

# Audit and Governance Committee

Report of Interim Audit Manager

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To: Audit and Governance Committee

DATE: 26 March 2018

## Internal audit activity report quarter four 2017/2018

### Recommendation

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 Sandy Bayley, Interim Audit Manager for South Oxfordshire District Council (SODC) and Vale of White Horse District Council (VWHDC), telephone 01235 422496.

### Strategic Objectives

3. Delivery of an effective internal audit function will support the councils in meeting their strategic objectives.

## 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. As at 13 March 2018, since the last audit and governance committee meeting, the following audits and follow up reviews have been completed:

### Completed Audits

Full Assurance: 0

Substantial Assurance: 0

Satisfactory Assurance: 2

Limited Assurance: 2

Nil Assurance: 0

	Assurance Rating	No. of Recs	High Risk Recs	No. Agreed	Medium Risk Recs	Agenda Item 8		
						No. Agreed	Low Risk Recs	No. Agreed
<b>Joint</b>								
Treasury Management 17/18	Satisfactory	2	0	0	1	1	1	1
Payroll 17/18	Limited	14	6	6	5	5	3	3
Capital Accounting & Management 17/18	Limited	5	1	1	2	2	2	2
Sundry Debtors 17/18	Satisfactory	5	0	0	2	2	3	3
<b>SODC</b>								
None								
<b>VWHDC</b>								
None								

### Follow Up Reviews

	Initial Assurance Given	No. of Recs	Implemented	Partly Implemented	Not Implemented	Ongoing	No longer applicable
<b>Joint</b>							
Environmental Protection 16/17	Limited	10	7	3	0	0	0
Licensing 17/18	Satisfactory	5	1	2	2	0	0
HR Recruitment second report 1516	Limited	7	2	4	1	0	0
<b>SODC</b>							
None							
<b>VWHDC</b>							
The Beacon 17/18	Satisfactory	13	7	6	0	0	0

8. **Appendix 1** of this report sets out the key points and findings relating to the completed audits which have received limited or nil assurance, and satisfactory or full assurance reports which members have asked to be presented to committee
9. Members of the committee are asked to seek assurance from the internal audit 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 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. As discussed at the January 2018 audit and governance, the recommendations database is not currently in accordance with the revised management structure hence an update has not been provided for this meeting. The database will be updated, relaunched and reported to the July 2018 meeting.

### **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.

SANDY BAYLEY  
INTERIM AUDIT MANAGER

## **1. Payroll 2017/2018**

### **1. INTRODUCTION**

- 1.1 This report details the internal audit review of procedures, controls and the management of risk in relation to payroll. The audit has been undertaken in accordance with the 2017/2018 audit plan agreed with the audit and governance committee of South Oxfordshire District Council (SODC) and Vale of White Horse District Council (VWHDC). The audit has a priority score of 29. The audit approach is provided in the audit framework in Appendix 1.
- 1.2 The following areas have been covered during the course of this review to provide assurance that:
- appropriate policies and procedures are in place regarding pay which are available to relevant council and Capita 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;
    - sickness.
  - data and information is held and transferred between the councils, Capita payroll, Capita HR and Capita accountancy securely, accurately and in a timely manner;
  - Capita payroll review the pay run files to confirm accuracy of pay prior to it being sent to the councils for approval;
  - payroll reconciliations are accurate, timely and independently reviewed;
  - payroll records are regularly reconciled with HR's establishment listing and appropriate actions are taken to address any discrepancies;
  - data migration from the IAW system to the ResourceLink system was reconciled, accurate and independently reviewed prior to the go live date.

### **2. BACKGROUND**

- 2.1 As a part of five councils' partnership (5CP), Capita continue to provide the payroll service and the councils' HR service was fully outsourced to Capita on 1 October 2016. In June 2017, the HR service moved from the Capita office based in Sheffield to the office based in Belfast.
- 2.2 Payroll payments are made through BACS and from June 2017, Capita started to process payroll data through the ResourceLink system having moved from the Ingenuity At Work (IAW) payroll system. In August 2017, Capita migrated HR and payroll data from the councils' HR system (OpenHR) and the Ingenuity At Work (IAW) payroll system to the ResourceLink system and now both the councils' HR and payroll data is fully integrated. It is noted that the ResourceLink system fully went live in September 2017.

- 2.3 As at the end of December 2017, the number of employees that had their payments processed through Capita payroll was 375. This comprised of 233 SODC employees and 142 VWHDC employees. From reviewing the general ledger, the payroll costs, i.e. basic pay, national insurance, allowance, etc. for December 2017, were £1,293,737.10, of which £815,135.95 was for SODC and £478,601.15 was for VWHDC.

### 3. PREVIOUS AUDIT REPORTS

- 3.1 Payroll was last subject to an internal audit review in March 2017, and 11 recommendations were raised. All 11 recommendations were agreed and a limited assurance opinion was issued.
- 3.2 Of the 11 recommendations, four have been implemented, three were not implemented and four recommendations are no longer applicable. It is noted that of the three recommendations not implemented, one has been superseded, therefore the recommendation has not been carried forward. Two recommendations have been restated as part of this review (Recs 1-2).

### 4. 2017/2018 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 14 recommendations have been raised in this review. Six high risk, five medium risk and three low risk.

### 5. MAIN FINDINGS

#### 5.1 Policies & procedures

- 5.1.1 As part of the five councils' partnership (5CP), a service delivery plan (SDP) has been developed stating the service that will be provided. A 5CP HR client team is in also place to manage the contract and ensure that an acceptable level of service is provided to the councils through performance reporting and monthly meetings with Capita. Review of the October 2017 performance report found that the HR team (5CP client) undertake a sufficient level of reviewing and scrutinising as requests for rectification plans are made for areas of underperformance and rectification plans are rejected when satisfactory processes are not put in place to improve performance.
- 5.1.2 HR policies are in place that cover aspects of officers' pay, i.e. annual leave and bank holiday policy, on call and standby policy, overtime and allowance policy, etc. Review of the policies found they require updating as they were last revised prior to the commencement of 5CP, and the policies currently do not reflect the new ways of working. The councils' intranet guides officers to the AskHR system where the HR policies are held. Review confirmed that all relevant policies are kept on AskHR.
- 5.1.3 The HR and payroll team (Capita) has in place a business process directory that covers the HR and payroll processes. Review found that the directory was version controlled and was last reviewed and updated in June 2017. Review

also confirmed that HR and payroll processes are documented, using print screens, to show the step-by-step process when using and entering details onto the ResourceLink system.

**5.1.4 Area assurance: Substantial**

One recommendation has been restated as a result of our work in this area (Rec 1).

**5.2 System parameters**

**5.2.1** The Capita payroll team leader, based in Carlisle, was responsible for maintaining the IAW system parameters. HMRC notify changes to statutory deductions and tax codes, and the council line managers, via Capita HR, notify of any other changes to officers pay, such as new starters, leavers and increments. It is noted that from June 2017, both payroll and HR moved to the Capita team based in Belfast, and the payroll system changed to ResourceLink. The 2017/2018 HMRC parameters were updated on the IAW system and were migrated to ResourceLink. The migration of payroll information is reviewed in objective eight, however, a sample of 50 (25 SODC & 25 VWHDC) council officers were selected and reviewed to confirm that the HMRC parameters were appropriately migrated. Review found that all 50 officers' parameters were migrated appropriately to ResourceLink.

**5.2.2** Access to ResourceLink is managed by the system administrators (Capita) based at Belfast. Appropriate controls are in place for system access as:

- an operator id and password is required to access the system;
- the system parameter ensures that the operators change their password every 45 days;
- the password is a combination of uppercase, lowercase and numbers; and
- three unsuccessful attempts to log on disables the access.

Operator access is reviewed on a six monthly basis, however review of the operators' access list found that of the 90 operators, three operators had two access logins and 16 operators last used the system pre-January 2017, but their access was still active.

**5.2.3 Area assurance: Substantial**

One recommendation has been restated as a result of our work in this area (Rec 2).

