

# Joint Audit and Governance Committee



Listening Learning Leading



Report of Internal Audit Manager

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To: Joint Audit and Governance Committee

DATE: 29 July 2019

## Internal audit activity report quarter one 2019/2020

### 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 Victoria Hughes, Internal Audit Manager for South Oxfordshire District Council (SODC) and Vale of White Horse District Council (VWHDC), telephone 01235 422430.

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

## 2019/2020 Audit Reports

7. As at 16 July 2019, 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: 2

Satisfactory Assurance: 3

Limited Assurance: 6

Nil Assurance: 0

	Assurance Rating	Total Recs	High Risk	No. Agreed	Medium Risk	No. Agreed	Low Risk	No. Agreed
<b>Joint</b>								
1. Creditor Payments 18/19	Limited	8	2	2	1	1	5	5
2. HR Management 18/19	Limited	6	3	3	2	2	1	1
3. Payroll 18/19	Limited	11	7	7	3	3	1	1
4. Petty Cash Procedures 18/19	Limited	6	2	2	3	3	1	1
5. Pro-Active Anti-Fraud Review 18/19	Limited	3	3	3	0	0	0	0
6. Sundry Debtors 18/19	Limited	3	1	1	1	1	1	1
Capital Management & Accounting 18/19	Satisfactory	11	0	0	6	6	5	5
General Ledger 18/19	Satisfactory	6	0	0	2	2	4	4
Risk Management 18/19	Satisfactory	6	0	0	5	5	1	1
Housing Benefits & CTRS 18/19	Substantial	7	0	0	0	0	7	7
Insurance 18/19	Substantial	5	0	0	1	1	4	4
<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>							
Brown Bins 18/19	Limited	7	7	0	0	0	0
Planning Appeals 18/19	Satisfactory	6	0	2	3	0	1
<b>SODC</b>							
None							
<b>VWHDC</b>							
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 section 151 officer and the relevant member portfolio holder. In addition, reports are now published on the councils' intranet and limited assurance reports are reviewed by the strategic management team.
11. Internal audit continues to carry out a six month follow up on all 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.

## **Financial Implications**

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

## **Legal Implications**

13. None.

## **Risks**

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

VICTORIA HUGHES  
INTERNAL AUDIT MANAGER

## **1. Creditor Payments 2018/2019**

### **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 been undertaken in accordance with the 2018/2019 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 27. 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 which are adhered to with roles, responsibilities and authorisers for creditors clearly documented;
  - invoices are promptly processed and supported by appropriate documentation;
  - manual, direct debit and BACS transfer payments are strictly controlled, appropriately authorised and paid correctly;
  - adequate controls are in place to prevent duplicate payments;
  - refunds are appropriately authorised and actioned;
  - VAT is being appropriately allocated for creditor payments.

### **2. BACKGROUND**

- 2.1 Creditor payments or accounts payable are payments by the councils to third party suppliers for goods or services purchased. Capita exchequer services provide the system administration for creditor payments through the financial management system, Agresso, as part of the five councils' partnership (5CP).
- 2.2 SODC  
At the time of the audit review (February 2019), there were 6,334 invoices received since April 2018, which totalled £45,284,003.01. Of these, 3,671 were purchase order invoices totalling £15,471,465.26 and 2,663 were non-purchase order invoices totalling £29,812,537.75.
- 2.3 VWHDC  
At the time of the audit review (February 2019), there were 4,729 invoices received since April 2018, which totalled £25,460,530.85. Of these, 2,186 were purchase order invoices totalling £16,965,908.72 and 2,543 were non-purchase order invoices totalling £8,494,622.13.

### **3. PREVIOUS AUDIT REPORTS**

- 3.1 Creditor payments was last subject to an internal audit review in March 2018 and eight recommendations were raised. All eight recommendations were agreed and a limited assurance opinion was issued.
- 3.2 Of the eight recommendations, six recommendations have been implemented and two have not been implemented and are restated as part of this review (Recs 7 and 8).

### **4. 2018/2019 AUDIT ASSURANCE**

- 4.1 **Limited assurance:** There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.
- 4.2 Eight recommendations have been raised in this review. Two are high risk, one medium risk and five low risk.

## **5. MAIN FINDINGS**

### **5.1 Policies and procedures**

- 5.1.1 The councils have in place financial procedure rules, which are part of the constitution, and sets out how the councils manage their finances, including creditor payments. Review confirmed that the constitution is up-to-date and was last updated in June 2018. The constitution is available to all officers via the councils' website. It is noted that the updates to the constitution were approved at both SODC and VWHDC full council meetings in May 2018.
- 5.1.2 Procedures are in place for creditor payments, which clearly define the roles and responsibilities of both council officers and exchequer services (Capita) staff. The procedures are available to relevant officers via the councils' intranet. It is noted that exchequer services (Capita) also have procedures in place for the processes they undertake as part of creditor payments.
- 5.1.3 Process flowcharts are documented for use in each of the Capita locations involved in the creditor payments process (Darlington, Shepton Mallet, Chichester); however, it was noted that there is no overarching flowchart which documents the end to end creditor payments process (i.e. from receipt of invoice to payment).
- 5.1.4 Area assurance: Substantial  
One recommendation has been made as a result of our work in this area (Rec 1).

### **5.2 Invoice processing**

- 5.2.1 Capita's Darlington team receive the councils' invoices and Capita exchequer services process them for payment through the Agresso financial system. Invoices are received, scanned and checked, prior to payment being made to the supplier. A target of paying 96.44% of its supplier invoices within five working days, or agreed payment terms, following approval is in place as part of the 5CP contract and usage of purchase orders is encouraged to speed up the payment process. A sample of 40 (20 SODC and 20 VWHDC) invoices were selected and reviewed for the following:
  - segregation of duties between the individual requesting and approving the purchase requisition;
  - invoices approved in line with the approved data grid which sets out authorisation levels; and
  - invoices are linked to the suppliers' account and transaction, and an audit trail is available in the form of a flowchart and logbook;Based on our review, it was noted that upon receipt of the goods or services, the invoice approver marks the goods/services as received within Agresso; however, there is no requirement to retain formal goods receiving evidence.
- 5.2.2 Daily checks are undertaken by Capita of any outstanding invoices and weekly reports are sent to the councils via the 5CP client team on invoices that still require coding and/or approval. Invoices parked are also sent on to the councils on a weekly basis to establish if

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the invoices can be paid. The following reports are used by Capita to manage unpaid invoices:

- outstanding invoices;
- parked invoices; and
- invoices on hold.

Internal audit were unable to validate the definition and purpose of each report.

Furthermore, the reports do not formally document the status and actions of individual invoices.

**5.2.3** Invoices are rejected and returned to suppliers if there are errors, such as incorrect council details, purchase order number, or date. From April 2018 to date (February 2019) 450 VWHDC and 550 SODC invoices were returned to suppliers, comprising of approximately 15 suppliers, each with over 10 returned invoices. However, regular review of the reasons for rejected invoices is not performed.

**5.2.4** Area assurance: Substantial

Three recommendations have been made as a result of our work in this area (Recs 2, 3 and 4).

### **5.3 Payments**

**5.3.1** Manual payments are made for urgent payments, which is separate from the weekly payment runs. These are requested through an urgent payment voucher and dealt with the same way as the normal payment requests within the Agresso system.

**5.3.2** BACS is the default payment with cheque payments used as an exception, and no suppliers are set up for payment by direct debit. It is noted that the procedure notes, accounts payable (non-PO), state that exchequer services (Capita) will only accept changes to supplier details, including bank, if a supplier form is completed and submitted by council officers, which is available on the councils' intranet. Weekly payment runs for both BACS and cheque payments are sent to the councils for authorisation, and review confirmed there is appropriate email authorisation prior to payments being processed. Review of BACS payment rejections established that there is no process in place to notify Capita of the reason for the BACS error and any actions taken, to prevent reoccurrence of the same error.

**5.3.3** Area assurance: Substantial

One recommendation has been made as a result of our work in this area (Rec 5).

### **5.4 Duplicate payments**

**5.4.1** Within the Agresso system is a built-in control preventing invoices from being registered if any invoices that are scanned have the same supplier name and invoice number as an existing invoice. If duplicates are encountered the invoice is sent to exchequer service (Capita) workflow to review and manage accordingly, such as allocating to the correct supplier manually. An Agresso report of invoices greater than £100 paid since 1 April 2018 to date (February 2019) was received and review established that there were nine (two SODC and five VWHDC) duplicate invoices, which were registered and paid. Review of the nine duplicate invoices found that:

- Four VWHDC invoices had slight variations to the invoice number (e.g. one digit difference); however, the transaction details were the same (i.e. supplier ID, invoice amount, period, invoice description);
- Two VWHDC invoices were paid via a duplicate supplier ID;
- Two invoices were submitted to both SODC and VWHDC; and

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- One SODC invoice had a different invoice number; however, the transaction details were the same (i.e. invoice amount, period, invoice description).
- 5.4.2 The Agresso system also has a built-in control in place to mitigate the risk of duplicate payment being made, as it will only allow payment to be made against an invoice once. It is noted that there still is potential for duplicate payments if:
- duplicate suppliers are created; and
  - the sundry supplier account is used when the supplier already has an existing account.
- Council officers are expected to check existing suppliers prior to requesting a new addition and Capita exchequer services are expected to review the request before creating the new supplier. An Agresso listing of all open and closed supplier accounts was obtained and review established that there are 4,143 (2,508 SODC and 1,635 VWHDC) open supplier accounts, of which 21 were possible duplicate accounts, with more than two accounts noted for some suppliers. These comprise of 26 SODC accounts for 13 suppliers and 16 VWHDC accounts for 8 suppliers. Review of the 21 (100%) suppliers (13 SODC and eight VWHDC) found that all 21 suppliers have duplicate accounts set up on Agresso, all of which are active.
- 5.4.3 Sundry supplier accounts are used as one-off payments to suppliers that have not been set up onto Agresso, for example refunds to debtors who have overpaid or where there has been a cancellation of service. Review of the sundry supplier account report for 2018/2019 to February 2019 established that 369 (184 SODC and 185 VWHDC) transactions totalling £208,269.81 (£79,871.81 SODC and £128,398.00 VWHDC) were paid through the account. Based on our review of sundry account transactions, we noted no concerns with the use of sundry supplier accounts. It is noted that review of the usage of sundry supplier accounts has stopped since the 5CP contract started on 1 August 2016.
- 5.4.4 During the review of suppliers, it was noted that a number of suppliers were individuals rather than companies, therefore the retention of any personal data needs to comply with GDPR legislation. Internal audit were unable to verify GDPR compliance as there is no formal evidence of a compliance review.

**5.4.5 Area assurance: Limited**

One recommendation has been made as a result of our work in this area (Rec 6). Two recommendations are restated (Recs 7 and 8).

## **5.5 Refunds**

- 5.5.1 Procedures are in place to cover the management of refunds in the form of credit notes received being offset against invoices. Credits since 1 April 2018 to date (February 2019) were obtained and review of 40 (20 SODC and 20 VWHDC) credit notes confirmed that:
- credit notes are offset against the invoice;
  - segregation of duties exists between the officer raising and approving the credit note;
  - credit notes were managed and approved appropriately; and
  - credit notes were linked to the suppliers' account and transaction, and an audit trail was available in the form of a flowchart and logbook.
- 5.5.2 For suppliers with a debit balance, i.e. the council is owed money, an invoice is not issued to recoup the balance, but the credit is offset against future payments that become due or credit notes received. From review of suppliers with a debit balance as at February 2019, there are 71 (39 SODC and 32 VWHDC) suppliers with a total of £100,152.90 (£43,918.33 SODC and £56,234.57 VWHDC) owed to the council.
- 5.5.3 Area assurance: Full

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

## 5.6 VAT

5.6.1 The VAT part of invoices, which are received from suppliers, are coded to B0901 X002 on the Agresso system. The accountancy team (Capita) has nominated officers in place and both the intranet and the accounts payable procedures advise council officers who to contact if they have any queries regarding VAT. Review of 40 (20 SODC and 20 VWHDC) invoices confirmed that VAT was appropriately recorded.

