued confirmed that the charges are in line with those set by the Government.

5.2.2 Offenders are given a discount if the FPN is paid within ten days of issue. Review of 20 FPNs found that for eight, the discounted rate was paid although it was received later than ten days after the FPN was issued. However, from discussions with the environmental health inspectors, internal audit were satisfied with the reasoning for accepting the discounted payments.

5.2.3 Adequate processes are in place for both the FPN charge recovery and FPN appeals, however, from review it was established that procedures are not in place documenting the processes. Also, no target is set for determining and responding to appellants stating if their appeal is successful or not.

5.2.4 Area assurance: Substantial
Three recommendations have been made as a result of our work in

this area (Rec 2, 3 & 4).

5.3 **Disabled facility grants**

5.3.1 A Disabled Facility Grant (DFG) is a mandatory grant and its purpose is to modify disabling environments in order to restore or enable independent living, privacy, confidence and dignity for individuals and their families. The maximum DFG that can be given to an applicant is £30,000. Applicants must contact Oxfordshire County Council Social Services and request an assessment from an occupational therapist. The occupational therapist service will send a referral to the SODC/VWHDC if the applicant is eligible.

5.3.2 The councils adhere to the countywide DFG handbook to ensure they process all applications in line with national regulations requirements. Internal procedures were also identified in the environment protection shared drive. After reviewing the procedures, internal audit is satisfied they are in line with best practice, comprehensive, have relevant information and there is adequate information that relates to the specific councils and housing associations used by the relevant council.

5.3.3 Internal audit selected a sample of 20 DFGs (10 SODC and 10 VWHDC) to ensure that the applications referred by OCC have been recorded, checked and processed adequately. Testing identified that claims were processed within the agreed timescales by the council and there was sufficient evidence of the applicant being informed of all stages of the process by the appropriate parties involved. Payment was made after satisfactory completed works were approved by the client, occupational therapist and the contracted surveyor and/or DFG council representative. However, testing identified weaknesses in the administration of the invoices, administration of customer feedback and clarity on the council's action if the client was to breach DFG terms and conditions.

5.3.4 Area assurance: Satisfactory
Three recommendations have been made as a result of our work in this area (Rec 5, 6 and 7).

5.4 **Pest control – (SODC only)**

5.4.1 There is no legislative requirement for the council to provide the pest control service. However the council does have a duty under the Prevention of damage by Pests Act 1949 to take steps to ensure as far as practical that its district is kept free from mice and rats. The contractor currently providing the service is Total Pest Control UK Ltd which has links with a member of the council's cabinet who has declared their interest in the company. Internal audit identified that the contract awarded in 2016 is not recorded on the council's contracts register. It was also noted that there were no retained copies of the signed contract in either the legal department or in the procurement portal as is required for all contracts held by the council.

- 5.4.2 The council receives requests for pest control treatment and takes payment direct from members of the public. The request is passed on to a contractor to carry out the pest control service and the contractor then invoices the council on a monthly basis for completed requests. Internal audit performed testing on a sample of 12 SODC pest control requests to ensure that the timeframes were met in accordance to the contractual terms, the request was valid and payments were processed accurately. The documentation for the each request was inspected and found to be in accordance with the procedure requirements.
- 5.4.3 Requests for the provision of the pest control service are recorded and matched with invoices received from the contractor to ensure invoices are accurate. Testing identified that invoices raised by the contractor are appropriately checked before payment is made. However, there are individual requests for treatments dating back to 2009 that have been paid to the council and forwarded to Total Pest Control UK Ltd to action, but have not appeared on the monthly invoices sent to the council. Statistics are produced on a monthly basis and include numbers of pest control visits and income/expenditure.
- 5.4.4 SODC
Area assurance: Limited
Two recommendations have been made as a result of our work in this area (Rec 8 and 9).
- 5.5 **Private water supplies**
- 5.5.1 Under the Private Water Supplies Regulations (PWSR) 2016 the council has a statutory duty to carry out stipulated testing. Private supplies are split into those that cover water supplied for domestic purposes only, which are further sub-divided into classes dependent on the number of persons supplied and, those that cover water supplied for food production or domestic premises used for other purposes, e.g. canteens, hospitals etc. which are also sub-divided into classes in accordance with the average daily volume supplied. Although the PWRS 2016 is in place, there are no internal council procedures in place to document the process undertaken by the environmental protection team.
- 5.5.2 The officers responsible for private water supplies have a programme of when samples and risk assessments are required to be taken and work in accordance to the PWSR 2016. The regulation requires the council to ensure water samples are undertaken on an annual basis (depending on the size of the supply) and risk assessments are undertaken every five years. All risk assessments undertaken have a report produced by the council officer and sent to the private water supply owner. Internal audit noted that there is no guideline as to the timeframe the report should be sent out to the property owner from the time the inspection is undertaken.
- 5.5.3 A sample of 20 properties with private water supply were selected to verify that the council is discharging its statutory duty under the PWSR 2016. Internal audit review identified that although there is sufficient

evidence of sampling arrangements and adequate records for private water supplies, three out of the 20 properties risk assessments were overdue. The audit tests also confirmed that charges are made appropriately and received in a timely manner.