**5.3 Amendments to standing data**

**5.3.1** Since the transfer of HR and payroll to the 5CP systems, the responsibility of sending HR and payroll information, i.e. new starters, leavers, amendments to data, falls to council line managers. The notification forms, i.e. request to recruit, appointment, starters, leavers, contract variations and extension to contract, are in place, available via AskHR and should be completed and signed by the line manager. It is noted that, apart from for leavers, the notification forms should also be signed by the service area's accountant (Capita) to confirm that the cost centre code quoted on the forms are correct. Review of the notification form templates confirmed that they are up-to-date.

**5.3.2** ResourceLink fully went live on 11 September 2017 and the amendment forms are on the system for line managers to complete. Review of amendment forms

on ResourceLink against the notification forms confirmed that sufficient information is requested on ResourceLink. Currently however, the line managers have not been encouraged to use ResourceLink as, at the time of the review, the 5CP HR client team are not fully satisfied with the system.

5.3.3 Internal audit reviewed a sample of:

- 33 new starters (25 SODC and eight (100 per cent) VWHDC),
- 38 leavers (24 (100 per cent) SODC and 14 (100 per cent) VWHDC), and
- 37 amendments to pay and personal data (23 (100 per cent) SODC and 14 (100 per cent) VWHDC).

This sample covered the period before and after the payroll service moved to the Belfast office. Review found that:

- of the 108 notification forms reviewed, only 28 (16 SODC & ten VWHDC) utilised the appropriate and most up-to-date forms;
- the notification of appointment and leaver forms were all fully completed, however three (one SODC and two VWHDC) variation to contract forms were not fully completed as the cost centre codes were not stated. It is noted that the contract variations were for officers taking up interim positions in newly established posts due to the councils' interim restructure.
- the notification forms were authorised by an appropriate officer.
- none of the notification of appointment forms and variation to contract forms were approved by the service accountant. This may be due to timing factors with the introduction of the new process;
- all new starters and leavers were paid on the next available pay run. However, five (SODC) new starters' first month's pay and seven (four SODC & three VWHDC) leavers' last month's pay were incorrectly calculated.
- 15 (eight SODC & seven VWHDC) variation to contracts' mid-month pay adjustments were incorrect calculated.

5.3.4 During the leavers testing, internal audit established that three different calculations are used when calculating mid-month salary alternations, full-time and part-time annual leave. Due to this, a review was undertaken to confirm that the three different calculations used were consistent. The calculation used:

- to pro-rata monthly salary, is annual salary divided by the number of months in year, divided by the number of working days in month, multiplied by the actual days worked in the month;
- for outstanding annual leave (full-time), is annual salary, divided by the number of working days in the year, multiplied by the number of outstanding annual leave days remaining after pro-rata;
- for outstanding annual leave (part-time), is hourly salary, multiplied by the number of outstanding annual leave hours remaining after pro-rata.

Review found that salary calculations are not undertaken consistently as all three gave a different daily rate, which could result in a difference in pay calculations for full or part-time officers working the same period on the same grade.

5.3.5 In September 2017, the HR and payroll team (Capita) conducted an investigation on all new starters, leavers and mid-month variation to contracts since June 2017 to confirm that salary calculations, due to mid-month changes, were appropriate. The investigation found that 41 (30 SODC and 11 VWHDC) officers' pay was incorrectly calculated, of which 27 (18 SODC and nine VWHDC) were overpaid and 14 (12 SODC and two VWHDC) were underpaid. From the internal audit sample checks set out in 5.3.3, 27 (17 SODC and ten

VWHDC) incorrectly calculated salary payments were found, of which 23 were also identified by Capita's investigation. The four not identified by Capita were:

- for one SODC leaver, Capita calculated the annual leave entitlement, but did not deduct the amount from their last month's salary;
- for another SODC leaver, Capita rounded up the outstanding annual leave, which is not consistent as there is evidence that other leavers' annual leave was not rounded up or down;
- for two (one SODC & one VWHDC) amendments to pay, the SODC officer was overpaid by £84.59, while the VWHDC officer was overpaid by £29.00.

It is noted that discrepancies identified from Capita's investigation have been corrected.

5.3.6 Capita payroll receive overtime claim forms from authorising line managers. The claim forms are entered by one payroll officer (Capita) and checked by another to confirm that the amounts have been entered onto the payroll system appropriately. Review of 48 (24 SODC and 24 VWHDC) overtime claim forms found that:

- all overtime claim forms were completed and signed by the officer claiming overtime;
- all officers' claiming overtime used the most up-to-date claim form to evidence that they comply with European Working Time regulations;
- all claim forms were authorised by an appropriate officer;
- all claim forms were received by Capita payroll prior to the overtime being paid;
- four SODC claims were incorrectly calculated. Of which, for three the payroll team (Capita) used the actual time and not the decimalised time to calculate the overtime pay; and for the other claim form, the claimant used the wrong rate which was not picked up by their line manager.

5.3.7 Area assurance: Limited

Ten recommendations have been made as a result of our work in this area (Recs 3-12).

## 5.4 **Security of data**

5.4.1 Suitable security measures are in place between the councils and the payroll team (Capita) for both holding and transferring payroll data. The payroll team (Capita) utilise a secure email system called Voltage SecureMail when sending the payroll run reports to the councils for approval. Voltage SecureMail encrypts the email and can only be opened by the recipient after their email address has been verified, by setting up an email and password. It is noted that all other payroll data and information is sent securely to officers via AskHR and the MyView systems, which requires the councils' officers to log onto using a username and password.

5.4.2 Internal audit reviewed office security at Capita's Belfast office during a visit in October 2017 and found that payroll data is held securely and a key card is required to enter and move within the offices. It was noted that the mechanism does not permit tailgating as individual card swipes are required. Hardcopy payroll data is currently kept in a metal cupboard that is locked at the close of everyday and the payroll data is scanned onto Capita's 5CP HR electronic shared drive on a monthly basis. Review confirmed that HR staff (Capita) that

are not working on the 5CP contract do not have access to the 5CP HR shared drive.

- 5.4.3 The councils' head of finance authorises the monthly BACS payroll run following checks made by both the 5CP finance client officer and 5CP HR client officer. It is noted that as the BACS authorisation does not contain any personal data, it is sent to the payroll team (Capita) via the standard unencrypted email system.
- 5.4.4 An escalation process is in place for all 5CP services, including HR and payroll, for the councils' officers to request, complain or raise a query. There are three stages to the escalation process for HR and payroll services. The councils' officers are aware of the process, which is available via the intranet and was also communicated via email in September 2017. Performance indicators are in place to manage requests, complaints and queries, however review found that the indicators only monitor the timeliness of responding or actioning the queries and do not monitor the quality and completeness of the responses and actions.
- 5.4.5 **Area assurance: Substantial**  
One recommendation has been made as a result of our work in this area. (Rec 13).

## **5.5 Payroll run review**

- 5.5.1 The payroll team (Capita) has in place a payroll runsheet, processing schedule and control form to ensure that the payroll run files are appropriate and submitted to the councils for approval and submission to BACs in a timely manner. The monthly payroll run files are cross-referenced and reconciled prior to the files being sent to the councils for payment authorisation. Checks are also undertaken by both the 5CP finance client team and 5CP HR client team prior to approval by the authorised signatory, which is the head of finance. It is noted that since October 2017, a strategic finance officer has been in place who is deputy Section 151 officer hence can also authorise payroll BACs payment.
- 5.5.2 Since June 2017, checks undertaken on the monthly payroll reports by both the 5CP finance client team and 5CP HR client team found discrepancies and on every occasion the payroll required a re-run. It is noted that both 5CP client teams check both the 5% and 10% variance reports. In October 2017, the payroll team (Capita) put additional controls in place, whereby the cross-referencing and reconciliations are independently checked before the payroll run files are sent to the councils. However, review of October 2017, November 2017 and December 2017 payroll run files found that both 5CP client teams are still logging queries. Of 165 (113 SODC & 52 VWHDC) queries logged in the three months, 156 (112 SODC & 44 VWHDC) were due to inadequate explanations given on the variance reports. Nine (one SODC and eight VWHDC) queries required payroll to be re-run and were due to system errors, the councils not providing sufficient information to the payroll team (Capita) and calculation errors.