### 5.6.2 Area assurance: Full

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 7 and 8</b>
<b>Medium risk</b>	Other control weakness for local management action	<b>Rec 6</b>
<b>Low risk</b>	Recommended best practice to improve overall control	<b>Recs 1 to 5</b>

## OBSERVATIONS AND RECOMMENDATIONS

### POLICIES AND PROCEDURES

#### 1. Accounts payable process flow charts

(Low Risk)

Rationale	Recommendation	Responsibility
<u>Best Practice</u> Procedure documents are supported by a process map to document the flow of data across the different teams and locations within the accounts payable process. <u>Findings</u> There is no high-level process map for the accounts payable process, which documents the flow of physical and electronic information across the end to end accounts payable process. <u>Risk</u> Lack of a high-level accounts payable flow chart may increase the risk of process inefficiencies.	Consider documenting a high-level flow chart of the end to end accounts payable process, which could include: <ul style="list-style-type: none"> <li>• Capita locations and council teams;</li> <li>• the flow of physical (e.g. invoices) and electronic (e.g. within Agresso, emails, reports, etc.) information;</li> <li>• controls in the process (e.g. checking and approving data input, approval of invoices etc.).</li> </ul>	Accounts Payable Shared Services Manager (Capita)
<b>Management Response</b>		<b>Implementation Due Date</b>
Recommendation is Agreed		14 July 2019

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Capita can draft a high-level process flow chart showing the path an invoice follows from receipt at the scanning centre to the invoice being paid. Subject to review and agreement with the council that the process is accurately represented. Management response: Accounts Payable Shared Services Team Leader (Capita)	
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**INVOICE PROCESSING****2. Aged invoice reports**

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Reports showing the status of purchase invoices, responsible persons and explanations for any delays in payment are readily available.</p> <p><u>Findings</u> Aged purchase invoices are allocated to one of the following categories:</p> <ul style="list-style-type: none"> <li>• parked invoices</li> <li>• outstanding invoices</li> <li>• invoices on hold</li> </ul> <p>From our review, we were unable to obtain a clear definition of each category used for aged invoices. Furthermore, we noted that invoices were often incorrectly categorised.</p> <p>In addition, aged purchase invoice listings for each of the above categories do not document the responsible person, status, and explanations for any delays in invoice processing.</p> <p><u>Risk</u> Lack of formal tracking of aged purchase invoices increases the risk of delays in payment, which may cause reputational damage with suppliers.</p>	<p>a) Clearly define the use of each category of aged purchase invoices (parked, outstanding, on hold).</p> <p>b) Ensure that aged invoice reports formally record explanations/tracking of individual invoices.</p>	Accounts Payable Shared Services Manager (Capita) / Systems Development team (Capita)
<b>Management Response</b>		<b>Implementation Due Date</b>
<p><b>Recommendation is Agreed in Principle</b> Capita can provide a definition for each of the existing reports that are produced. It is not currently possible to provide a singular report, if this is a requirement then system development is required and a change request needs to be raised.</p> <p>Management response: Accounts Payable Shared Services Team Leader (Capita)</p>		28 June 2019

**3. Invoice supporting documentation**

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> A formal audit trail of goods/services receipting evidence is maintained.</p> <p><u>Findings</u> The individual who receives delivery of the goods or services is required to receipt the order in Agresso; however, evidence of delivery is not retained. Evidence of delivery of goods/service may be retained by the individual; however, this is not mandatory.</p> <p><u>Risk</u> Lack of formal evidence for the receipt of goods and/or services results in an inadequate audit trail.</p>	Consider retaining evidence for the receipt of goods and/or services.	Finance Systems & Procurement Team Leader
<b>Management Response</b>		<b>Implementation Due Date</b>
<p><b>Recommendation is Agreed</b> A communication will be issued to service teams advising them of the requirement to retain evidence. This will be reiterated during training sessions.</p>		1 July 2019

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Management response: Finance Systems &amp; Procurement Team Leader

<b>4. Invoices returned to suppliers</b> <span style="float: right;">(Low Risk)</span>		
<b>Rationale</b>	<b>Recommendation</b>	<b>Responsibility</b>
<p><u>Best Practice</u> Purchase invoices returned to suppliers are regularly reviewed, to understand the reasons for rejecting the invoice.</p> <p><u>Findings</u> Between April 2018 and January 2019, 1,000 (450 SODC and 550 VWHDC) purchase invoices were returned to suppliers, for the following reasons:</p> <ul style="list-style-type: none"> <li>• Incorrect or missing PO number</li> <li>• Incorrect or missing department</li> <li>• Missing invoice date</li> <li>• Incorrect address</li> </ul> <p>However, a regular review of the reasons for invoices being returned is not performed.</p> <p><u>Risk</u> Lack of regular review and monitoring of returned invoices may increase the risk of duplicate invoices and process inefficiencies.</p>	Establish a process to regularly review returned invoices and take the necessary actions with the supplier.	Accounts Payable Shared Services Manager (Capita) and Finance Systems & Procurement Team Leader
<b>Management Response</b>		<b>Implementation Due Date</b>
<p><b>Recommendation is Agreed in Principle</b> Invoice rejections are completed at point of receipt by the scanning team. Capita can introduce a process improvement here to capture the supplier and reason for rejection on a spreadsheet, that can be issued back to the client each month for analysis.</p> <p>Management response: Accounts Payable Shared Services Team Leader (Capita)</p> <p><b>Recommendation is Agreed in Principle</b> The Finance team will distribute the report to service teams with an instruction to review and contact their suppliers where necessary</p> <p>Management response: Finance Systems &amp; Procurement Team Leader</p>		1 July 2019

**PAYMENTS**

<b>5. BACS payment errors</b> <span style="float: right;">(Low Risk)</span>		
<b>Rationale</b>	<b>Recommendation</b>	<b>Responsibility</b>
<p><u>Best Practice</u> BACS payment errors are investigated, resolved, and communicated in a timely manner.</p> <p><u>Findings</u> Budget holders are responsible for taking corrective actions to resolve BACS payment errors. However, there is no formal process for budget holders to communicate the results of their corrective actions, to ensure that the same error does not reoccur. Review of invoices from April 2018 to February 2019 found 19 (13 SODC and 6 VWHDC) BACS processing errors.</p> <p><u>Risk</u> If corrections to BACS errors are not performed and communicated in a timely manner, there is an increased risk of duplicate payments and process inefficiencies.</p>	Ensure corrective actions taken to resolve BACS payment errors are communicated in a timely manner to relevant officers.	Finance Systems & Procurement Team Leader
<b>Management Response</b>		<b>Implementation Due Date</b>

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<b>Recommendation is Agreed</b> Service teams will be advised to notify Capita of the actions they have undertaken where a BACS payment has been rejected. Management response: Finance Systems & Procurement Team Leader	1 July 2019
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**DUPLICATE PAYMENTS****6. GDPR compliance** (Medium Risk)

Rationale	Recommendation	Responsibility
<u>Best Practice</u> A periodic review of supplier lists is performed to ensure that any personal data is GDPR compliant.	Review supplier master data to ensure that any personally identifiable data is GDPR compliant.	Finance Systems & Procurement Team Leader
<u>Findings</u> During our review of supplier listings, as at February 2019, it was noted that a number of suppliers were individuals. There is no formal evidence of a review of supplier data for GDPR compliance.		
<u>Risks</u> Non-compliance to GDPR legislation, which could result in fines and reputational damage.		
Management Response	<b>Implementation Due Date</b>	
<u>Recommendation is Agreed</u> Officers will work with Capita to agree a process for reviewing suppliers on an annual basis to ensure GDPR compliance. Management response: Finance Systems & Procurement Team Leader	2 September 2019	

**PREVIOUS RECOMMENDATIONS RESTATED****7. Duplicate invoices** (High Risk)

Rationale	Recommendation	Responsibility
<u>Best Practice</u> Duplicate invoices are not registered onto Agresso and there is a process in place to identify any that are registered prior to payments being made.	<p>a) A review should be undertaken of duplicate invoices and for any duplicate payments made, in addition to those identified, a refund should be requested to recoup the payment as soon as possible.</p> <p>b) Duplicate invoices identified after being registered, prior to payment, should be reversed.</p> <p>c) Regular reviews of duplicate invoices should be undertaken to prevent duplicate payments from occurring.</p>	Accounts Payable Shared Services Manager (Capita) and Finance Systems & Procurement Team Leader
<u>Findings</u> An Agresso report of invoices greater than £100 paid since 1 April 2018 to date (February 2019) was received and review established that there were nine (two SODC and five VWHDC) duplicate invoices, which were registered and paid. Review of the nine duplicate invoices found that: <ul style="list-style-type: none"> <li>• four VWHDC invoices had slight variations to the invoice number (e.g. one digit difference); however, the transaction details were the same (i.e. supplier ID, invoice amount, period, invoice description);</li> <li>• two VWHDC invoices were paid via a duplicate supplier ID;</li> <li>• two invoices were submitted to both SODC and VWHDC; and</li> <li>• one SODC invoice had a different invoice number; however, the transaction details were the same (i.e. invoice amount, period, invoice description).</li> </ul>		

Risk

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If duplicate invoices are not identified prior to registration, there is a risk of duplicate payments resulting in financial loss.		
<b>Management Response</b>	<b>Implementation Due Date</b>	

**Recommendation is Agreed in Principle**

The accounting system has functionality to perform a “straight” duplicate check, this is reliant on the invoice number being an identical match, in these cases the duplicates are stopped. Payment extracts are provided in conjunction with the NFA reporting every 2 years which are analysed and duplicate payments reported back, action is then taken to recover duplicated payments from the suppliers. There is also external Accounts Payable (AP) forensics software that is already deployed in the accounts payable shared services environment and used for other clients. This software would come with scoping requirements and a change request required. The councils will discuss the AP forensics software with Capita to understand its purpose and how useful it may be.

Management response: Accounts Payable Shared Services Team Leader (Capita)  
Finance Systems & Procurement Team Leader (councils)

## 8. Duplicate suppliers (High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u></p> <p>Suppliers only have one open account on Agresso, if they have the same address and bank details.</p> <p><u>Findings</u></p> <p>Review of supplier lists as at February 2019 for possible duplicate suppliers found that 21 (13 SODC and eight VWHDC) suppliers have a duplicate account set up on Agresso, all of which are active with the same bank details.</p> <p>Furthermore, it was noted that 194 (115 SODC and 79 VWHDC) suppliers have either missing or inaccurate bank details and 546 (305 SODC and 241 VWHDC) suppliers have no email address recorded on the supplier account.</p> <p><u>Risks</u></p> <p>If suppliers have more than one account on the Agresso system, there is a risk of invoices being registered more than once and payments being against the wrong account.</p>	Regular reviews should be undertaken on the supplier master file to ensure that possible duplicate suppliers are reviewed and if necessary, closed on Agresso.	Finance Systems & Procurement Team Leader
<b>Management Response</b>	<b>Implementation Due Date</b>	
<p><b>Recommendation is Agreed</b></p> <p>Officers will agree a timetable with Capita for the production of a report to be reviewed by service teams who will be responsible for reviewing their suppliers and requesting closures where appropriate.</p> <p>Management response: Finance Systems &amp; Procurement Team Leader</p>	2 September 2019	

## 2. HR Management 2018/2019

### 1. INTRODUCTION

- 1.1 This report details the internal audit review of procedures, controls and the management of risk in relation to HR management. The audit has been undertaken in accordance with the 2018/2019 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 16. 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 adequate HR policy framework in place, and the HR policies have appropriate ownership and are up-to-date;
  - there is appropriate management and administration of the MyView and AskHR systems, including access control rights;
  - annual leave entitlement is appropriately calculated and there is suitable authorisation for carry over of leave outside of the agreed tolerance levels;
  - documentation controlled by Capita HR is appropriately retained and readily available;
  - appropriate governance and contract management arrangements are in place between strategic HR and Capita HR to ensure HR management is effective.

## **2. BACKGROUND**

- 2.1 Since August 2016, the councils' HR advisory and administrative service has been provided by Capita HR based in Belfast. A new in-house strategic HR team was developed and has been in place since December 2017. The team focus is on the long-term HR work to ensure that the councils are in the best position to recruit, develop and retain staff.
- 2.2 HR records are managed through the MyView system provided by Capita HR. Any HR related queries and policies and procedures are managed through AskHR, which is also provided by Capita HR.