- 5.5.4 Area assurance: Satisfactory
Two recommendations have been made as a result of our work in this area (Rec 10 and 11 also see related rec 1).

6. CATEGORISATION OF RECOMMENDATIONS

- 6.1 To assist management in using our reports, we have categorised our recommendations according to their level of priority as follows:

High risk	Fundamental control weakness for senior management action	8
Medium risk	Other control weakness for local management action	Recs 1, 9 and 11
Low risk	Recommended best practice to improve overall control	Recs 2 - 7, and 10

OBSERVATIONS AND RECOMMENDATIONS

ENVIRONMENTAL PERMITS

1. Procedure notes

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Procedures are in place for all of the processes undertaken by environmental protection.</p> <p><u>Findings</u> There are no procedure notes in place for the following process:</p> <ul style="list-style-type: none"> • Environment permit annual substantial payment process; • Fixed penalty recovery process; • Appeals process • Private water supplies process. <p><u>Risk</u> If adequate procedures are not in place there is a risk of difficulty of providing cover in case of absences and staff acting inappropriately.</p>	Internal procedures should be developed and put in place for the processes undertaken by the environmental protection team to ensure that they are working to meet regulation requirements.	Environmental Protection Team Leader
Management Response		Implementation Date
Recommendation is Agreed		1 September 2017
Management response: Environmental Protection Team Leader		

FIXED PENALTY NOTICES

2. Harmonising the issuing of fixed penalty notices

(Low Risk)

Rationale	Recommendation	Responsibility
<p>Best Practice The approach to issuing fixed penalty notices (FPNs) for differing types of offences is harmonised across both councils.</p> <p>Findings The current process of issuing FPNs differs between the two councils. At SODC, environmental protection officers issue FPNs for fly tipping. For VWHDC, environmental protection officers issue FPNs for six other environmental offences including dog fouling, litter dropping, etc. For SODC the other offences have FPNs issued by police community support officers.</p> <p>Risk If the type of offences for which environmental protection officers can issue FPNs varies between SODC and VWHDC, then there is a risk of FPNs not being issued when they could be due to confusion over where the responsibility lies.</p>	<p>A review should be undertaken on harmonising the offences where an FPN can be issued by the environmental protection officers across both councils.</p>	<p>Environmental Protection Team Leader</p>
Management Response		Implementation Date
<p>Recommendation is Not Agreed. Service levels for each council have been set by politicians.</p> <p>Management response: Environmental Protection Team Leader</p>		N/A

3. Update of councils' website

(Low Risk)

Rationale	Recommendation	Responsibility						
<p>Best Practice Both councils' websites are up-to-date and includes the appropriate fixed penalties.</p> <p>Findings The charges are included on the fixed penalty notice, however, review of the councils' website found that only the webpages for dog fouling (both SODC & VWHDC) and fly posting (SODC) state the fixed penalty charge.</p> <p>However, also from review it was found that the charges on the SODC dog fouling and fly posting webpages were incorrect to the charges stated on the FPN:</p> <table border="1"> <thead> <tr> <th>Offence</th> <th>Website</th> <th>FPN</th> </tr> </thead> <tbody> <tr> <td>Dog</td> <td>£80.00/£50.00</td> <td>£50.00/£50.00</td> </tr> </tbody> </table>	Offence	Website	FPN	Dog	£80.00/£50.00	£50.00/£50.00	<p>Both councils' websites should be reviewed and the correct FPN charge should be included, so that the public are aware of the consequences if they offend.</p>	<p>Environmental Protection Team Leader</p>
Offence	Website	FPN						
Dog	£80.00/£50.00	£50.00/£50.00						

Fouling				
Fly Posting	£50.00/£50.00	£50.00/£80.00		
<p>Risk If the charges on the councils' websites are not appropriate, there is a risk of inaccurate information given to members of the public and incorrect charges being paid.</p>				
Management Response				Implementation Date
Recommendation is Agreed				15 June 2017
Management response: Environmental Protection Team Leader				