5.5.3 Area assurance: Substantial

One recommendation has been made as a result of our work in this area (Rec 14).

5.6 **Payroll reconciliation**

5.6.1 The accountancy team (Capita) undertake monthly payroll to general ledger reconciliations, which also include checks on payovers made to both HMRC and third parties, i.e. Unison, and checks on child care vouchers. Review of ten (five SODC and five VWHDC) monthly payroll to general ledger reconciliations confirmed that there is evidence that reconciliations are undertaken in a timely manner and signed by the appropriate officers. The accountancy team (Capita) reviews any differences identified, which are either journaled within the general ledger or resolved with the payroll team (Capita) as required.

5.6.2 Area assurance: Full

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

5.7 **Establishment listing reconciliation**

5.7.1 The establishment list is maintained by the 5CP HR client team and on a monthly basis is sent to the 5CP HR client team for review. It is noted that the reporting of the establishment list is currently being reviewed and discussed with the 5CP HR client team. In 2017/2018 to date (December 2017), the establishment list has not been reconciled to the payroll records. However, due to both SODC and VWHDC's payroll and HR records moving from separate systems to the same system, ResourceLink, a reconciliation is no longer required to be undertaken.

5.7.2 Area assurance: Full

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

5.8 **Data migration**

5.8.1 The payroll team (Capita) started paying the councils' officers via ResourceLink from June 2017. Prior to going live, the payroll team (Capita) undertook four parallel runs with the IAW system and the runs found discrepancies between the two payroll systems, primarily due to the way both systems calculated sickness and National Insurance. The 5CP HR client team received adequate explanations for the discrepancies. As part of April 2017 parallel run, a reconciliation between ResourceLink and the Agresso system was undertaken to confirm that the all postings to the general ledger were correct. Discrepancies were identified and the head of finance (S151 officer) requested a further reconciliation to be undertaken in May 2017, however this did not take place, and on the 7 June 2017 the SODC and VWHDC project lead agreed to go live with payroll on ResourceLink.

5.8.2 In August 2017, Northgate (system providers) migrated the HR data from OpenHR to the ResourceLink system. The HR and payroll team (Capita) undertook spot checks to confirm data migrated was accurate. A testing spreadsheet was developed and five tests were listed to be done; however, only two were undertaken. It is noted that sufficient reasons for not carrying out three tests were provided.

5.8.3 For the two tests undertaken, there were a number scenarios and records for one officer was selected for each scenario. Review of test one found that of 29 officers, one officer’s working pattern did not accurately migrate over to ResourceLink and there was no evidence on the testing spreadsheet to confirm that the error was rectified. Review of test two found that of the eight officers selected, three officers’ training bookings were not accurately migrated and again, there was no evidence on the testing spreadsheet to confirm that the error was rectified. The testing spreadsheet recorded the Capita staff member conducting the test, but did not state if the tests were independently reviewed or any actions needed as a result of the tests.

5.8.4 Internal audit noted that the samples selected for the two tests were not deemed sufficient as:

- one employee selected had left the councils in 2014;
- Capita’s cutover plan suggested a 10% check on overall integrity of mitigated data. However, the tests only covered working patterns and training. Hence data such as annual leave was not checked at the time of migration.
- Within the two areas tested, of the 375 officers’ records migrated, only 29 records for test one and eight records for test two were undertaken.

As data migration has already been undertaken no recommendations have been raised. It is noted that there has been significant effort to address issues post migration undertaken by the HR and payroll team (Capita) and the 5CP HR client team to rectify errors since the data migration.

5.8.5 Area assurance: Limited

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

## 6. ACKNOWLEDGEMENTS

6.1 Internal audit would like to take this opportunity to thank all staff involved for their assistance with the audit.

## 7. CATEGORISATION OF RECOMMENDATIONS

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

<b>High risk</b>	Fundamental control weakness for senior management action	<b>Recs 4, 6, 8, 9, 10, and 11</b>
<b>Medium risk</b>	Other control weakness for local management action	<b>Recs 1, 5, 7, 13 and 14</b>
<b>Low risk</b>	Recommended best practice to improve overall control	<b>Recs 2, 3 and 12</b>

**OBSERVATIONS AND RECOMMENDATIONS**

**PREVIOUS RECOMMENDATIONS RESTATED**

**1. Policies and procedures**

**(Medium Risk)**

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Policies are up to date, version controlled and reviewed in accordance with agreed timescales.</p> <p><u>Findings</u> From review of the HR policies relating to pay, the following required updating as they were last reviewed prior to the 5CP arrangements (August 2016):</p> <ul style="list-style-type: none"> <li>• Annual leave &amp; bank holidays policy - October 2011;</li> <li>• Annualised hours policy - May 2016;</li> <li>• Learning &amp; development policy - September 2014;</li> <li>• Leave policy - May 2015;</li> <li>• Market premium - July 2013;</li> <li>• Maternity, paternity, adoption &amp; surrogacy policy - May 2015;</li> <li>• Sickness absence policy - April 2013;</li> <li>• Shared parental leave policy - February 2015;</li> <li>• Travel &amp; expenses policy - November 2014;</li> <li>• Recruitment and Selection, November 2014;</li> <li>• Eye test and payment for glasses procedure, April 2014.</li> </ul> <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><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>	<p>a) Version control on the policies should be enhanced to include:</p> <ul style="list-style-type: none"> <li>• the author of the policy;</li> <li>• the date the policy was approved and by whom;</li> <li>• the next review date.</li> </ul> <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>Head of Service - Five Councils (Capita)</p> <p>Senior HR Advisor (Capita)</p> <p>Strategic HR Business Partner</p>
<b>Capita Management Response</b>		<b>Implementation Due Date</b>
<p>Recommendation is <b>Agreed</b> Presently, SODC and VWHDC have requested that no policy changes are implemented. In order to progress this recommendation, the prioritisation of policies will need to be agreed with the SODC and VWHDC HR lead and dates agreed for amendments and updated versions. This will form part of the Annual Service Delivery Plan.</p> <p>Management response: Head of Service - Five Councils (Capita)</p>		<p>30 September 2018</p>

<b>Strategic HR Response</b>	
<p>Recommendation is <b>Agreed</b>                  Strategic HR resource joined the councils in December 2017. In-house strategic HR is leading a review of the HR framework, which includes reviewing and updating all HR policies.</p> <p>Management response: Strategic HR Business Partner</p>	

**2. 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>                  A list of ResourceLink operators was obtained and review found that there are 90 operator IDs set up to have access to the 5CP contract. Of the 90 operators:</p> <ul style="list-style-type: none"> <li>• three operators were set up twice;</li> <li>• 16 operators last used the ResourceLink system pre-2017, of which only two were disabled.</li> </ul> <p><u>Risk</u>                  If user access to the payroll system is not regularly reviewed, there is a risk of unauthorised use which could result in potentially fraudulent activities.</p>	<p>a) All inactive and duplicate operator accounts should be deactivated or removed from the payroll system as soon as possible.</p> <p>b) A regular pro-active review of operators on the ResourceLink system should be undertaken to ensure all staff members still require access.</p>	<p>Service Director (Capita)</p>
Capita Management Response		Implementation Due Date
<p>Recommendation is <b>Agreed</b></p> <p>a) Capita will undertake an audit of all ResourceLink users, and delete all non-users, leavers and duplicate records.</p> <p>b) Capita will ensure upon completion of the audit in recommendation A, that a regular check is completed on a set date. It is current Shared Service Centre practice that this is completed approximately every 35 days throughout the year.</p> <p>Management response: Operations Director (Capita)</p>		<p>15 March 2018</p> <p>20 April 2018 and approximately every 35 days thereafter</p>