## **3. PREVIOUS AUDIT REPORTS**

- 3.1 HR management was last subject to an internal audit review in June 2016 and five recommendations were raised. All five recommendations were agreed. A satisfactory assurance opinion was issued.
- 3.2 Of the five recommendations, three have been implemented, one has not been implemented and is restated and one recommendation has been superseded.

## **4. 2018/2019 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 Six recommendations have been raised in this review. Three high risk, two medium risk and one low risk.

## **5. MAIN FINDINGS**

### **5.1 HR policies and procedures**

- 5.1.1 As part of the five councils' partnership (5CP), the human resources (HR) advisory and administration services is managed by Capita and strategic HR is run by the councils. Strategic HR was brought back in-house in December 2017. The councils do not have guidance for officers on the different roles and responsibilities of both the in-house strategic HR team and the Capita HR team.

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- 5.1.2 The councils do not have in place a HR policy framework that defines a set of goals, which might be used in decision making to guide a more detailed set of HR policies, or to guide ongoing maintenance of the councils' HR policies. Detailed HR policies are in place, i.e. annual leave and bank holiday policy, organisational change policy, etc. and are held on AskHR. However, a review of AskHR and Jarvis found that there is no policy in place for awarding honoraria. Review found that nine out of the 12 HR policies require reviewing as they were last updated prior to the commencement of 5CP, and do not reflect new ways of working.
- 5.1.3 The HR and payroll team (Capita) has a business process directory that covers 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 HR back office system (ResourceLink).
- 5.1.4 Area assurance: Satisfactory  
Three recommendations have been made and one recommendation restated as a result of our work in this area (Recs 1-4).

**5.2 Management and administration of HR systems**

- 5.2.1 The councils use the following two HR systems, which are managed by the system administrators (Capita) in Belfast:
- **AskHR** - primarily used by council staff to submit a question or request an action/request to Capita HR. HR and payroll policy documents, forms and training guidance are also held on the system.
  - **MyView** - holds council staff information, i.e. bank details, personal details, etc. along with payslips. Staff can request leave, training courses, claim overtime and submit expense claims, which are automatically routed to the individual's line manager for approval.
- 5.2.2 Access to MyView is managed by the system administrators (Capita) based in Belfast. The following system access controls are in place:
- a unique user id, password and answers to security questions are required to logon to the system;
  - users are required to change their password every 90 days;
  - passwords must include, at a minimum, uppercase and lowercase letters and numbers; and
  - accounts are automatically disabled following three unsuccessful logon attempts.
- Internal Audit were informed that the MyView user access report includes the data of users from all five councils. We were unable to obtain a user access report solely for SODC and VWHDC users, therefore we could not validate whether access to MyView is revoked timely. Furthermore, as MyView is a web-based system, it can be accessed via personal devices, by users without an Active Directory account.
- 5.2.3 Area assurance: Limited  
One recommendation has been made as a result of our work in this area (Rec 5).

**5.3 Annual leave entitlement**

- 5.3.1 The councils have an annual leave and bank holidays policy, which is available to all officers via AskHR. The policy needs revising as it was last reviewed in October 2011 and sets out that:
- officers working a 37-hour week have 23 working days leave in a full year, which rises to 28 days after five years' continuous local government service.

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- service managers, heads of service and the chief executive are entitled to 32 days' annual leave but no annualised hours.

The annual leave entitlement was revised in 2017/2018 to 24 days, which rises to 29 days after five years' continuous service for officers, and 33 days with no annualised hours to service managers, heads of service and the chief executive. It is noted that part-time officers have their annual leave allowance pro-rated.

**5.3.2** Annual leave is recorded on MyView and the annual leave year runs from the officers start date with the council. Officers are also required to record any leave in their timesheet, by adding the appropriate number of hours each day and selecting from a drop-down list to identify the adjustment as annual leave. Any unused annual leave at the end of an individual's annual leave year is recorded within the officer's MyView record. Approval from the relevant head of service is required to carry over annual leave in excess of five days to the following year. Annual leave for part-time officers is calculated and pro-rated, by Capita HR, using the annual leave calculation sheet.

**5.3.3** A review of annual leave for the following was performed to establish if annual leave entitlements were appropriately calculated and pro-rated:

- a random sample of 20 (ten SODC and ten VWHDC) leavers during 2018/2019 to November 2018;
- a random sample of 20 (ten SODC and ten VWHDC) part-time employees in 2018/2019 to November 2018; and
- a random sample of five (two SODC and three VWHDC) employment contract changes during 2018/2019 to November 2018, which resulted in a change to annual leave entitlement.

Based on our review, it was found that:

- for eight (three SODC and five VWHDC) leavers, annual leave entitlements were incorrectly calculated, resulting in six (three SODC and three VWHDC) officers being overpaid and two VWHDC officers being underpaid;
- for 18 (eight SODC and ten VWHDC) part-time officers, annual leave entitlements were incorrectly calculated, resulting in two (one SODC and one VWHDC) officers receiving a deficit amount of leave and 16 (seven SODC and nine VWHDC) officers receiving a surplus; and
- for four (two SODC and two VWHDC) officers with an employment contract change, annual leave entitlements were incorrectly calculated, resulting in two (one SODC and one VWHDC) officers receiving deficit amount of leave and two (one SODC and one VWHDC) officers receiving a surplus.

**5.3.4** Area assurance: Limited

One recommendation has been made as a result of our work in this area (Rec 6).

## **5.4 Security of HR documentation**

**5.4.1** Suitable security measures are in place between the councils and the payroll team (Capita) for both holding and transferring HR and payroll data. The HR and 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 HR and payroll data and information is sent securely to councils via AskHR and MyView, which requires the councils' officers to log onto using a username and password. Hardcopy HR and payroll data is held securely in the Belfast office. Access to the office requires a key card and hardcopy files are stored in

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a locked cupboard. It is noted that access to the 5CP HR shared drive is restricted to HR staff (Capita) who work on the 5CP contract.

#### 5.4.2 Area assurance: Full

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

### 5.5 Governance and contract management

5.5.1 As part of the five councils' partnership (5CP), the HR advisory and administrative service is provided by Capita and a service delivery plan (SDP) is in place stating the service that will be provided. In January 2019, the five councils revised and agreed the inter-authority agreement, which included a revised client relationship team. The client relationship team is in 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 December 2018 performance report found that the 5CP client team undertake sufficient reviewing and scrutinising as requests of rectification plans are made for areas of underperformance and rectification plans are rejected when satisfactory processes are not put in place to improve performance. No recommendations have been made as a result of our work in this area.

#### 5.5.2 Area assurance: Full

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 3, 5 and 6</b>
<b>Medium risk</b>	Other control weakness for local management action	<b>Recs 1 and 2</b>
<b>Low risk</b>	Recommended best practice to improve overall control	<b>Rec 4</b>

## OBSERVATIONS AND RECOMMENDATIONS

### PREVIOUS RECOMMENDATION RESTATED

<b>1. Honoraria policy</b>		<b>(Medium Risk)</b>
<b>Rationale</b>	<b>Recommendation</b>	<b>Responsibility</b>
<u>Best Practice</u> There is a policy setting out the framework under which honoraria are awarded. <u>Findings</u> Officers are awarded honoraria for a variety of reasons and are approved by the head of corporate services who has delegated authority within the constitution.	Develop an honoraria policy, which includes: <ul style="list-style-type: none"> <li>• the definition of honoraria;</li> <li>• what does and does not constitute an honorarium;</li> <li>• the process to request honoraria;</li> </ul>	Strategic HR Manager

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<p>Review of both Jarvis and AskHR found that there is no policy setting out the criteria for awarding honoraria.</p> <p><u>Risk</u></p> <p>If there is no policy setting out the councils' approach to awarding honoraria, there is a risk of officers not being treated consistently and fairly. Furthermore, payments could continue to be awarded without a documented review to ensure they are still merited.</p>	<ul style="list-style-type: none"> <li>• the criteria for awarding honoraria;</li> <li>• the authorisation process for awarding honoraria; and</li> <li>• review requirements for amounts awarded.</li> </ul>	
<b>Management Response</b>	<b>Implementation Due Date</b>	
<p><b>Recommendation is Agreed</b></p> <p>There is an ongoing project to review and update all policies (and add any new policies that are also required). As many policies are contractual, meaning changes require consultation, this may take some time to complete in full. Hence the completion date of December 2019. Please note that many of the policies will be updated during the year and before this date.</p> <p>Management response: Strategic HR Manager</p>	31 December 2019	

**POLICIES AND PROCEDURES****2. HR policy framework**

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u></p> <p>A HR policy framework is in place setting out development of HR policies and procedures to ensuring they are consistent, user friendly and up-to-date.</p> <p><u>Findings</u></p> <p>A HR policy framework is not in place for SODC and VWHDC.</p> <p><u>Risk</u></p> <p>If a HR policy framework is not in place, there is a risk of lack of guidance for setting out the development of HR policies and procedures to ensure that they are consistent, user friendly and up-to-date.</p>	<p>Document a HR policy framework, which sets out the goals that can be used to guide a more detailed set of HR policies and ongoing maintenance of the policies.</p>	Strategic HR Manager
<b>Management Response</b>	<b>Implementation Due Date</b>	

**Recommendation is Agreed**

There is an ongoing project to review and update all policies - agreeing a framework going forward will be included within this. As many policies are contractual, meaning changes require consultation, this may take some time to complete in full. Hence the completion date of December 2019. Please note that many of the policies will be updated during the year and before this date.

Management response: Strategic HR Manager

31 December 2019

**3. Policies and procedures**

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u></p> <p>Policies are up to date, version controlled and reviewed in accordance with agreed timescales.</p> <p><u>Findings</u></p> <p>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 and bank holidays policy - October 2011;</li> <li>• annualised hours policy - May 2016;</li> <li>• learning and development policy - September 2014;</li> </ul>	<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>	Strategic HR Manager

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<ul style="list-style-type: none"> <li>• leave policy - May 2015;</li> <li>• market premium - July 2013;</li> <li>• maternity, paternity, adoption and surrogacy policy - May 2015;</li> <li>• sickness absence policy - April 2013;</li> <li>• shared parental leave policy - February 2015;</li> <li>• travel and 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></p> <p>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>	c) The HR policies should be reviewed in accordance with agreed timescales and reflect any changes due to the 5CP arrangements.	
<b>Management Response</b> <p><b>Recommendation is Agreed</b></p> <p>There is an ongoing project to review and update all policies - agreeing a framework going forward will be included within this. As many policies are contractual, meaning changes require consultation, this may take some time to complete in full. Hence the completion date of December 2019. Please note that many of the policies will be updated during the year and before this date.</p> <p>Management response: Strategic HR Manager</p>	<b>Implementation Due Date</b> 31 December 2019	

**4. HR roles and responsibilities****(Low Risk)**

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u></p> <p>The roles and responsibilities of the strategic HR and Capita HR teams are clearly defined and formally documented.</p> <p><u>Findings</u></p> <p>In August 2016, the HR service was outsourced to Capita. However, in December 2017, the councils developed a new in-house strategic HR team to focus on the long-term HR work to ensure that the councils are in the best position to recruit, develop and retain staff.</p> <p>Review of the HR services FAQs documents, on Jarvis, for both staff and managers established that both documents state what officers and manager do and who they contact for a set of questions within the documents.</p> <p>However, there is insufficient guidance for council officers on the different roles and responsibilities of the strategic HR and Capita HR teams.</p> <p><u>Risk</u></p> <p>Lack of clearly defined roles and responsibilities, resulting in lack of guidance for staff, which may increase the risk of process inefficiencies.</p>	<p>The roles of both strategic HR and Capita HR should be agreed and written down, and communicated to council staff, so that they are aware of the roles of both team and can contact the appropriate team, dependant on the HR query/advice/action.</p>	Strategic HR Manager
<b>Management Response</b>	<b>Implementation Due Date</b>	
<p><b>Recommendation is Agreed</b></p> <p>As discussed in the briefing meeting, this information already exists on Jarvis, but agree we need to expand on this and communicate further.</p> <p>Management response: Strategic HR Manager</p>	31 August 2019	