4. Appeals decision target

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> A target for determining if an appeal is successful or not is set and included in the acknowledgement sent to the offender.</p> <p><u>Findings</u> Review of the appeals process found that an acknowledgement is sent to the offender, when the appeal is received, but there is no set target in place for determining and notifying the offender if their appeal was successful or not.</p> <p><u>Risk</u> If a target is not set for determining and notifying the offender if their appeal is successful or not, there is a risk that the appeal is dragged on and forgotten.</p>	<p>A target should be set for when appeals are determined and responded by so that the process is more efficient, which should also be included in the acknowledgment for the offender to be aware of.</p>	<p>Environmental Protection Team Leader</p>
Management Response		Implementation Date
Recommendation is Agreed 10 day appeal response time has been implemented.		Implemented
Management response: Environmental Protection Team Leader		

DISABLED FUNDS GRANT

5. DFG Invoices

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Supplier invoices are processed and paid in a timely manner.</p> <p><u>Findings</u></p>	<p>a) Invoices from suppliers should be paid within the payment terms stipulated on the invoice.</p> <p>b) Suppliers need to be provided with correct address and payment</p>	<p>Environmental Protection Team Leader</p>

<p>A sample of 20 DFG (10 SODC and 10 VWHDC) invoices were selected and the following was identified:</p> <ul style="list-style-type: none"> • Eight out of 20 (4 SODC and 4 VWHDC) DFG invoices were paid outside the supplier's payment terms. • Two out of 10 VWHDC DFG invoices did not have a date stamp to show when the invoice had been received for payment. Internal audit were unable to assess and confirm whether the correct payment terms are being observed for these invoices. • One VWHDC invoice was addressed to the old council offices (Crowmarsh Gifford). <p><u>Risk</u> If suppliers are not paid in a timely manner, there is a risk of late payment charges or reputational damage.</p>	<p>details to ensure they send invoices for processing correctly.</p> <p>c) Invoices received by the council need to be date stamped to confirm when they have been received.</p>	
Management Response		Implementation Date
Recommendation is Agreed		1 June 2017
Management response: Environmental Protection Team Leader		

6. DFG customer satisfaction survey records

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> All feedback is recorded and reviewed in a timely manner.</p> <p><u>Findings</u> All clients with completed DFG works are sent a customer satisfaction survey by the council. Review of the spreadsheet capturing returned surveys identified that records were not up to date. SODC was last updated to December 2015 and VWHDC was last updated to July 2016.</p> <p><u>Risk</u> Feedback from the clients may not be reviewed in a timely manner leading to possible reputational damage to the council.</p>	<p>Feedback received from clients should be recorded and kept up to date in the DFG files, with reports of the responses being sent to the relevant officers and councillors.</p>	<p>Environmental Protection Team Leader</p>
Management Response		Implementation Date
Recommendation is Agreed		1 September 2017

Management response: Environmental Protection Team Leader	
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7. DFG terms and conditions

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> All DFG terms and conditions are clear and outlined to the client at the start of the process.</p> <p><u>Findings</u> Internal audit identified that there is no clarity as to when or whether the council should request any of the DFG grant awarded if the client left the property sooner than the signed and agreed timeframe of five years.</p> <p><u>Risk</u> There is a risk of financial loss and reputational damage to the council if the terms and conditions of the approved grants are not clarified.</p>	<p>A decision should be made on the council's approach with clients who move out prior to living in the property for five years from when work has been complete which is specified in the DFG terms and conditions.</p>	<p>Environmental Protection Team Leader</p>
Management Response		Implementation Date
<p>Recommendation is Agreed The DFG policy will be updated to reflect this.</p> <p>Management response: Environmental Protection Team Leader</p>		<p>1 September 2017</p>

PEST CONTROL – SODC only

8. Total Pest Control (TPC) contract

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Contracts for services provided to the council are current, appropriately documented and recorded on the councils contracts register.</p> <p><u>Findings</u> Internal audit noted that the TPC contract went to tender in 2016 and this process was administered by the council's procurement department. Sufficient evidence was provided to internal audit to show that from the 5 companies that produced quotes for the service, TPC was the best option. It was also noted that the new contract held on file was a template version and not the complete and signed version. The legal department</p>	<p>a) The final signed contract should be obtained and retained within legal as soon as possible.</p> <p>b) The TPC contract should be added to the council's contract register published on the council's website.</p>	<p>Environmental Protection Manager</p>