**AMENDMENTS TO STANDING DATA**

**3. Update request to recruit form**

**(Low Risk)**

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u>                  The most up-to-date request to recruit form is in place and used, and the form is signed by the service accountant confirming the correct cost centre code.</p> <p><u>Findings</u>                  Review of the request to recruit form, which can be found on AskHR, found that the form requires updating as it requires a signature from the HR</p>	<p>The request to recruit form is reviewed and updated to include service accountant (Capita) as a signatory, so that the cost centre code is confirmed prior to the post being added onto the ResourceLink system.</p>	<p>Service Director (Capita)</p>

<p>business partner and not the service accountant.</p> <p><u>Risk</u> If the request to form is not updated, there is a risk of incorrect general ledger coding information being submitted to the payroll team.</p>		
<p><b>Capita Management Response</b></p>		<p><b>Implementation Due Date</b></p>
<p>Recommendation is <b>Agreed</b> A copy of the amended form has been provided. Amendments are highlighted for ease of reference. One additional change has been made to the offer letter, also provided.</p> <p>Management response: Service Director (Capita)</p>		<p>Implemented</p>
<p><b>HR Client Management Response</b></p>		
<p>Recommendation is <b>Agreed</b> Capita to confirm that the operations team in Belfast have been instructed not to act on work request without checking that there are 2 signatures as required (not checking they are the right signatures, that is a council side responsibility).</p> <p>Management response: HR manager (5CP Client)</p>		
<p><b>Strategic HR Management Response</b></p>		
<p>Recommendation is <b>Agreed</b> Implemented - Updated form now on Ask HR.</p> <p>Management response: Strategic HR Business Partner</p>		

**4. ResourceLink training**

**(High Risk)**

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> All line managers are trained on the ResourceLink system.</p> <p><u>Findings</u> From the 11 September 2017, the MyView system became fully operational and line managers can now submit new starters, leavers and any changes to contracts via the system. However, from conversations with the HR team (5CP client), ResourceLink is not 100% accurate. Therefore, manual inputting of information will be continued until the HR client team is satisfied. Due to this, none of the line managers have been fully trained on using the ResourceLink system.</p> <p><u>Risk</u> If the line managers are not trained on the ResourceLink system, there is a risk of the managers not knowing how to complete forms on the system when there are new starters, leavers and when updating any contract changes.</p>	<p>After the councils are satisfied with the accuracy of the data on the ResourceLink system, all line managers should be given sufficient training so they are aware of what is required when completing new starters, leavers and updating any changes to contract details on the system.</p>	<p>Head of Service - Five Councils (Capita)</p> <p>Strategic HR Business Partner</p>

Capita Management Response	Implementation Due Date
<p>Recommendation is <b>Agreed</b>                      Capita will support the provision of additional training as necessary to upskill managers. In addition, we will provide quick guidance notes. The Council will need to review its Induction Procedure to ensure new joiners receive appropriate training.</p> <p>Management response: Head of Service - Five Councils (Capita)</p>	30 July 2018
HR Client Response	
<p>Recommendation is <b>Agreed</b>                      The development of induction procedure training requirements will need to be part of the annual training plan (which includes induction) agreed with Capita.</p> <p>Management response: HR Manager (5CP Client)</p>	
Strategic HR Response	
<p>Recommendation is <b>Agreed</b>                      As part of strategic HR's review of the HR framework, the corporate induction and training plan is being reviewed and will include systems training where relevant.</p> <p>Management response: Strategic HR Business Partner</p>	

**5. Notification forms**

**(Medium Risk)**

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u>                      The most up-to-date notification forms are used, fully completed and signed by the service accountant to confirm the cost centre code.</p> <p><u>Findings</u>                      Internal audit's sample testing, as per 5.3.3, found that:</p> <ul style="list-style-type: none"> <li>• none of the notification of appointment forms for new starters were approved by the service accountant (Capita) to confirm that the (recharge) cost centre codes were correct;</li> <li>• the notification of appointment forms used were not up-to-date as they either had the SODC &amp; VWHDC logo, and not the 5CP logo, or still stated HR business partner and did not state service accountant (Capita);</li> <li>• 12 (eight SODC &amp; four VWHDC) notification of leave forms were not the most up-to-date forms as they still had the SODC &amp; VWHDC logo;</li> <li>• three (one SODC &amp; two VWHDC) amendment forms were not fully completed as cost centre codes were not stated. It is noted that the amendments were due to officers taking up interim positions in newly</li> </ul>	<p>Whilst the pre ResourceLink:</p> <ul style="list-style-type: none"> <li>• notification of appointment forms,</li> <li>• notification of leaver forms, and</li> <li>• contract variation forms are being used, a reminder should be sent to all line managers to:</li> <li>• fully complete the form, so that there are no gaps on ResourceLink;</li> <li>• confirm from their service accountant (Capita) the cost centre code for the post and to ensure that the accountant (Capita) signs the form;</li> <li>• use the correct and most up-to-date form, which can be found on AskHR.</li> </ul>	<p>Service Director (Capita)</p>

<p>established posts due to an interim restructure within the councils;</p> <ul style="list-style-type: none"> <li>• 34 (22 SODC &amp; 12 VWHDC) amendment forms used were not up-to-date forms as they still stated HR business partner and did not state service accountant (Capita);</li> <li>• none of the amendment forms were signed by the service accountant (Capita).</li> </ul> <p><u>Risk</u> If the most up-to-date notification forms are not, there is a risk of missing and/or inaccurate information being sent to the HR team (Capita).</p>		
<p><b>Capita Management Response</b></p>		<p><b>Implementation Due Date</b></p>
<p>Recommendation is <b>Agreed</b> A copy of the amended forms has been provided. Amendments are highlighted for ease of reference. Capita will also provide quick guidance notes.</p> <p>Management response: Head of Service - Five Councils (Capita)</p>		<p>31 March 2018</p>
<p><b>Strategic HR Management Response</b></p>		
<p>Recommendation is <b>Agreed</b> This will be included in the next corporate communications.</p> <p>Management response: Strategic HR Business Partner</p>		

**6. Mid-month salary calculations**

**(High Risk)**

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> All mid-month salary calculations are independently checked to confirm accuracy.</p> <p><u>Findings</u> Internal audit's sample testing, as per 5.3.3, found that the mid-month salary calculation was incorrect for the following:</p> <ul style="list-style-type: none"> <li>• Five (SODC) new starters' first month's salary;</li> <li>• seven (four SODC &amp; three VWHDC) leavers last month's salary;</li> <li>• 15 (eight SODC &amp; seven VWHDC) mid-month salary calculations.</li> </ul> <p>In September 2017, Capita undertook an investigation on all new starters, leavers and mid-month changes since June 2017 (when the Capita team in Belfast took over HR &amp; payroll) to confirm that salary calculations, due to mid-month changes, were appropriate. From the investigation, Capita found 41 mid-month salaries were incorrectly calculated.</p> <p><u>Risk</u></p>	<p>For any mid-month salary calculations, new starters, leavers or changes to contract, payroll team (Capita) should independently check to confirm that the month's salary is calculated correctly.</p>	<p>Service Director (Capita)</p>

<p>If mid-month calculations are not independently checked, there is a risk of errors being made and not picked up resulting in officers being either over or under paid.</p>		
<p><b>Capita Management Response</b></p>		<p><b>Implementation Due Date</b></p>
<p>Recommendation is <b>Agreed</b>                  Capita have reviewed and updated its payroll control documents to ensure that all calculation as described above, are independently reviewed and sense checked for accuracy prior to payroll processing.</p> <p>Management response: Service Director (Capita)</p>		<p>Implemented</p>
<p><b>Internal Audit Comment</b></p>		
<p>Whilst it is acknowledged the control document is in place and used, errors continue to be identified on payroll runs.</p>		<p>To be reviewed as part of the payroll follow up review.</p>