## MANAGEMENT AND ADMINISTRATION OF HR SYSTEMS

### 5. MyView user access reviews

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Regular MyView user access reviews are performed to ensure that access is restricted to authorised officers.</p> <p><u>Findings</u> A request was made for report of users and access levels to MyView. However, a report could not be run solely for SODC and VWHDC users, instead the report included users across all five councils. Internal audit was therefore unable to confirm whether MyView access for leavers or inactive users has been disabled in a timely manner. Furthermore, as MyView is a web-based system, it can be accessed via personal devices, without requiring users to have an Active Directory account.</p> <p><u>Risk</u> If MyView user access reviews are not regularly performed, there is a risk of unauthorised access.</p>	<ul style="list-style-type: none"> <li>a) Capita should establish a way of extracting a MyView user access report for SODC and VWHDC only.</li> <li>b) Remind Capita HR to revoke/deactivate MyView user access upon leaving the councils.</li> <li>c) Establish a process for Capita HR to perform regular MyView user access reviews.</li> </ul>	Head of Service - HR (Capita)
<b>Management Response</b>		<b>Implementation Due Date</b>
<p><b>Recommendation is Agreed</b></p> <p>a) Capita IT will review if this is possible. b&amp;c) MyView access is revoked the day following the employees last working day providing that Capita has been advised of the leaver in advance of payroll close.</p> <p>Management response: Head of Service - HR (Capita)</p>		31 August 2019

## ANNUAL LEAVE ENTITLEMENT

### 6. Annual leave calculations

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> A consistent approach is taken when calculating the annual leave for leavers, part-time employees, and any changes to employment contracts.</p> <p><u>Findings</u> A random sample of 20 (ten SODC and ten VWHDC) officers was selected each for leavers and part-time officers, and a random sample of five (two SODC and three VWHDC) officers with change to employment contract was selected to establish if annual leave entitlements were appropriately calculated and pro-rated. Review found that:</p> <ul style="list-style-type: none"> <li>• for eight (three SODC and five VWHDC) leavers, annual leave entitlements were incorrectly calculated, resulting in six (three SODC and three VWHDC) officers being overpaid and two VWHDC officers being underpaid;</li> <li>• for 18 (eight SODC and ten VWHDC) part-time officers, annual leave entitlements were incorrectly calculated, resulting in two (one SODC and one VWHDC) officers receiving a deficit amount of leave and 16 (seven SODC and nine VWHDC) officers receiving a surplus; and</li> <li>• for four (two SODC and two VWHDC) officers with an employment contract change, annual leave entitlements were incorrectly calculated, resulting in two (one SODC and one VWHDC)</li> </ul>	<ul style="list-style-type: none"> <li>a) Perform a retrospective review of annual leave entitlements for leavers, part-time employees and changes to employment contract during 2018/2019 to ensure that annual leave entitlements are correctly calculated. Take corrective actions as necessary.</li> <li>b) Document written procedures and provide training to Capita HR staff to ensure that they understand the process for calculating annual leave for leavers, part-time employees, and changes to employment contracts.</li> <li>c) Remind Capita HR staff of the requirement to use the annual leave calculation sheet provided by the councils when calculating the annual leave entitlement for part-time staff.</li> </ul>	Head of Service - HR (Capita)

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<p>officers receiving deficit amount of leave and two (one SODC and one VWHDC) officers receiving a surplus.</p> <p><u>Risk</u></p> <p>Inconsistent approach to annual leave calculations may result in under/overpayments to staff.</p>		
<b>Management Response</b>	<b>Implementation Due Date</b>	
<p><b>Recommendation is Agreed</b></p> <p>a) Capita will review this as part of our quality assurance regime to ensure that calculations are processed correctly.</p> <p>b) Capita will support the councils as required.</p> <p>c) Capita use the calculations provided by the councils to calculate and pro-rata part-time and leavers annual leave entitlement.</p> <p>Management response: Head of Service - HR (Capita)</p>	31 August 2019	

### **3. Payroll 2018/2019**

#### **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 2018/2019 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 28. 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.

#### **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 August 2016.
- 2.2 Payroll payments are made through BACS and as of June 2017 Capita started to process payroll data through the MyView system. It is noted that the MyView system went fully live in September 2017.
- 2.3 As at the end of December 2018, the number of employees that had their payments processed through Capita payroll was 561. This comprised of 334 SODC employees and 227 VWHDC employees. From review of the payrun analysis summary, the payroll costs, i.e. basic pay, national insurance, allowance, etc. for December 2018, were £1,457,474.93, of which £979,889.02 was for SODC and £477,585.91 was for VWHDC.

#### **3. PREVIOUS AUDIT REPORTS**

- 3.1 Payroll was last subject to an internal audit review in March 2018, and 14 recommendations were raised. All 14 recommendations were agreed and a limited assurance opinion was issued.
- 3.2 Of the 14 recommendations, five have been implemented, five have not been implemented and are restated, three have been superseded and one recommendation is no longer applicable.

## **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 11 recommendations have been raised in this review. Seven high risk, three medium risk and one low risk.

## **5. MAIN FINDINGS**

### **5.1 Policies and procedures**

- 5.1.1 As part of the five councils' partnership (5CP), the payroll service is managed by Capita and a service delivery plan (SDP) is in place stating the service that will be provided. In January 2019, the five councils revised and agreed the inter-authority agreement, which includes the revised client relationship team. The client relationship team is in 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 December 2018 performance report found that the 5CP client team undertake sufficient reviewing and scrutinising as requests of 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 stored on AskHR and cover aspects of officer's pay, i.e. annual leave and bank holiday policy, on call and standby policy, overtime and allowance policy, etc. Review found that nine out of 12 HR policies require reviewing as they were last updated prior to the commencement of 5CP, and do not reflect new ways of working.
- 5.1.3 The HR and payroll team (Capita) has a business process directory that covers 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 (back office to MyView).
- 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 and security**

- 5.2.1 The Capita payroll controller is responsible for maintaining the tax code parameters on ResourceLink. HMRC notify changes to statutory deductions and tax codes, and the council line managers via Capita HR notify any other changes to officers pay, such as new starters, leavers and increments. Internal audit requested the 2018/2019 tax codes parameters to confirm that the parameters are up-to-date, accurate and independently reviewed and approved. Capita did not provide the tax code parameters and provided internal audit with six (three SODC and three VWHDC) examples of council officers tax codes being updated. Review of the examples found that the tax codes have been appropriately updated; however, internal audit could not confirm if the updates were independently review and approved.
- 5.2.2 Access to MyView is managed by the system administrators (Capita) based in Belfast. The following system access controls are in place:
- a unique user id, password and answers to security questions are required to logon to the system;

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- users are required to change their password every 90 days;
- passwords must include, at a minimum, uppercase and lowercase letters and numbers; and
- accounts are automatically disabled following three unsuccessful logon attempts.

Internal audit was informed that the MyView user access report includes the data of users from all five councils. We were unable to obtain a user access report solely for SODC and VWHDC users, therefore we could not validate whether access to MyView is revoked timely. Furthermore, as MyView is a web-based system, it can be accessed via personal devices, by users without an Active Directory account.

**5.2.3 Area assurance: Limited**

Three recommendations have been made as a result of our work in this area (Recs 6-8).

**5.3 Amendments to standing data**

- 5.3.1 Since the transfer of HR and payroll services to the 5CP, line managers are now responsible for sending HR and payroll information, i.e. new starters, leavers, amendments to data, to Capita HR. Notification forms, i.e. request to recruit, appointment, starters, leavers, contract variations and extension to contract, are held on AskHR and should be completed and signed by the line manager and the service area's accountant. Review of the notification form templates confirmed that they are up-to-date.
- 5.3.2 The MyView system went fully live on 11 September 2017 and amendment forms are held on MyView for completion by line managers. The MyView system is fully operational and line managers can now submit new starters, leavers and any changes to contracts via the system. However, due to the restructure of the service areas and teams across the councils, the hierarchy on MyView is not 100% accurate. Therefore, manual inputting of information onto the MyView system will continue until the strategic HR team is satisfied. Due to this, line managers have not received MyView training. However, Review of amendment forms on the MyView system against the notification forms confirmed that sufficient information is requested on the system.
- 5.3.3 A random sample of 30 (22 SODC and eight VWHDC (100% sample)) new starters, 25 (22 SODC and three VWHDC (100% sample)) leavers, and 18 (13 SODC and five VWHDC (100% sample)) amendments to pay and personal data were selected, and review found that:
- notification of leaver forms were fully completed.
  - All nine (four SODC and five VWHDC) amendment forms obtained were fully completed.
  - notification forms were authorised by an appropriate officer.
  - new starters were paid on the next available payrun.
  - for four (three SODC and one VWHDC) new starters, the first month's pay was incorrectly calculated. For two out of three SODC new starters, the pay was corrected on the following payrun.
  - final salary payments for five (four SODC and one VWHDC) leavers were calculated incorrectly, of which:
    - one SODC leaver was underpaid; and
    - four (three SODC and one VWHDC) leavers were overpaid.
  - for five (four SODC and one VWHDC) amendments to pay, the mid-month salary was incorrectly calculated.
- 5.3.4 During our leavers testing, internal audit established that three different calculations are used to calculate mid-month salary changes alterations, and outstanding annual leave for full-time and part-time employees. As such, a review was undertaken to confirm that the three different calculations are consistent. The three calculations are as follows:

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

Based on our review, we noted that final salary calculations for leavers are inconsistent as all three calculations resulted in a different daily rate.

**5.3.5** Overtime claim forms are submitted by the authorising line manager to Capita payroll either via the MyView online overtime claim form or via the manual overtime claim. The online overtime claim forms are automatically updated on the ResourceLink system. However, the manual overtime claim forms are entered into system by one payroll officer (Capita) and checked by another payroll officer to confirm that the amounts have been entered appropriately. A random sample of 40 (20 SODC and 20 VWHDC) overtime claims in 2018/2019 to date (January 2019) were selected and review found that there were eight (seven SODC and one VWHDC) manual overtime claim forms and 32 (13 SODC and 19 VWHDC) online overtime claims. Based on our review of the manual overtime claim forms we noted:

- the latest claim form was used, which ensures compliance with European Working Time regulations;
- claim forms were authorised by an appropriate officer;
- three (two SODC and one VWHDC) forms included overtime claims for 6hrs and 45mins in one day without at least a 20 minute break, as required by the European Working Time regulations;
- three SODC claim forms pay were incorrect:
  - one claim for 6hrs 55mins was paid 7hrs;
  - one claim for 2hrs 40mins was paid 3hrs 40mins;
  - one claim for 6hrs 45mins was paid 9hrs 45mins.

For the sample of 32 (13 SODC and 19 VWHDC) online overtime claims selected, internal audit was unable to obtain the claim forms from Capita, therefore we could not validate whether online overtime claims were processed appropriately.

**5.3.6** Area assurance: Limited

Two recommendations have been made and three restated as a result of our work in this area (Recs 2-4 and 9-10).

#### **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 HR and payroll data. The HR and 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 HR and payroll data and information is sent securely to councils via AskHR and MyView, which requires the councils' officers to log onto using a username and password. Hardcopy HR and payroll data is held securely in the Belfast office. Access to the office requires a key card and hardcopy files are stored in a locked cupboard. It is noted that access to the 5CP HR shared drive is restricted to HR staff (Capita) who work on the 5CP contract.

**5.4.2** The councils' head of finance authorises the monthly payroll run following checks made by both the finance system and procurement team leader and the strategic HR advisor.

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noted that the authorisation of the pay run does not contain any personal data, therefore is sent to the payroll team (Capita) via the standard unencrypted email system. A deputy section 151 officer has been in place since October 2017 who substitutes in the absence of the head of finance.

5.4.3 An escalation process for all 5CP services, including HR and payroll, is in place for the councils' officers to request, complain or query. There are three stages to the escalation process for HR and payroll services. The councils' officers are aware of the process as it is available via Jarvis. Review of the escalation process document found that the document is up-to-date and was last reviewed in December 2018. Performance indicators are in place to manage requests, complaints and queries, and failure to achieve the performance indicators requires Capita to explain failings and outline remedial measures to be taken.

5.4.4 Area assurance: Full

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

## **5.5 Payroll run review**

5.5.1 The payroll team (Capita) utilise 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 finance and procurement team leader and strategic HR team prior to approval by the authorised signatory, either the head of finance or the strategic finance manager.