<p>also confirmed that they were not informed of the new contract as they only held a copy of the temporary contract that was drawn up for the period May 2009 to October 2010 in the contracts database.</p> <p>Further review identified that the contract for provision of the pest control service is not included within the council's contracts register which is publicised on its website.</p> <p><u>Risk</u> If a signed contract agreement is not obtained then the contractor is under no legally binding obligation to provide the service which may have a negative impact to the council's finances and reputation.</p>		
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>a) Discussions are being held by the environmental team and legal team to ensure a contract is sent to Total Pest Control (TPC) and retained in the council's files.</p> <p>b) The contract will be added to the council's contracts register.</p> <p>Management response: Environmental Protection Manager</p>		31 July 2017

9. Total Pest Control records

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> All documentation is retained to ensure that reconciliations are performed accurately, with unreconciled items being queried as soon as possible.</p> <p><u>Findings</u> The testing identified that one request for removal of rats had been made by a SODC member of the public in July 2016 and recorded in the council's pest control spreadsheet. As at April 2017, the request had not yet been reconciled to TPC's records as being complete and/or invoiced to the council. Further review identified that there were other unreconciled pest control requests that had been paid by the member of the public (with a receipt number</p>	<p>a) A decision should be made on action to be taken for pest control requests recorded and paid for through the council and passed to TPC and are yet to be reconciled to Total Pest Control's records, i.e. checking if they have been actioned and reconciled to Total Pest Control systems.</p> <p>b) The supporting documentation attached to the invoice of visits undertaken by TPC should be filed and retained in the environmental protection drive.</p>	Environmental Protection Manager

<p>issued through the council's cash receipting system) that had also not reconciled to the TPC invoices dating back to 2009.</p> <p>Whilst reviewing the invoices, it was identified that the TPC spreadsheets provided to the council, which show the dates of visits undertaken and that are used in the invoice reconciliation process, are not scanned or retained in the environmental protection files.</p> <p><u>Risk</u> If the pest control charges are being raised in accordance with the original agreement and unreconciled figures are not followed up, there is a risk of financial loss to the council should the contractor reclaim the unreconciled amounts.</p>		
Management Response		Implementation Date
<p>Recommendation is Agreed. TPC visits are now reconciled with invoices.</p> <p>Management response: Environmental Protection Manager</p>		Implemented

PRIVATE WATER SUPPLIES

10. Private Water supplies records

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> All records are recorded in a clearly structured manner to that support monitoring requirements.</p> <p><u>Findings</u> Internal audit reviewed the spreadsheets currently used to record properties with the private water supply and identified that it is not presented in a way that suggests or easily identifies checks that need to be monitored in a structured manner.</p> <p><u>Risk</u> There is a risk of properties with private water supply not being monitored or being monitored late which can present a negative impact to the environment and the users of the water supply.</p>	<p>The spreadsheet used to record properties with private water supplies should be reviewed to ensure that it highlights properties that require urgent sampling and risk assessments to be undertaken.</p>	<p>Environmental Protection Team Leader</p>
Management Response		Implementation Date

Recommendation is Agreed	1 September 2017
Management response: Environmental Protection Team Leader	

11. Risk assessments reports

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> A robust process is in place for risk assessments undertaken for private water supplies including the required timelines for the process.</p> <p><u>Findings</u> Risk assessment reports produced by the environment officers have a section which provides the private water supply owner with recommendations from the findings identified from the inspection visit. Internal audit identified that there is no timeframe provided of when the officer recommends that the actions be implemented. There is also no internally agreed timeframe to ensure that the work has been undertaken as recommended by the environment officers.</p> <p>There are no procedures in place to document when risk assessment reports are sent to the client after the inspection has taken place.</p> <p>A sample of 20 properties with private water supplies (10 SODC and 10 VWHDC) were selected for audit testing and it was identified that three of the properties that were due for inspection had not been undertaken at the time of audit.</p> <p><u>Risk</u> If risk assessments are not undertaken in a correct and timely manner then the council is exposed to potential adverse legal and reputational impact.</p>	<p>a) All recommendations identified in the risk assessment report should be given a timeframe in which the council expect the property owner to have addressed them by.</p> <p>b) A decision should also be made of when the council should undertake a follow-up to the risk assessment report provided to the private water supply owner.</p> <p>c) A procedure documenting the risk assessment process should be put in place and include guidelines of the timeframe for undertaking an inspection through to and sending out the risk assessment reports to the private water supply owner.</p> <p>d) Risk assessments should be carried out in a timely manner.</p>	Environmental Protection Team Leader
Management Response		Implementation Date
Recommendation is Agreed		1 September 2017
Management response: Environmental Protection Team Leader		

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