**7. Calculating annual leave**

**(Medium Risk)**

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u>                  A consistent approach is taken when calculating the annual leave for leavers' final salary payment.</p> <p><u>Findings</u>                  Review of 38 leavers found that 16 (13 SODC and three VWHDC) were either owed annual leave payment after pro-rata or owe the council annual leave payment after pro-rata. Of the 16, one SODC leaver's annual entitlement was rounded up to the nearest whole number.</p> <p>It is noted that the other 15 leavers' annual leave entitlements were kept to one decimal point, therefore there is a lack of consistency when calculating leaver's annual leave.</p> <p><u>Risk</u>                  If a consistent approach is not taken when calculating annual leave, there is a risk of some leavers being disadvantaged.</p>	<p>A decision should be made to ensure that a consistent approach is taken when calculating the annual leave for the leaver's final salary, to either round up/down to the nearest day or to one decimal point.</p>	<p>Head of Corporate Services</p>
<p><b>Strategic HR Management Response</b></p>		<p><b>Implementation Due Date</b></p>
<p>Recommendation is <b>Agreed</b>                  It has been confirmed that annual leave calculations showed to be rounded up to the nearest half day. This has been communicated to both Capita and 5CP HR client team.</p> <p>Management response: Strategic HR Business Partner</p>		<p>Implemented</p>

**8. Incorrect calculations**

**(High Risk)**

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Mid-month salary adjustment calculations are appropriate.</p> <p><u>Findings</u> From cross-referencing both the investigation report and the audit review, internal audit found that two (SODC) leavers and two (one SODC &amp; one VWHDC) amendments to pay were not identified by the payroll team (Capita):</p> <ul style="list-style-type: none"> <li>one SODC leaver did not have payment taken off for annual leave taken being more than the pro rata amount due, even though the payroll team (Capita) undertook the annual leave calculation;</li> <li>one SODC leaver's annual leave entitlement was rounded up to the nearest whole number when it should have rounded to one decimal point for a consistent approach.</li> <li>two (one SODC &amp; one VWHDC) mid-month amendments to pay were calculated incorrectly and overpaid.</li> </ul> <p><u>Risk</u> If salary adjustments are not calculated appropriately, there is a risk of over or underpayments being made to officers.</p>	<p>The four calculation errors not recorded in Capita's report during their investigation, should be reviewed and a decision should be made by the councils regarding the next action taken.</p>	<p>Service Director (Capita)</p>
<b>Capita Management Response</b>		<b>Implementation Due Date</b>
<p>Recommendation is <b>Agreed</b> Capita will review and provide the council with outcomes for advice on next action.</p> <p>Management response: Operations Director (Capita)</p>		<p>15 March 2018</p>
<b>HR Client Management Response</b>		
<p>Recommendation is <b>Agreed</b> Depending on the outcome this may need to be reflected in the current draft rectification plan for payroll KPI failure.</p> <p>Management response: HR Manager (5CP Client)</p>		

**9. Salary calculation**

**(High Risk)**

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> A consistent approach is in place when calculating salary mid-month adjustments and leaver's annual leave pay resulting in consistent pay rates for part-time and full-time officers.</p> <p><u>Findings</u> During the review of leavers' final salary calculations, internal audit established that three different calculations are used by the</p>	<p>a) For a consistent approach, the councils should decide on one calculation when calculating salary mid-month adjustments and leaver's annual leave pay.</p> <p>b) The decision should be proposed to the relevant stakeholders, i.e. Unison,</p>	<p>Head of Corporate Services</p>

<p>payroll team (Capita) when calculating pro-rata salary adjustment, full-time and part-time leaver's annual leave.</p> <p>The three calculations all give a different daily rate, which is not a consistent approach. Internal audit used October 2017 as an example, one day's pay can be:</p> <table border="1" data-bbox="188 434 635 528"> <thead> <tr> <th>Grade &amp; SCP</th> <th>Annual Salary (AS)</th> <th>Hourly Salary (HS)</th> </tr> </thead> <tbody> <tr> <td>G6 SCP29</td> <td>£33,225.00</td> <td>£17.2214</td> </tr> </tbody> </table> <p><b><u>Calculation to pro-rata monthly salary</u></b>  AS / No. of Months in Year / No. of Working (W) Days in Month = Daily Rate  £33,225.00 / 12 / 22 (Oct17) = <b>£125.85</b></p> <p><b><u>Calculation for outstanding annual leave (full-time)</u></b>  AS / No. of W Days in Year = Daily Rate  £33,225.00 / 261 = <b>£127.30</b></p> <p><b><u>Calculation for outstanding annual leave (part-time)</u></b>  HS / No. of W Hours in the Day = Daily Rate  £17.2214 / 7.4 = <b>£127.44</b></p> <p><b>Risk</b>  If calculations are not undertaken in a consistent manner, there is a risk of staff being disadvantaged.</p>	Grade & SCP	Annual Salary (AS)	Hourly Salary (HS)	G6 SCP29	£33,225.00	£17.2214	<p>and approved in line with the councils' joint constitution.</p> <p>c) After approval, Capita should be made aware of the decision and when to start using that one calculation.</p> <p>d) The calculation should also be used by the councils when calculating the hourly rate on the pay scales, which is available to all staff via the councils' intranet site.</p>	
Grade & SCP	Annual Salary (AS)	Hourly Salary (HS)						
G6 SCP29	£33,225.00	£17.2214						
<p><b>Strategic HR Management Response</b></p>		<p><b>Implementation Due Date</b></p>						
<p>Recommendation is <b>Agreed</b>  The head of corporate services, head of finance and the head of paid services will discuss and consult, and a decision will be communicated.</p> <p>Management response: Strategic HR Business Partner</p>		<p>30 April 2018</p>						

**10. Overtime incorrectly calculated**

**(High Risk)**

Rationale	Recommendation	Responsibility
<p><b>Best Practice</b>  Staff are appropriately paid overtime.</p> <p><b>Findings</b>  Review of 48 (24 SODC and 24 VWHDC) overtime claim forms found that four SODC claimants' pay was incorrectly calculated. Of which, for three officers, the payroll team (Capita) used the actual time and not the decimalised time to calculate the overtime pay; and for the other one, the claimant used the wrong rate which was also not picked up by their line manager.</p> <p><b>Risk</b>  If overtime calculations are not made in a consistent manner, there is a risk of</p>	<p>The incorrect overtime claim amounts identified should be reviewed and appropriate action taken.</p>	<p>Service Director (Capita)</p>

the council making under or over payments to employees.		
<b>Capita Management Response</b>		<b>Implementation Due Date</b>
<p>Recommendation is <b>Agreed</b>                  Capita will review the four cases highlighted and seek confirmation from the council on the agreed course of action to rectify.</p> <p>Management response: Service Director (Capita)</p>		15 March 2018
<b>HR Client Management Response</b>		
<p>Recommendation is <b>Agreed</b>                  Depending on the outcome this may need to be reflected in the current draft rectification plan for payroll KPI failure.</p> <p>Management response: HR Manager (5CP Client)</p>		

**11. Overtime calculation review**

**(High Risk)**

<b>Rationale</b>	<b>Recommendation</b>	<b>Responsibility</b>
<p><u>Best Practice</u>                      The overtime hours and minutes claimed is decimalised, prior to overtime being calculated.</p> <p><u>Findings</u>                      Review of 48 overtime/standby claim forms found that three SODC claims were incorrectly calculated, as the payroll team (Capita) used the actual time and not the decimalised time to calculate the overtime pay, e.g. 7 hours 15 minutes was counted as 7.15 hours rather than 7.25 hours. It is not evident how many further claims may be incorrectly paid.</p> <p><u>Risk</u>                      If overtime calculations are not made in a consistent manner, there is a risk of the council making under or over payments to employees.</p>	<p>a) A review should be undertaken of overtime claims since June 2017 to confirm that the amount of overtime claimed is decimalised and correctly paid.</p> <p>b) If incorrectly paid, the payroll team (Capita) should take appropriate action.</p>	Service Director (Capita)
<b>Capita Management Response</b>		<b>Implementation Due Date</b>
<p>Recommendation is <b>Agreed</b>.                  Capita will review the three cases and seek confirmation from the council on the agreed course of action to rectify.</p> <p>Management response: Service Director (Capita)</p>		15 March 2018