5.5.2 Since April 2018, checks undertaken on the monthly payroll reports by the finance and procurement team leaders and strategic HR team found discrepancies and all payrolls required a re-run. Checks are undertaken on both the 5% and 10% variance reports. In addition, the payroll team (Capita) independently check the cross-referencing and reconciliations before the payroll run files are sent to the councils. However, review of the May 2018, July 2018, September 2018 and November 2018 payroll run files found that both finance and strategic HR are still logging queries. Of the 99 (77 SODC and 22 VWHDC) queries logged in the four months (May, July, September and November 2018) four (two SODC and two VWHDC) queries were due to inadequate explanations documented on the variance reports. 15 (ten SODC and five VWHDC) queries required payroll to be re-run 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 restated as a result of our work in this area (Rec 5).

## **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. However, in 2018/2019 to date (January 2019), the accountancy team (Capita) undertook the reconciliations for the months April 2018 to December 2018 in January 2019. The accountancy team (Capita) stated that due to the complexity of the reconciliation, prior to them taking it over, a review of the reconciliation was undertaken and changes to the format were made. This resulted in a delay to the reconciliations but will be undertaken on a monthly basis moving forward. Review of the payroll reconciliation established that the accountancy team (Capita) reviews any differences identified, which are either journalized 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 list**

5.7.1 The establishment list is maintained by the HR team (Capita) and is sent to the strategic HR team for review every month. Internal audit found discrepancies between the establishment list and the payroll records, therefore we undertook a further review of employees recorded on the payroll but not on the establishment list. A sample of 20 (ten SODC and ten VWHDC) employees on the payroll and not the establishment list was selected, and review found that:

- eight (five SODC and three VWHDC) were councillors;
- three (one SODC and two VWHDC) were current employees;
- nine (four SODC and five VWHDC) were leavers with a zero salary amount.

**5.7.2 Area assurance: Substantial**

One recommendation has been made as a result of our work in this area (Rec 11).

**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 1, 3, 4, 6-9</b>
<b>Medium risk</b>	Other control weakness for local management action	<b>Recs 2, 10 and 11</b>
<b>Low risk</b>	Recommended best practice to improve overall control	<b>Rec 5</b>

## OBSERVATIONS AND RECOMMENDATIONS

### PREVIOUS RECOMMENDATIONS RESTATED

#### 1. Policies and procedures

(High 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 and bank holidays policy - October 2011;</li> <li>• Annualised hours policy - May 2016;</li> <li>• Learning and development policy - September 2014;</li> <li>• Leave policy - May 2015;</li> <li>• Market premium - July 2013;</li> <li>• Maternity, paternity, adoption and surrogacy policy - May 2015;</li> <li>• Sickness absence policy - April 2013;</li> <li>• Shared parental leave policy - February 2015;</li> <li>• Travel and 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>	Strategic HR Manager
<b>Management Response</b>		<b>Implementation Due Date</b>
<p><b>Recommendation is Agreed</b> There is an ongoing project to review and update all policies. As many are contractual, meaning changes require consultation, this may take some time to complete in full. Hence the completion date of December 2019. Please note that many of the policies will be updated during the year and before this date. Management response: Strategic HR Manager</p>		31 December 2019

#### 2. MyView training

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Line managers are trained on the ResourceLink system.</p> <p><u>Findings</u> The MyView system is fully operational and line managers can now submit new starters, leavers and any changes to contracts via the system. However, due to the restructure of the service areas and teams across the councils, the hierarchy on MyView is not 100% accurate. Therefore, manual inputting of</p>	After the councils are satisfied with the accuracy of the data on the MyView system, line managers should be provided adequate system training, to enable them to accurately complete information for new starters, leavers and changes to contract.	N/A

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information onto the MyView system will continue until the strategic HR team is satisfied. Due to this, line managers have not received MyView training. <u>Risk</u> If the line managers are not trained on the MyView 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.		
<b>Management Response (Capita)</b>	<b>Implementation Due Date</b>	
Recommendation is <b>Not Agreed</b> Training of the MyView system was provided in advance of go-live. Process guides are available via AskHR for line managers and covers all self-service MyView processes. Management response: Head of Service - HR (Capita)	N/A	

  

<b>Management Response (Strategic HR)</b>		<b>Implementation Due Date</b>
Recommendation is <b>Agreed</b> In addition to the management response above, the councils have been promised resource from Capita for some additional training on MyView. Initial conversations have taken place on the content and timing of this training and so we expect this to take place during June or July 2019. Management response: Strategic HR Manager		31 July 2019

**3. Mid-month salary calculations****(High Risk)**

<b>Rationale</b>	<b>Recommendation</b>	<b>Responsibility</b>
<u>Best Practice</u> Mid-month salary calculations are independently checked to confirm accuracy. <u>Findings</u> A random sample of 30 (22 SODC and eight VWHDC (100% sample)) new starters, 25 (22 SODC and three VWHDC (100% sample)) leavers, and 18 (13 SODC and five VWHDC (100% sample)) amendments to pay and personal data were selected, review found that the mid-month salary calculations were incorrect for: <ul style="list-style-type: none"> <li>• four (three SODC and one VWHDC) new starters' first month's salary;</li> <li>• five (four SODC and one VWHDC) leavers' last month's salary;</li> <li>• five (four SODC and one VWHDC) amendment to contract salary calculations.</li> </ul> <u>Risk</u> If mid-month calculations are not independently checked, there is a risk of errors being made and not picked up resulting in under/overpayment of officers.	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.	Head of Service - HR (Capita)
<b>Management Response (Capita)</b>	<b>Implementation Due Date</b>	
Recommendation is <b>Agreed</b> Standard calculations are currently within the ResourceLink system, and Capita staff work towards these calculations as agreed. Issues are caused when changes to calculations are made by the councils on the monthly validations report. Further implementation of standard Quality Assurance and Business Assurance calibration checking to ensure accuracy of work. Corrective and Preventative action process in place for issues/errors identified going forward. Management response: Head of Service - HR (Capita)	31 August 2019	
<b>Management Response (Strategic HR)</b>	<b>Implementation Due Date</b>	
Recommendation is <b>Agreed</b>	N/A	Page 58

The councils systematically check payroll each month before it is approved (through the validation report). We will continue to check, challenge and request any supporting information or calculations, as required.

Management response: Strategic HR Manager

#### 4. Final salary calculations

(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 payroll team (Capita) when calculating pro-rata salary adjustments, full-time and part-time leaver's annual leave.</p> <p>The three calculations result in different daily rates. Using January 2019 as an example, the daily rates are calculated as follows:</p> <table border="1"> <thead> <tr> <th>Grade and SCP</th><th>Annual Salary (AS)</th><th>Hourly Salary (HS)</th></tr> </thead> <tbody> <tr> <td>G6 SCP29</td><td>£34,155.00</td><td>£17.7036</td></tr> </tbody> </table> <p><b><u>Pro-rata monthly salary</u></b> Daily Rate = AS / No. Months in Year / No. Working Days in Month £34,155.00 / 12 / 23 (Jan19) = <b><u>£123.75</u></b></p> <p><b><u>Outstanding annual leave (full-time)</u></b> Daily Rate = AS / No. Days in Year £34,155.00 / 261 = <b><u>£130.86</u></b></p> <p><b><u>Outstanding annual leave (part-time)</u></b> Daily Rate = Hourly Salary X No. Hours in Day £17.7036 x 7.4 = <b><u>£131.01</u></b></p> <p><u>Risk</u> Inconsistent final salary calculations may result in under/overpayment of staff.</p>	Grade and SCP	Annual Salary (AS)	Hourly Salary (HS)	G6 SCP29	£34,155.00	£17.7036	<ul style="list-style-type: none"> <li>a) For a consistent approach, the councils should decide on one calculation when calculating salary mid-month adjustments and leaver's annual leave pay.</li> <li>b) The decision should be proposed to the relevant stakeholders, i.e. Unison, and approved in line with the councils' joint constitution.</li> <li>c) After approval, Capita should be made aware of the decision and when to start using that one calculation.</li> <li>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.</li> </ul>	Strategic HR Manager
Grade and SCP	Annual Salary (AS)	Hourly Salary (HS)						
G6 SCP29	£34,155.00	£17.7036						
<b>Management Response</b>		<b>Implementation Due Date</b>						
<p>Recommendation is <b>Agreed</b> We thought this had been previously actioned. However, no evidence was provided, therefore this will be completed as a priority. Management response: Strategic HR Manager</p>		31 July 2019						

#### 5. Payroll variance explanations

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Detailed explanations are recorded on 5% and 10% variance reports.</p> <p><u>Findings</u> Despite the introduction of additional, in November 2017, controls by Capita to independently check payroll run files, queries are still being logged by both the finance and procurement team leader and the HR advisor. A review of query logs in May, July, September and November 2018 identified a total of 99 (77 SODC and 22 VWHDC) items queried out of</p>	On both the 5% and 10% variance reports, clear explanations should be documented for each variance so that both the finance team (5CP client) and the HR team (5CP client) understand the reasons for the variances, which may result in a lower volume of queries raised to Capita.	Head of Service - HR (Capita)

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<p>658 (430 SODC and 228 VWHDC) items per the variance reports. Of the 99 queries:</p> <ul style="list-style-type: none"> <li>• 62 queries required no further action;</li> <li>• 20 queries were due to variances caused by rectifying Capita errors in a prior period;</li> <li>• Eight queries resulting from Capita error occurring in the current month;</li> <li>• Five queries were due to variances caused by SODC or VWHDC;</li> <li>• Four queries were due to insufficient or incorrect explanations;</li> </ul> <p>As a result of the above queries and errors, the payroll was re-run in May, September and November 2018 for both SODC and VWHDC.</p> <p><u>Risk</u></p> <p>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>		
<b>Management Response</b>	<b>Implementation Due Date</b>	
<p><b>Recommendation is Agreed</b></p> <p>The variance report now contains information on any change in salary from the previous month. This is documented by payroll controllers and evidence of change is supplied upon request.</p> <p>Management response: Head of Service - HR (Capita)</p>	31 October 2019	

**SYSTEM PARAMETERS AND SECURITY****6. Independent review of tax code parameters** (High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u></p> <p>The annual tax code parameters are updated, and independently checked and approved confirming accuracy.</p> <p><u>Findings</u></p> <p>Internal audit requested the tax code parameters for 2018/2019 to confirm that the parameters are up-to-date, accurate and independently reviewed and approved. Capita payroll did not provide the 2018/2019 tax code parameters; however, internal audit obtained six (three SODC and three VWHDC) examples of council officers' tax codes being updated.</p> <p>Based on our review, the six tax codes were appropriately updated, however internal audit could not confirm if the updates were independently reviewed and approved for accuracy.</p> <p><u>Risk</u></p> <p>If tax code parameters are not independently reviewed, there is a risk of officers being taxed the wrong amount, resulting in a possible loss of income to the officers.</p>	<p>Capita payroll should ensure that the annual tax code parameter updates are independently checked and approved to confirm accuracy.</p>	Head of Service - HR (Capita)
<b>Management Response</b>	<b>Implementation Due Date</b>	
<p><b>Recommendation is Agreed</b></p> <p>Annual tax codes are implemented during the end of year process within the payroll system.</p> <p>Management response: Head of Service - HR (Capita)</p>	31 October 2019	

**7. MyView user access report**(High Risk)

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<b>Rationale</b>	<b>Recommendation</b>	<b>Responsibility</b>
<p><u>Best Practice</u> A MyView user access report for SODC and VWHDC users is readily available.</p> <p><u>Findings</u> A request was made for report of users and access levels to MyView. However, a report could not be run solely for SODC and VWHDC users, instead the report included users across all five councils.</p> <p><u>Risk</u> Lack of available MyView user access report may result in Capita HR breaching the 5CP contract agreement as user access data may be visible across the five councils.</p>	Capita should establish a way of extracting a MyView user access report for SODC and VWHDC only.	Head of Service - HR (Capita)
<b>Management Response</b>	<b>Implementation Due Date</b>	
Recommendation is <b>Agreed</b> Capita IT will review if this is possible. Management response: Head of Service - HR (Capita)	31 August 2019	