**12. Overtime claim checks**

**(Low Risk)**

<b>Rationale</b>	<b>Recommendation</b>	<b>Responsibility</b>
<p><u>Best Practice</u>                      Line managers appropriately check all overtime claims prior to approval.</p> <p><u>Findings</u>                      Review of 48 overtime/standby claim forms found that one SODC claimant</p>	A reminder should be sent to all line managers to fully and accurately check all overtime claims prior to approval.	Strategic HR Business Partner

<p>was paid incorrectly, as the claimant used the wrong rate which was not picked up by their line manager.</p> <p><u>Risk</u> If line managers do not appropriately check overtime claims, there is a risk of officers claiming additional hours that they haven't worked.</p>		
<p><b>Strategic HR Management Response</b></p>		<p><b>Implementation Due Date</b></p>
<p>Recommendation is <b>Agreed</b> This will be included in the next corporate communications.</p> <p>Management response: Strategic HR Business Partner</p>		<p>31 March 2018</p>

**SECURITY OF DATA**

**13. Performance Management**

**(Medium Risk)**

<b>Rationale</b>	<b>Recommendation</b>	<b>Responsibility</b>
<p><u>Best Practice</u> Performance indicators are in place to measure the quality, completeness and timeliness of responses and actions undertaken.</p> <p><u>Findings</u> As part of the 5CP contract, HR &amp; payroll performance indicators are in place to manage complaints and queries. However, review found that the performance indicators only measure the timeliness of the response and not the quality and completeness of the action or response the councils receive from the HR &amp; payroll team (Capita), which is just as important as timeliness.</p> <p><u>Risk</u> If performance indicators are not in place to include quality and completeness of actions or responses to the councils, there is a risk of council officers being dissatisfied and time being wasted due to complaints and queries not dealt with satisfactorily first time.</p>	<p>The 5CP performance indicators should be revised to also measure the quality and completeness of the responses and actions undertaken to any HR and payroll requests, complaints and queries.</p>	<p>Interim Partnership Director (5CP Client)</p> <p>Operations Director (Capita)</p>
<p><b>Capita Management Response</b></p>		<p><b>Implementation Due Date</b></p>
<p>Recommendation is <b>Agreed</b> We're in agreement that a quick, but poor quality, response helps no one, but identifying an acceptable measure of quality is always a challenge as it is difficult to exclude any vestiges of subjectivity. For instance, whether a response is deemed to be of the appropriate standard may be dependent on whether the complainant disagrees with a council policy, or feels the HR service should perform in a way that is not in line with the contracted service. We will seek to address this within a wider joint review of the performance management regime that we will target to undertake once Target Operating Measure (TOM) has been reached and the services have bedded in. In the meantime, we will work together,</p>		<p>28 February 2019</p>

informally, to ascertain and improve where necessary service user satisfaction.	
Management response: Interim Partnership Director (5CP Client) and Operations Director (Capita)	
<b>Councils' Management Response</b>	
Recommendation is <b>Agreed</b> As for a PI, when the time comes I'll be minded to aim for some sort of customer satisfaction measure.	
Management response: Head of Partnership and Insight	

**PAYROLL RUN REVIEW**

**14. Variance explanations**

**(Medium Risk)**

<b>Rationale</b>	<b>Recommendation</b>	<b>Responsibility</b>
<p><u>Best Practice</u> Clear explanations are provided on both 5% and 10% variance reports.</p> <p><u>Findings</u> Since the additional controls of independent checking of payroll run files by Capita have been in place, queries are still being logged by both the finance officer (5CP client) and the HR officer (5CP client). A review of the last three months of query logs (October, November &amp; December 2017) established that 113 SODC &amp; 52 VWHDC queries were logged. Of these, 112 SODC &amp; 44 VWHDC were due to the payroll team (Capita) not clearly explaining the % variances on the reports.</p> <p><u>Risk</u> If clear explanations for variances are not provided, there is a risk of both the finance team (5CP client) and the HR team (5CP client) spending unnecessary time querying the variances.</p>	<p>On both the 5% and 10% variance reports, clear explanations should be given for each variance so that both the finance team (5CP client) and the HR team (5CP client) understand the reasons for the variances, which would result in less queries being made to the payroll team (Capita).</p>	<p>Service Director (Capita)</p>
<b>Capita Management Response</b>		<b>Implementation Due Date</b>
<p>Recommendation is <b>Agreed</b> Capita will ensure that all payroll staff involved in producing and explaining variances are briefed to ensure that variances are clearly and explicitly explained.</p> <p>Management response: Service Director (Capita)</p>		<p>31 March 2018</p>

## **2. Capital management & Accounting 2017/2018**

### **1. INTRODUCTION**

- 1.1 This report details the internal audit review of procedures, controls and the management of risk in relation to capital management and accounting. The audit has been undertaken in accordance with the 2017/2018 audit plan agreed with the audit and governance committee of South Oxfordshire District Council (SODC) and Vale of White Horse District Council (VWHDC). The audit has a priority score of 21. The audit approach is provided in the audit framework in Appendix 1.
- 1.2 The following areas have been covered during the course of this review to provide assurance that:
- the councils have an up-to-date capital financial strategy and asset management plan in order to develop and manage the capital programme;
  - adequate monitoring is undertaken in relation to capital contracts and approved budgets;
  - appropriate capital accounting arrangements are in place;
  - there is adequate authorisation of additions, disposals, write-offs, transfers and amendments of the asset register;
  - the asset register is regularly reconciled to other sources and adequate controls are in place over the completeness of the register;
  - the property and asset management system is suitably maintained and updated.

### **2. BACKGROUND**

- 2.1 As a part of five councils' partnership (5CP), Capita provide the accountancy service and Arcadis provide property services. It is noted that the contract for property services is between the councils and Vinci, and Vinci has sub-contracted out the management and running of property services to Arcadis. Both the accountancy team (Capita) and property team are responsible for capital management and accounting.
- 2.2 Capital management covers how the councils' assets are maintained and managed. Capital accounting looks at how capital is financed and accounted for, including the recording of assets in a register with an appropriate categorisation to determine how they are measured within the balance sheet.
- 2.3 Capital accounting is based on IFRS standards as implemented by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom. Transactions such as purchase/disposal of assets, depreciation and revaluation are recorded in the accounts. The annual financial statements, which include details of capital assets and capital expenditure, are reviewed by the councils' external auditors, Ernst and Young (EY).

- 2.4 Both SODC and VWHDC statement of accounts for 2016/2017 were approved by full Council in September 2017 and recorded the balance for asset values as:

	SODC	VWHDC
Property, plant and equipment	£29,149,000.00	£43,005,000.00
Investment properties	£5,075,000.00	£8,455,000.00
Intangible assets	£66,000.00	£98,000.00

### 3. PREVIOUS AUDIT REPORTS

- 3.1 Capital management and accounting was last subject to an internal audit review in March 2017, and five recommendations were raised. All five recommendations were agreed and a satisfactory assurance opinion was issued.
- 3.2 None of the five recommendations have been implemented. Five recommendations have been restated as part of this review (Recs 1-5).

### 4. 2017/2018 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. One high risk, two medium risk and two low risk.

### 5. MAIN FINDINGS

#### 5.1 Capital financial strategy and asset management plan

- 5.1.1 The councils do not have an up-to-date capital strategy in place, as the last strategy was for the period 2010/11 to 2014/15. In December 2017, new CIPFA guidance was published on the prudential code for capital finance in local authorities, which requires all councils to have in place a capital strategy. It is noted that this will come into force for 2019/2020, however, for best practice, a capital strategy should be developed to ensure that the councils' capital expenditure and investment decisions are in line with their service objectives, and properly takes account of stewardship, value for money, prudence, sustainability & affordability.
- 5.1.2 The asset management plan 2015 to 2019 for both councils in place, however from review the plan is now out of date and was not approved and adopted by the councils. In February 2017, Arcadis drafted portfolio strategies, one for each council and at the time of audit review (January 2018), the portfolio strategies are still in draft format, as they have not been approved or adopted by the councils. Review of the portfolio strategies found that they fulfil the requirements of the CIPFA guidance for an asset strategy but not for asset management plans.
- 5.1.3 Area assurance: Satisfactory  
Two recommendations have been restated and updated as a result of our work in this area (Recs 1 and 2).