**8. MyView user access reviews**

(High Risk)

<b>Rationale</b>	<b>Recommendation</b>	<b>Responsibility</b>
<p><u>Best Practice</u> Regular MyView user access reviews are performed to ensure that access is restricted to authorised officers.</p> <p><u>Findings</u> A request was made for report of users and access levels to MyView. However, a report could not be run solely for SODC and VWHDC users, instead the report included users across all five councils. Internal audit was therefore unable to confirm whether MyView access for leavers or inactive users has been disabled in a timely manner. Furthermore, as MyView is a web-based system, it can be accessed via personal devices, without requiring users to have an Active Directory account.</p> <p><u>Risk</u> If MyView user access reviews are not regularly performed, there is a risk of unauthorised access.</p>	a) Remind Capita HR to revoke/deactivate MyView user access upon leaving the councils.  b) Establish a process for Capita HR to perform regular MyView user access reviews.	Head of Service - HR (Capita)
<b>Management Response</b>	<b>Implementation Due Date</b>	
Recommendation is <b>Agreed</b> MyView access is revoked the day following the employees last working day providing that Capita has been advised of the leaver in advance of payroll close. Management response: Head of Service - HR (Capita)	31 August 2019	

**AMENDMENTS TO STANDING DATA****9. Overtime incorrectly calculated**

(High Risk)

<b>Rationale</b>	<b>Recommendation</b>	<b>Responsibility</b>
<p><u>Best Practice</u> Staff are appropriately paid overtime.</p> <p><u>Findings</u> A random sample of 40 (20 SODC and 20 VWHDC) overtime claims in 2018/2019 to January 2019 were selected and review found that three SODC claim forms pay were incorrectly calculated. Of which:</p> <ul style="list-style-type: none"> <li>• one claim was rounded up to 7hrs when claimed 6hrs 55mins;</li> </ul>	a) The incorrect overtime claim amounts identified should be reviewed and appropriate action taken.  b) A review should be undertaken of overtime claims since April 2018 to confirm that the amount of	Head of Service - HR (Capita)

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<ul style="list-style-type: none"> <li>one claim was for 2hrs 40mins, but were paid for 3hrs 40mins;</li> <li>one claim was for 6hrs 45mins but were paid 9hrs 45mins.</li> </ul> <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>overtime claimed have been correctly paid.</p> <p>c) If incorrectly paid, the payroll team (Capita) should take appropriate action.</p>	
<b>Management Response</b>	<b>Implementation Due Date</b>	

**10. Break recorded on overtime claims**

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> All officers that claim more than six hours overtime in a single, record that they have a minimum of 20 minutes break.</p> <p><u>Findings</u> A random sample of 40 (20 SODC and 20 VWHDC) overtime claims in 2018/2019 to January 2019 were selected and review found that three (two SODC and one VWHDC) claims recorded 6hrs 45mins in one day without taking any breaks. The European Working Time Regulations require employees working over six hours in a day to take a minimum of 20 minutes break.</p> <p><u>Risk</u> Non-compliance to the European Working Time Regulations.</p>	<p>a) Remind overtime claimants of the requirement to record a minimum of 20 minutes break on overtime claims, if working more than six hours in a day, as required by the European Working Time Regulations.</p> <p>b) Remind authorising line managers of the requirement to reject any of the overtime claims, which do not record a minimum of 20 minutes break on overtime claims, if working more than six hours in a day.</p>	Strategic HR Manager
<b>Management Response</b>	<b>Implementation Due Date</b>	
<p><b>Recommendation is Agreed</b> Strategic HR Manager to send communication reminding people of the rule on taking breaks every six hours.</p> <p>Management response: Strategic HR Manager</p>	30 June 2019	

**ESTABLISHMENT LIST****11. Establishment list maintenance**

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> The establishment list is maintained by the strategic HR team and reconciles with payroll.</p> <p><u>Findings</u> Internal audit reconciled the establishment list with the payroll records and found:</p> <ul style="list-style-type: none"> <li>149 (76 SODC and 73 VWHDC) personnel on the payroll were not recorded on the establishment list;</li> <li>11 (two SODC and nine VWHDC) personnel on the establishment list were not recorded on the payroll.</li> </ul>	<p>a) Perform a review of the establishment list to ensure it is complete and accurate.</p> <p>b) Establish an agreed upon procedure to regularly reconcile the establishment list and payroll records.</p>	Strategic HR Manager

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<p>A random sample of 20 (ten SODC and ten VWHDC) personnel recorded on the payroll list but not on the establishment list was selected and review found that:</p> <ul style="list-style-type: none"> <li>• eight (five SODC and three VWHDC) were councillors;</li> <li>• three (one SODC and two VWHDC) were current employees; and</li> <li>• nine (four SODC and five VWHDC) were leavers with a zero salary amount.</li> </ul> <p><u>Risk</u> If the establishment list does not reconcile with the payroll, there is a risk of ghost employees being set up and paid, resulting in a financial loss to the council.</p>		
<b>Management Response</b>	<b>Implementation Due Date</b>	
<p><b>Recommendation is Agreed in Principle</b> We will review the best way to achieve this. However, we won't be able to commence this task until the hierarchy has been updated. Management response: Strategic HR Manager</p>	31 August 2019	

## 4. Petty Cash Procedures 2018/2019

### 1. INTRODUCTION

- 1.1 This report details the internal audit review of procedures, controls and the management of risk in relation to petty cash procedures. The audit has been undertaken in accordance with the 2018/2019 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 17. 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 and up to date petty cash procedures are in place that comply with relevant policies and financial regulations.
  - petty cash floats are kept secure and maintained in accordance with agreed procedures.

### 2. BACKGROUND

- 2.1 Petty cash is made available to fund small items of work related expenditure that may be uneconomical to purchase through normal methods such as official orders. The arrangements for establishing petty cash floats are set out in the councils' financial procedure rules and are agreed by the section 151 officer.
- 2.2 During 2018/2019, a total of £1,368.74 (£536.14 SODC and £832.60 VWHDC) was replenished to the petty cash floats at 135 Milton Park, £2,071.48 (£1,174.99 Cornerstone and £896.49 Cornerstone Café) at Cornerstone and £968.78 at The Beacon.

### 3. PREVIOUS AUDIT REPORTS

- 3.1 Petty cash spot checks review was last subject to an internal audit review in May 2018 and one recommendation was raised and agreed. A full assurance opinion was issued.
- 3.2 The recommendation was implemented; therefore, no recommendations were carried forward as a result of our work.

### 4. 2018/2019 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 Six recommendations have been raised in this review. Two high risk, three medium risk and one low risk.

### 5. MAIN FINDINGS

#### 5.1 Petty cash procedures

- 5.1.1 Petty cash guidance is in place and available to all staff via the councils' intranet. Petty cash is held in the cash office at 135 Milton Park, Cornerstone and The Beacon. Working procedures are in place and comprehensive at both the cash office and Cornerstone. However, review of the petty cash procedures at The Beacon found that the procedures do

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not state that a valid VAT receipt is required when claiming petty cash. Working procedures at all three sites are available to relevant staff via their shared drive.

#### 5.1.2 Area assurance: Substantial

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

### 5.2 Petty cash maintained in line with procedures

5.2.1 Petty cash floats at 135 Milton Park, Cornerstone and The Beacon are kept in locked petty cash tins, which are held securely in a safe at each location, accessible only to authorised staff. It is noted that the security of the floats, and the float amounts held are in line with councils' insurance policy.

5.2.2 As mentioned in 5.1.1 above, the councils' have in place petty cash guidance, which is available to staff via the councils' intranet. In addition, Capita customer services (who manage petty cash handling at 135 Milton Park), Cornerstone and The Beacon have their own petty cash procedures. Internal audit undertook a review to confirm that petty cash processes are performed in line with procedures and council guidance.

#### 5.2.3 135 Milton Park - managed by Capita customer services

Internal audit obtained 100% petty cash reimbursement forms since the last petty cash imprest top-up in January 2019 (for both SODC and VWHDC). Review of the 23 (11 SODC and 12 VWHDC) petty cash claims since January 2019 found that both SODC and VHWDC petty cash processes undertaken by Capita customer services, are in line with their procedures and council guidance.

#### 5.2.4 Cornerstone

Internal audit obtained 100% sample of petty cash vouchers in 2018/2019 for both the Cornerstone and the Cornerstone café. Review identified seven Cornerstone and six Cornerstone café petty cash vouchers to top-up the petty cash, and 123 Cornerstone and 142 Cornerstone café petty cash claims. It was noted that petty cash processes at the Cornerstone and the Cornerstone café are not performed in line with their procedures and council guidance. The following was noted:

- on three (one Cornerstone and two Cornerstone café) occasions, the petty cash balance was incorrectly carried forward on the petty cash claim records, following top-up;
- VAT was not coded separately, therefore the council was unable to reclaim the VAT;
- petty cash was regularly used for disallowed items, including stationary, tools and materials, food, eye tests, fuel, and taxi journeys; and
- for 15 (13 Cornerstone and two Cornerstone café) petty cash claims, a VAT receipt was not submitted.

#### 5.2.5 The Beacon

Internal audit obtained 100% sample of petty cash vouchers in 2018/2019 for The Beacon and review identified 11 petty cash vouchers to top-up the petty cash, and 136 petty cash claims were made. Review found that the petty cash processes at The Beacon are not undertaken in line with their procedures and council guidance. The following was noted:

- on the 1<sup>st</sup> of every month the petty cash spreadsheet is topped up to £300.00. However, the petty cash float is not physically topped up until later in the month, or the following month, following receipt of the funds from the Accounts Payable team;
- on two occasions, the petty cash float was topped up to over the £300.00 limit; however, the balance recorded on the petty cash spreadsheet was £300.00;
- for 101 petty cash claims, there was no segregation of duties between the claimant and the authorising officer (i.e. submitted and authorised by the same individual);

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- one petty cash claim above the £20.00 transactional limit was not approved by the approving officer as stated in the petty cash procedures; and
- VAT was not coded separately, therefore the council was unable to reclaim the VAT.

**5.2.6 Area assurance: Limited**

Five recommendations have been made as a result of our work in this area (Recs 2-6).

**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 2 and 3</b>
<b>Medium risk</b>	Other control weakness for local management action	<b>Recs 4 - 6</b>
<b>Low risk</b>	Recommended best practice to improve overall control	<b>Rec 1</b>

**OBSERVATIONS AND RECOMMENDATIONS****PETTY CASH PROCEDURES****1. The Beacon petty cash procedures - VWHDC only (Low Risk)**

Rationale	Recommendation	Responsibility
<u>Best Practice</u> Petty cash procedures are up-to-date and in line with councils' guidelines and Constitution. <u>Findings</u> The Beacon's petty cash procedures do not state that petty cash claims must be submitted with a valid VAT receipt. <u>Risk</u> Outdated petty cash procedures may increase the risk of staff not following the correct process, resulting in a breach of the councils' Constitution.	Review and update The Beacon's petty cash procedures to specify the requirement for petty cash claims to be submitted with a valid VAT receipt.	N/A
Management Response	<b>Implementation Due Date</b>	
<u>Recommendation is Agreed</u> Petty cash procedures have now been amended. Management response: Beacon Director		Implemented