**5.2 Capital contracts and budget monitoring**

- 5.2.1 The accountancy team (Capita) maintain and update the capital programmes for both SODC and VWHDC, which record the individual projects and expenditure to date with expected spend profiled by year. It is noted that SODC's capital programme is split into approved and provisional, while VWHDC only has an approved programme, due to the differing positions of the two councils. At the time of the audit review (January 2018), the latest capital programmes covered the period 2017/2018 to 31 March 2022 and were last updated on 5 December 2017.
- 5.2.2 The capital programmes are reviewed as part of the budget setting process. Any growth bids are considered as part of preparing the capital programme along with, for SODC only, any capital projects to be moved from provisional to the approved capital programme. During the year, the capital programmes are reviewed and amendments since the original budget are recorded on a year by year basis, making it easy to track back changes.
- 5.2.3 Quarterly budget monitoring reports state the variations and explanations which are required for variances over £50,000. A summary of the quarterly report is published, with a link to the full budget monitoring reports, on the 'in focus' newsletter which is circulated to all councillors and officers. A review was undertaken on 25 SODC and 25 VWHDC capital projects which covered 15 SODC and 25 VWHDC approved capital projects. The review established that appropriate monitoring and detailed explanations are included for variances where required. In 2017/2018 to date (January 2018) as part of budget monitoring, the project managers requested on eleven (nine SODC and two VWHDC) occasions to either vire (one SODC and two VWHDC) or transfer (eight SODC) budgets for capital projects. Review of the three virements and eight transfers confirmed that they were all approved in line with the councils' constitution.
- 5.2.4 Area assurance: Full  
No recommendations have been made as a result of our work in this area.

**5.3 Capital accounting arrangements**

- 5.3.1 Capital accounting relates to the recording of transactions for asset purchases, disposals, depreciation and revaluation within the accounts and these transactions. The accountancy team (Capita) does not have procedures in place to cover these capital accounting processes as the CIPFA code is considered to cover this. However, the code is not specific to SODC and VWHDC which have differing approaches in some areas.
- 5.3.2 Guidance on the budget setting process is available to council officers via the intranet, and this includes budget responsibilities for capital projects and covers growth bids. Year-end closedown guidance, including capital expenditure, is emailed to heads of service, service managers and other officers involved with budgets in the form of a memorandum.
- 5.3.3 Area assurance: Substantial  
One recommendation has been restated as a result of our work in this area (Rec 3).

**5.4 Asset registers**

- 5.4.1 The estates team (Arcadis) hold the property register on the Concerto system, while the accountancy team (Capita) maintain the fixed asset registers. The property valuations are recorded on the fixed asset registers and the book value at the end of each financial year is adjusted to allow for any depreciation, additions, disposals or revaluations. Review of both the property register and the fixed asset registers confirmed that the registers are in line with councils' financial procedure rules and CIPFA guidelines.
- 5.4.2 At the time of the audit review (January 2018), the latest fixed asset registers are 2016/2017 due to them being updated as part of the year-end closedown process. Review of the 2016/2017 fixed asset register found that there were 17 (four SODC and 13 VWHDC) asset additions and 17 (five SODC and 12 VWHDC) asset disposals. Of the 17 assets added to the fixed asset register, six VWHDC assets were car parks already recorded as council assets with no value, but were added to the fixed asset register after the assets were valued. The remaining 11 (four SODC & seven VWHDC) assets were added to the register in accordance with the councils' financial procedure rules. Of the 17 assets disposed of, one asset was journaled to the long-term debtors' code, and the remaining 16 assets were disposed of in accordance with the councils' financial procedure rules.
- 5.4.3 Area assurance: Full  
No recommendations have been made as a result of our work in this area.

**5.5 Asset register reconciliation**

- 5.5.1 The accountancy team (Capita) maintains the fixed asset registers on spreadsheets for accounting purposes, while the property services team (Arcadis) maintain the main asset register (Concerto), which lists all physical assets owned by both councils. Review of both sets of asset registers found there is adequate information that allows them to be reconciled, i.e. both state the same asset ID number. However, a reconciliation between the asset registers is currently not being undertaken. No recommendation has been raised for this finding as it is covered within the 2017/2018 property management audit review.
- 5.5.2 The Local Government Transparency Code 2015 requires the councils to publish the latest property list onto both councils' website on an annual basis, and the information that must be published. However, at the time of the audit review (January 2018), review of the councils' website found that the latest property list was published on 5 November 2015 and the information published did not comply with the Local Government Transparency Code 2015.
- 5.5.3 As part of the 5CP, there is a corporate services - service specification, which states that asset valuations will be undertaken on a five year schedule. Arcadis has developed a five year schedule for revaluing assets and have been split into the following categories:
- Year one (2016/2017) - car parks;
  - Year two (2017/2018) - leisure centres, parks, cemeteries, allotments and open spaces;
  - Year three (2018/2019) - public convenience, civic estates and housing (inc. mobile homes park);

- Year four (2019/2020) - investment properties and long leases;
- Year five (2020/2021) - TNRP (ex. Investments and long leases), community centres and surplus/ vacant sites.

It is noted that the five year schedule has been approved by the section 151 officer, as required by CIPFA guidance.

5.5.4 The process for undertaking accounting valuation starts in November each year, when Arcadis send the valuers an instruction to undertake on the asset valuations. For year two asset valuations, internal audit can confirm that the instruction was sent to the valuers, Sanderson Weatherall, in November 2017. As the fixed asset registers are reviewed on an annual basis, as part of year-end closedown, and Sanderson Weatherall are currently revaluing year two assets, internal audit reviewed year one (2016/2017) valuations to confirm that the fixed asset registers were adequately updated. In year one, there were 35 (21 SODC and 14 VWHDC) car parks revalued and review found that:

- Two SODC car parks (Broadway West & Broadway East) were disposed of in 2016/2017, therefore the value on the fixed asset register was zero.
- Two SODC car parks (High Street & Station Road) were initially valued as one car park by the valuers, which was rejected. However, after the car parks were valued again as two separate car parks, the councils received the valuation report after accountancy (Capita) closed the 2016/2017 accounts, therefore the revaluation could not be included. It is noted that external audit (EY) have been made aware and this will be included as part of 2017/2018 closedown.
- For one SODC car park (Cattlemarket, Thame), the value on the fixed asset register was greater than the value on the valuation report by £400,000.00. This is due to the car park and the actual Cattlemarket building historically having been valued as one asset, and as the estates team (Arcadis) requested that the car park is valued separately, it requires to be split on the register rather than listed as one.
- Two VWHDC car parks (Cattlemarket, Abingdon and Civic, Abingdon) are shown as one car park (Civic, Abingdon) on the fixed asset register, which requires to be split on the register.

However, no recommendation has been raised for these findings as they are covered within the 2017/2018 property management audit review.

5.5.5 Area assurance: Substantial

One recommendation has been restated as a result of our work in this area (Rec 4).

## 5.6 **Property and asset management system**

5.6.1 Guidance notes are available through the system administrators (Vinci) that gives details to users on how to use the Concerto system. Training on the system is also provided on request. Information on how officers can report issues is available on the councils' intranet and there are generic manuals provided by the software supplier. It is noted that a process handbook is in place that also provides information regarding the Concerto system.

5.6.2 The Concerto system is accessible via the web browser and review found that there is no firewall in place preventing the system to be accessible via unauthorised devices. To obtain access users are required to be set up on the system with a username and password. It is noted that the password policy on the system requires passwords to be a minimum of eight alphanumeric characters. The Concerto system also has in place an audit trail to record when users' log on and their activities. To add and remove users, the request should be made through Vinci helpdesk with their line

manager's approval. Review of the system users list found that three council employees that have left, still have access to the Concerto system.

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

## 6. ACKNOWLEDGEMENTS

- 6.1 Internal audit would like to take this opportunity to thank all staff involved for their assistance with the audit.