## PETTY CASH MAINTAINED IN LINE WITH PROCEDURES

### 2. Petty cash reconciliation

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Petty cash is reconciled on a regular basis.</p> <p><u>Findings</u> Based on our review of a 100% sample of petty cash vouchers at the Cornerstone (seven) and the Cornerstone café (six) in 2018/2019, it was noted that on three (one Cornerstone and two Cornerstone café) occasions, the petty cash balance was incorrectly carried forward on the petty cash claim records, following top-up.</p> <p>In addition, review of 11 petty cash vouchers at The Beacon (100% sample) in 2018/2019 identified the following:</p> <ul style="list-style-type: none"> <li>• on the 1st of every month the petty cash spreadsheet is topped up to £300.00. However, the petty cash float is not physically topped up until later in the month, or the following month, following receipt of the funds from the Accounts Payable team; and</li> <li>• on two occasions, the petty cash float was topped up to over the £300.00 limit; however, the balance recorded on the petty cash spreadsheet was £300.00.</li> </ul> <p><u>Risk</u> If petty cash records are not reconciled on a regular basis, errors may go undetected and petty cash may either be lost or stolen.</p>	<p>a) Cornerstone should, with support from accountancy, establish an agreed upon process to regularly reconcile petty cash records against the petty cash float, ensuring any discrepancies are investigated and resolved.</p> <p>b) The Beacon should, with support from accountancy, establish an agreed upon process to regularly reconcile petty cash records against the petty cash float, ensuring any discrepancies are investigated and resolved.</p>	Arts Centre Director (Cornerstone)  Director and Duty Officers (The Beacon)
<b>Cornerstone - Management Response</b>		<b>Implementation Due Date</b>
<p><b>Recommendation is Agreed</b> Cornerstone staff agree with the recommendation and will ensure that correct processes are put in place to ensure accurate reconciliation of petty cash records and will ensure these processes are fully agreed with accountancy. Management response: Arts Centre Director</p>		30 June 2019
<b>The Beacon - Management Response</b>		<b>Implementation Due Date</b>
<p><b>Recommendation is Agreed</b> Our petty cash procedure has been amended and the petty cash will be reconciled after each transaction. The recording spreadsheet is being checked by accountancy and once it has been confirmed as correct and up-to-date we will ensure that on the day the funds are received, and the float topped up this will be recorded on the sheet, therefore the correct amount in the tin is always showing on the recording sheet. Management response: Beacon Director</p>		24 May 2019

### 3. Petty cash claims - SODC only

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Petty cash claims are processed in line with council guidance.</p> <p><u>Findings</u> Internal audit reviewed 265 petty cash claims in 2018/2019 across the Cornerstone (123 claims) and the Cornerstone café (142). Review found the following non-compliance to petty cash procedures:</p> <ul style="list-style-type: none"> <li>• regular petty cash claims for stationary items (e.g. 3 claims between 27 November and 4</li> </ul>	Formal reminder or training, from accountancy, should be provided to ensure that Cornerstone: <ul style="list-style-type: none"> <li>• purchase all stationary through the council's contracted stationary supplier, Lyreco.</li> </ul>	Arts Centre Director

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<p>December 2018) and tools and materials (e.g. 5 claims between 9 May and 10 July 2018), which should be purchased via the standard procurement process.</p> <ul style="list-style-type: none"> <li>• travel and subsistence related expenditure:           <ul style="list-style-type: none"> <li>◦ one claim for eye test costs;</li> <li>◦ two claims for taxi fares;</li> <li>◦ one claim for train travel;</li> <li>◦ one claim for mileage</li> </ul> </li> <li>• for 15 petty cash claims a valid VAT receipt was not submitted.</li> </ul> <p><b>Risk</b> Use of petty cash for disallowable items (e.g. stationary, travel costs) may increase the risk of unauthorised spend. Lack of a valid VAT receipt may result in the council being unable to reclaim VAT on petty cash purchases.</p>	<ul style="list-style-type: none"> <li>• Purchase all tools and materials via the accounts payable system.</li> <li>• claim back all expenses, i.e. eye tests, taxi fare, train tickets and fuel, via payroll expenses on the MyView system.</li> <li>• only accept petty cash claims if a valid VAT receipt is submitted.</li> </ul>	
<p><b>Management Response</b></p> <p>Recommendation is <b>Agreed</b> Cornerstone will ensure that it minimises petty cash usage for supply of goods that can be purchased effectively through accounts. Now we are aware of the Council account with ToolStation, we will endeavour to use that account as required. The team have also been informed to ensure they observe better planning to reduce the need for short term ordering of goods. Staff expenses should not come through petty cash, and we will ensure processes are put in place for expenses to be paid in the correct manner. Some of the items listed above were not staff claims, but rather urgent items of transport etc needed from freelancers working on our Christmas show. We will endeavour to limit this as well and request these are invoiced for wherever possible. The Cornerstone team have been fully briefed and reminded of the need for VAT receipts for all purchases that are within the scope of VAT. Management response: Arts Centre Director</p>	<p><b>Implementation Due Date</b></p> <p>30 June 2019</p>	

**4. Cornerstone café stock control - SODC only** **(Medium Risk)**

Rationale	Recommendation	Responsibility
<p><b>Best Practice</b> Food and drink stocks are managed so that minimal amounts of food and drink is purchased via petty cash.</p> <p><b>Findings</b> Review of 142 petty cash claims for the Cornerstone café in 2018/2019 (100% sample) found that regular purchases of food and drink for the café have been claimed via petty cash. For example, during the period 2 June to 13 July 2018 there were 16 claims for food items and three claims for drinks.</p> <p><b>Risk</b> Regular petty cash purchases for food and drink may increase the risk of unauthorised or inappropriate spend.</p>	<p>a) A review of the stock control processes should be undertaken to identify the reason for regular petty cash spend on food/drink.</p> <p>b) Based on the results of a), Cornerstone should establish controls to ensure that regular petty cash is limited in the future.</p>	Arts Centre Director
<p><b>Management Response</b></p> <p>Recommendation is <b>Agreed</b> Wherever possible we will try to limit the need to use petty cash for cornerstone café food/drink items. Stock control processes will be reviewed to ensure we can hold as much stock purchased on account as possible without risking higher levels of wastage. There will still be occasions where due to unusual demand or other mitigating factors that emergency purchases are required for fresh and perishable goods, but if we have good processes in place to minimise activity these will become the exception not the norm.</p>	<p><b>Implementation Due Date</b></p> <p>31 July 2019 (Mainly to ensure time to discuss planned changes with accountancy and set-up new purchasing accounts if we need to.)</p>	

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There is also a need to look at savings that can be achieved by purchasing certain goods through local supermarkets. Some items are cheaper this way and a decision needs to be made whether the cost savings on these items warrant this as a fair use of cash, or whether the requirement to limit cash purchasing is more important than the saving. We will discuss this further with accountancy to ensure we have a clear steer and agree a way forwards.

Management response: Arts Centre Director

**5. VAT coding****(Medium Risk)**

<b>Rationale</b>	<b>Recommendation</b>	<b>Responsibility</b>
<p><u>Best Practice</u> VAT is correctly coded in the Agresso financial system for petty cash purchases to support the VAT reclaim process.</p> <p><u>Findings</u> Review of 100% sample of 24 petty cash vouchers at the Cornerstone (seven), the Cornerstone café (six) and The Beacon (11) in 2018/2019 found that VAT was not coded separately, therefore the councils were not reclaim the VAT on these petty cash purchases.</p> <p><u>Risk</u> If VAT is not recorded for petty cash transactions, there is a risk of the councils not being able to reclaim the VAT resulting in increased cost.</p>	<p>a) Formal reminder or training, from accountancy, should be provided to Cornerstone staff about the requirement to separate VAT on the accounts payable payment voucher and to ensure it is coded correctly, to enable the councils to reclaim the VAT.</p> <p>b) Formal reminder or training, from accountancy, should be provided to The Beacon staff about the requirement to separate VAT on the accounts payable payment voucher and to ensure it is coded correctly, to enable the councils to reclaim the VAT.</p>	Arts Centre Director (Cornerstone)  Director and Duty Officers (The Beacon)  Strategic Finance Manager
<b>Cornerstone - Management Response</b>		<b>Implementation Due Date</b>
<p>Recommendation is <b>Agreed</b> Agreed to separate and code VAT correctly on the accounts payable payment form.</p> <p>Management response: Arts Centre Director</p>		30 June 2019
<b>The Beacon - Management Response</b>		<b>Implementation Due Date</b>
<p>Recommendation is <b>Agreed</b> When the Director or Duty officer requests the payment, via our Admin team, they will break the request down to include the VAT. This will be done from our next payment request.</p> <p>Management response: Beacon Director</p>		24 May 2019
<b>Accountancy - Management Response</b>		<b>Implementation Due Date</b>
<p>Recommendation is <b>Agreed</b> Accountancy agree to provide assistance to both Cornerstone and The Beacon to ensure that transactions are coded appropriately.</p> <p>Management response: Strategic Finance Manager</p>		30 June 2019

**6. The Beacon segregation of duties - VWHDC only****(Medium Risk)**

<b>Rationale</b>	<b>Recommendation</b>	<b>Responsibility</b>
<p><u>Best Practice</u> Segregation of duties is in place between the individual submitting and authorising petty cash claims.</p> <p><u>Findings</u> Review of 136 petty cash claims at The Beacon (100% sample) in 2018/2019 found that for 101 claims there was no segregation of duties between the individual submitting the petty cash claim and the individual authorising the claim.</p>	A formal reminder should be issued to The Beacon staff stating the requirement for segregation of duties between the individual submitting the petty cash claim and the individual authorising the claim.	N/A

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<u>Risk</u> Lack of segregation of duties between the individual claiming and authorising petty cash claims increases the risk of unauthorised or inappropriate spend.		
<b>Management Response</b>		<b>Implementation Due Date</b>
Recommendation is <b>Agreed</b> This has been done via a meeting on 10 May 2019. Management response: Beacon Director		Implemented

## **5. Pro-Active Anti-Fraud Review 2018/2019**

### **1. INTRODUCTION**

- 1.1 This report details the internal audit review of procedures, controls and the management of risk in relation to pro-active anti-fraud review. The audit has been undertaken in accordance with the 2018/2019 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 26. 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:
- anti-fraud and corruption controls with the councils' systems and associated functions are sufficient to identify and reject false transactions/exceptions/data entry errors;
  - upon a data entry being identified as inappropriate/unauthorised, management review the data and the appropriate action is taken within the system;
  - any remedial action is taken promptly by management, clearly documented and where appropriate reported to the Section 151 Officer and internal audit;
  - management are taking action to enhance the anti-fraud and corruption controls within the system where ongoing issues are identified.

### **2. BACKGROUND**

- 2.1 The councils have a joint anti-fraud, bribery and corruption policy, which was approved by SODC's Cabinet member on 8 February 2010 and VWHDC's Cabinet member on 16 March 2010. The policy was last reviewed and updated in May 2016. This is supported by an anti-fraud and corruption response plan covering how the councils should respond to suspected or apparent irregularities, fraud or corruption.

### **3. PREVIOUS AUDIT REPORTS**

- 3.1 Pro-active anti-fraud was last subject to an internal audit review in March 2018 and one recommendation was raised. The recommendation was agreed. A substantial assurance opinion was issued.
- 3.2 The recommendation has been implemented. No recommendations have been restated as part of this review.

### **4. 2018/2019 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 Three high risk recommendations have been raised in this review.

## **5. MAIN FINDINGS**

### **5.1 Overall**

5.1.1 A set of eight tests were identified that could be undertaken in order to check that controls are in place to identify and appropriately manage fraudulent activities across key financial and IT processes. The tests were discussed with and approved by the audit manager and head of finance (s151 officer) prior to their initiation.

5.1.2 The tests carried out were:

- Submission of six (three SODC and three VWHDC) fraudulent invoices for payment through the Agresso accounts payable (AP) module. The tests involve fictitious and duplicate invoices as well as variations to an existing invoice.
- A false request to change an existing supplier's bank details.
- A dummy member and officer's expense claims.
- A request to change an officer's bank details within the payroll system.
- A dummy request for a new IT user.

5.1.3 From the eight tests undertaken, internal audit established control weaknesses for three tests, as five tests were appropriately checked and identified as suspicious and were not fulfilled.

5.1.4 Area assurance: Limited

Three recommendations have been made as a result of our work in this area (Recs 1-3).

### **5.2 Specific tests**

5.2.1 Two (one SODC and one VWHDC) dummy invoices for two fictitious businesses were submitted directly to Capita services. During the review, the Agresso AP module was monitored to check if any activity had been undertaken with the dummy invoices. After three months of monitoring no details were found regarding these fictitious businesses. It is noted that on a weekly basis, the councils' revenues and benefits team receive the returned invoices spreadsheet and review of the spreadsheet confirmed that the dummy invoices were reported to the councils, which is in accordance with agreed procedures. Internal audit was satisfied that Capita services did not register the invoice onto the AP module.

5.2.2 Area assurance: Full

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

5.2.3 Two (one SODC and one VWHDC) dummy invoices for two existing suppliers were submitted to SODC and VWHDC. Monitoring of the Agresso AP module found that both invoices were not processed. Internal audit was satisfied that Capita services did not register the invoices onto the AP module and reported them to the council's revenues and benefits team, which is in accordance with agreed procedures.