## 7. CATEGORISATION OF RECOMMENDATIONS

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

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

## OBSERVATIONS AND RECOMMENDATIONS

### PREVIOUS RECOMMENDATIONS RESTATED

#### 1. Capital financial strategy

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> A robust capital strategy is in place and in accordance with CIPFA guidance, forming the basis of the capital programme and setting out parameters for capital projects.</p> <p><u>Findings</u> Neither SODC or VWHDC have had a capital financial strategy in place since the strategy 2010/11 to 2014/15.</p> <p>In December 2017, CIPFA released a revised prudential code for capital finance in local authorities, which requires local authorities to have in place a capital strategy from April 2019. However, for best practice the accountancy team (Capita) should develop the strategy, so that the councils' capital expenditure and investment decisions are in line with their service objectives, and properly takes account of stewardship, value for money, prudence, sustainability &amp; affordability.</p>	Both councils should develop a capital financial strategy, which is in line with the CIPFA prudential code for capital finance in local authorities, as a minimum requirement.	Strategic Finance Manager

<p><u>Risk</u> If a robust capital strategy is not in place that sets out parameters for capital projects, there is a risk of the capital programme not being managed, controlled and monitored in a consistent way.</p>		
<p><b>Management Response</b></p>		<p><b>Implementation Due Date</b></p>
<p>Recommendation is <b>Agreed</b> In line with the new prudential framework and emerging guidance a capital strategy for 2019/2020 will be worked on during 2018/2019 which is expected to be presented for approval to both Cabinet and Council in February 2019 as part of budget setting.  Management response: Strategic Finance Manager</p>		<p>31 March 2019</p>

**2. Asset management plans**

**(Low Risk)**

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Up-to-date and approved asset management plans are in place and adopted by the councils.</p> <p><u>Findings</u> A joint asset management plan 2015 to 2019 was developed, however, at the time of the audit review (January 2018), the plan had not been approved by the councils.</p> <p>In February 2017, Arcadis drafted a portfolio strategy for each council, to replace the asset management plan, which went to the interim head of devolution &amp; government and the relevant Cabinet member (SODC or VWHDC) for approval. It is noted that as at January 2018, the portfolio strategy has still not been approved by the councils.</p> <p>Review of the portfolio strategy found that the strategy covers the CIPFA guidance for an asset strategy but does not cover guidance relating to asset management plans.</p> <p><u>Risk</u> If an up-to-date asset management plan is not in place, there is a risk of inappropriate or inconsistent decisions being made when managing assets.</p>	<p>The asset management plans should be reviewed and updated to ensure that they:</p> <ul style="list-style-type: none"> <li>a) are in line with CIPFA guidance;</li> <li>b) are subject to regular review;</li> <li>c) are clearly dated and approved, in line with the councils' constitution;</li> <li>d) are publicly available;</li> <li>e) include roles and responsibilities for asset management.</li> </ul>	<p>Head of Development and Regeneration</p>
<p><b>Management Response</b></p>		<p><b>Implementation Due Date</b></p>
<p>Recommendation is <b>Agreed</b> In April 2018, asset management groups will be established for each council who will lead a review of assets and development of up-to-date asset management plans for both districts.</p>		<p>31 December 2018</p>

Management response: Head of Development and Regeneration	
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**3. Guidance notes - capital accounting**

**(Low Risk)**

<b>Rationale</b>	<b>Recommendation</b>	<b>Responsibility</b>
<p><u>Best Practice</u> Up-to-date and comprehensive capital accounting guidance notes are in place.</p> <p><u>Findings</u> The accountancy team (Capita) still have no procedures in place covering capital accounting. Whilst it is acknowledged that the CIPFA code covers capital accounting processes, the differing approach between SODC and VWHDC should be included within working procedures.</p> <p><u>Risk</u> If appropriate and up-to-date guidance notes are not in place, there is a risk of officers unknowingly taking incorrect actions within capital accounting.</p> <p>Furthermore, if accountancy staff (Capita) with site specific knowledge are moved, there is a risk of the councils being exposed to greater risk of errors.</p>	<p>Comprehensive up-to-date guidance notes should be introduced covering capital accounting processes and requirements, and recording the differences between SODC and VWHDC's approach.</p>	<p>Chief Accountant (Capita)</p>
<b>Management Response</b>		<b>Implementation Due Date</b>
<p>Recommendation is <b>Agreed in Principle</b> The policy for depreciation and fixed assets is included in the 'Statement of accounting policies' which is the overriding guidance for all capital accounting. The spreadsheets used by both councils as asset registers and for the calculation of depreciation, have detailed guidance notes included within them.</p> <p>However, there are no procedure notes currently for the 'day to day' capital processes of actioning cabinet decisions/Individual cabinet member decisions, requesting new cost centres and updating Agresso with budget changes. Additional notes to cover this part of the process will be written to ensure full documentation and compliance with the six council procedures</p> <p>Management response: Chief Accountant (Capita)</p>		<p>30 June 2018</p>

**4. Concerto land and property details**

**(Medium Risk)**

<b>Rationale</b>	<b>Recommendation</b>	<b>Responsibility</b>
<p><u>Best Practice</u> Land and property data, required by the Local Government Transparency Code 2015, is held in the property register and published on the councils' website on an annually basis.</p> <p><u>Findings</u> The Concerto system is used to publish the councils' land details as required by</p>	<p>All of the land and property data required by the Local Government Transparency Code 2015 should be added to the Arcadis' property register and published in a timely manner annually.</p>	<p>Head of Development and Regeneration</p>

<p>the Local Government Transparency Code 2015. Review of the both SODC and VWHDC websites found that the property detail lists both dated 5 November 2015, therefore the property lists are not annually published as required by the code.</p> <p>Also, from review of the property detail lists on the website found that not all of the required information is recorded as an indicator for council occupied property and whether an asset is land only or land with a permanent building was not stated.</p> <p><u>Risk</u> If the required land and property data is not made available to the public, there is a risk that the councils are not complying with the Local Government Transparency Code 2015 resulting in an adverse impact to the councils' reputation.</p>		
<p><b>Management Response</b></p>		<p><b>Implementation Due Date</b></p>
<p>Recommendation is <b>Agreed</b> In April 2018, a full review of assets will commence that will enable the asset lists to be checked, updated and published accordingly.</p> <p>Management response: Head of Development and Regeneration</p>		<p>31 December 2018</p>

**5. Concerto system users - leavers**

**(High Risk)**

<p><b>Rationale</b></p>	<p><b>Recommendation</b></p>	<p><b>Responsibility</b></p>
<p><u>Best Practice</u> User accounts are removed or disabled in a timely manner after an officer leaves the council.</p> <p><u>Findings</u> As the Concerto system is web based, internal audit reviewed to establish if the system is accessible from a personal device. Review found that there is no firewall in place and the Concerto system is accessible using a personal device.</p> <p>Review of the list of system users for the Concerto property and assets management system also found that three users that left the councils still had access to the system, which increases the risk of unauthorised personnel accessing the system.</p> <p>It is noted that whilst it is the responsibility of line managers to notify of any changes needed to user access arising from leavers, the leavers list circulated by the HR team (Capita) is not</p>	<p>The system administrator for the current property and asset systems used for council purposes should be added to the leavers list sent out by HR to ensure that any Concerto system users who have left the councils are removed from the system as soon as possible.</p>	<p>Head of Development &amp; Regeneration</p>

<p>copied to the property services team (Arcadis).</p> <p><b>Risk</b>                  If users' accounts are not removed as soon as they leave the councils, there is a risk of data being viewed and/or changed by unauthorised personnel, due the Concerto system being accessible via a personal device.</p>		
<p><b>Management Response</b></p>		<p><b>Implementation Due Date</b></p>
<p>Recommendation is <b>Agreed</b>                  In April 2018, a process flowchart will be established for use of the Concerto system and process for removing staff who have left.</p> <p>Management response: Head of Development &amp; Regeneration</p>		<p>30 April 2018</p>