5.2.4 Area assurance: Full

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

5.2.5 Two (one SODC and one VWHDC) duplicate invoices were submitted directly to Capita services. During the review, the Agresso AP module was monitored to check if any activity had been undertaken with the duplicate invoices. After six months of monitoring no details were found regarding these suppliers. Internal audit was satisfied that Capita services did not register the invoices onto the AP module.

5.2.6 Area assurance: Full

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

- 5.2.7 A request was submitted to Capita to change the bank details of an existing supplier. Regular reviews of the supplier details on the Agresso AP module were undertaken and internal audit found that the bank details were updated following the request, and BACS payment was subsequently made to the fraudulent bank account. Capita followed the supplier amendment process and notified the relevant service area; however, the service area did not undertake sufficient checks, by confirming the change of bank details with the supplier, prior to authorising the change request.
- 5.2.8 Area assurance: Limited  
One recommendation has been made as a result of our work in this area (Rec 1).
- 5.2.9 The constitution includes a section covering the members' allowances scheme, which states that expense claims will not be paid unless claiming for official business. In this test, the fraudulent member's expense claim form was queried by democratic services. Internal audit was satisfied that appropriate checks were carried out prior to authorisation for payment.
- 5.2.10 Area assurance: Full  
No recommendations have been made as a result of our work in this area.
- 5.2.11 A non-finance officer agreed to submit an expense claim without a valid receipt via MyView. The expense claim was checked, and the missing receipt was queried by their line manager. Internal audit was satisfied that the expense claim was rejected by the line manager as a valid receipt was not attached to the claim.
- 5.2.12 Area assurance: Full  
No recommendations have been made as a result of our work in this area.
- 5.2.13 A request to change an officer's bank details was submitted to Capita payroll via AskHR. During the test, the officer's payroll system was reviewed to establish if their bank details were changed, and the officer was asked if they were notified of the change. Control weaknesses were identified as the bank details were changed on the payroll system without verifying the request with the officer.
- 5.2.14 Area assurance: Nil  
One recommendation has been made as a result of our work in this area (Rec 2).
- 5.2.15 A request for network, email, and telephone access was submitted to Capita IT helpdesk for a fictitious user. Capita IT helpdesk actioned the request without querying it with the requesting officer's service manager. Control weaknesses were identified as Capita IT helpdesk did not validate the legitimacy of the request submitted by an officer and not a service manager.
- 5.2.16 Area assurance: Nil  
One recommendation has been made as a result of our work in this area (Rec 3).

## **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**

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- 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 1, 2 and 3</b>
<b>Medium risk</b>	Other control weakness for local management action	
<b>Low risk</b>	Recommended best practice to improve overall control	

## **OBSERVATIONS AND RECOMMENDATIONS**

### **PRO-ACTIVE ANTI FRAUD REVIEW TESTS**

#### **1. Supplier bank detail changes**

(High Risk)

Rationale	Recommendation	Responsibility
<u>Best Practice</u> Requests to change supplier bank details are sent to the relevant service area, who then queries the request directly with the supplier. <u>Findings</u> The spurious request by internal audit, to change an existing supplier's bank details was processed by Capita, following approval from the service area. Capita followed the proper procedures; however, the service area did not contact the supplier to validate the legitimacy of the request. <u>Risk</u> Payments to fictitious suppliers, resulting in financial loss and reputational damage.	a) Update the email request to service areas, to include a reminder to validate change requests with the supplier prior to authorisation. b) Finance should remind all service areas to check with their suppliers if any directive to change supplier details are received prior to completing the supplier amendment form and sending the form to Capita. c) Include the supplier amendment procedures and potential risks in future Agresso training.	Finance Systems and Procurement Team Leader
<b>Management Response</b>		<b>Implementation Due Date</b>
<u>Recommendation is Agreed</u> a) A script has been agreed with Capita accounts payable team which will be sent to service teams if a request to change bank details is received. The script advises the service team to follow the councils' procedures and verify the request with the supplier before submitting a change of supplier details form to Capita. b) An email will be issued to all service teams by the Finance Systems & Procurement Team Leader to remind them of the process to follow when requests are received to update supplier bank details – the information will correspond with the script agreed with Capita's accounts payable team. c) A programme of Agresso training will be rolled out during Spring and Summer which will include a section concerning changes to suppliers' bank details.  Management response: Finance Systems and Procurement Team Leader		1 October 2019

#### **2. Employee bank account change**

(High Risk)

Rationale	Recommendation	Responsibility
<u>Best Practice</u> Employee change requests (e.g. personal information, bank details) are verified with the individual prior to processing. <u>Findings</u>	Remind Capita HR officers of the requirement to immediately report any change requests on behalf of another officer to both strategic HR and internal audit	Head of Service - HR (Capita)

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A request to change an officer's bank details was submitted to Capita payroll via AskHR. During the test, the officer's payroll system was reviewed to establish if their bank details were changed, and the officer was asked if they were notified of the change. The bank details were changed on the payroll system without validating the request with the officer.  <u>Risk</u> If change requests are not verified, there is a risk of spurious requests being undertaken and salaries being paid into the wrong bank account.	immediately. Furthermore, the individual whose details are requested to be changed should also be notified.	
<b>Management Response (Capita)</b>		<b>Implementation Due Date</b>
Recommendation is <b>Agreed</b> The recommendation is aligned to the current BAU process, which Capita staff has been working against. This is currently supported by operational process training/Capita group essential training (including essential Anti-Fraud, GDPR, and Data Protection training). To ensure compliance, a reminder briefing will be sent to all staff by the internal Business Assurance team - and all staff with complete sign-off to confirm. This will be followed up by BA team and Senior Management. Management response: Head of Service - HR (Capita)	31 May 2019	

**3. New user access set up** (High Risk)

<b>Rationale</b>	<b>Recommendation</b>	<b>Responsibility</b>
<u>Best Practice</u> Requests to set up a new user onto the IT network are validated with the relevant service manager or head of service prior to set up.  <u>Findings</u> A request for network, email, and telephone access was submitted to Capita IT helpdesk for a fictitious user. Capita IT helpdesk actioned the request without querying it with the requesting officer's service manager or head of service. Capita IT helpdesk did not validate the legitimacy of the request submitted by an officer and not a service manager.  <u>Risk</u> Unauthorised or inappropriate access to IT systems, which may lead to data loss and reputational damage.	A reminder should be sent to all Capita IT helpdesk operatives to only accept request for a new IT user set up from service managers and above.	IT Service Delivery Manager (Capita)
<b>Management Response</b>		<b>Implementation Due Date</b>
Recommendation is <b>Agreed</b> We have been conducting a full review of the joiners, movers and leavers (JML) process. I have an action to produce an authorisation matrix to ensure all requests are appropriately approved. We plan to complete this activity by the end of May 2019. Management response: IT Service Delivery Manager (Capita)	31 May 2019	

## **6. Sundry Debtors 2018/2019**

### **1. INTRODUCTION**

- 1.1 This report details the internal audit review of procedures, controls and the management of risk in relation to sundry debtors. The audit has been undertaken in accordance with the 2018/2019 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 24. 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 in place;
  - sundry debtor invoices, including periodic income, are promptly raised and adequately authorised through Agresso;
  - there is adequate documentation to support invoices raised;
  - there is an effective recovery process in operation;
  - aged debt, cancellations and debt write-offs are controlled independently and carried out in accordance with the councils' financial regulations and justifiable reasons provided;
  - suppressions are controlled and monitored independently.

### **2. BACKGROUND**

- 2.1 From 1 August 2016, the sundry debtors service continues to be provided as part of the five councils partnership (5CP). Sundry debtors are processed and managed by the Capita exchequer services team based at Mendip District Council. Capita provide the system administration for the accounts receivable function through the financial management system Agresso.
- 2.2 The aged debt report as at 31 December 2018 shows outstanding debt (>31 days) of £58,742.63 for SODC and £81,749.58 for VWHDC.

### **3. PREVIOUS AUDIT REPORTS**

- 3.1 Sundry debtors was last subject to an internal audit review in March 2018 and five recommendations were raised. All five recommendations were agreed. A satisfactory assurance opinion was issued.
- 3.2 Of the five recommendations, three recommendations have been implemented, one has not been implemented and restated, and one recommendation was superseded.

### **4. 2018/2019 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 Two recommendations have been raised and one prior year recommendation is restated. One is high risk, one is medium risk and one recommendation is low risk.

### **5. MAIN FINDINGS**

## 5.1 Policies and procedures

- 5.1.1 The councils do not specifically have a policy in place for sundry debtors; however, the financial procedure rules, which form part of the Constitution, set out how the councils manage their finances, including sundry debts. A corporate debt recovery strategy is also in place, which covers the management of debts and across the councils. The constitution and corporate debt recovery strategy are up-to-date and were last reviewed in June 2018 and August 2018 respectively. The latest updates to the Constitution were approved at both Council meetings in May 2018. The constitution is available on the councils' website and the corporate debt recovery strategy is published on the councils' intranet.
- 5.1.2 Procedures are in place for sundry debtors, which clearly define the roles and responsibilities of council officers and Capita exchequer services staff. The procedures are available to relevant officers via the intranet. It is noted that Capita exchequer services also have procedures in place for the sundry debtors related processes.
- 5.1.3 As part of the five councils' partnership (5CP) a service delivery plan (SDP) has been developed stating the service that will be provided. The revenues and benefits team manage the client relationship with Capita for the sundry debtors' part of the contract to ensure that an acceptable level of service is provided to the councils through performance reporting. Monthly meetings are attended by the revenues and benefits team and Capita to ensure that the service team debts are being managed in line with the service level agreements (SLA). Monthly aged debt reports are sent to the heads of service for regular monitoring.
- 5.1.4 Area assurance: Full  
No recommendations have been made as a result of our work in this area.

## 5.2 Sundry debtor invoices

- 5.2.1 Roles and responsibilities are split between the council and Capita. Sales orders are raised on Agresso by authorised council officers, converted into sales invoices, and sent to the customer by Capita. Customer master files are maintained by both Capita and council officers; however, some customer information, such as bank details can only be updated by Capita officers.
- 5.2.2 Periodic or subscription invoices are used for invoices raised on a regular basis for brown bins and commercial property rent. It is noted that invoices for brown bins have been reviewed as part of the brown bins audit undertaken in October 2018, and invoices for commercial property rent will be reviewed in March 2019 as part of the property management audit. Periodic invoices follow the same process as regular sales invoices.
- 5.2.3 Based on our review of a random sample of 40 sundry debtor invoices raised in 2018/2019 to date (January 2019), we noted the following:
- sales invoices were raised in a timely manner; and
  - customers were charged the appropriate fees and charges.
- 5.2.4 Area assurance: Full  
No recommendations have been made as a result of our work in this area.

## 5.3 Supporting documentation

5.3.1 The documentation available to support the invoices raised vary dependent on the service being provided. A random sample of 40 sundry debtors was selected and review found invoices raised, i.e. room hire, licence fee and commercial property rent. Testing confirmed that all invoices raised had adequate documentation to support the details and amount being invoiced.

5.3.2 Area assurance: Full

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

#### **5.4 Debt recovery process**

5.4.1 The councils' corporate debt recovery strategy outlines the sundry debtors' procedure, recovery process and timetable. The recovery process has four stages which commences with a payment reminder after 14 days from the due date, a final notice after a further seven days and legal action after a further 21 days. The fourth stage involves identifying what action has been taken after legal action has commenced i.e. payment arrangements or court summons.

5.4.2 A review of the debt recovery process was tested in the sample of 40 sundry debtor invoices (20 SODC and 20 VWHDC), which is recorded in 5.5.1. Based on the sundry aged debts review, we confirmed that debts were pursued in line with the corporate debt recovery strategy.

5.4.3 Area assurance: Full

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

#### **5.5 Aged debt and write offs**

5.5.1 On a monthly basis, Capita exchequer services sends the aged debt report to the revenue and benefits client manager, which is reviewed and distributed to senior management and the Cabinet members for finance. Legal services receive a separate legal list that they monitor and email to service areas with regards to the outstanding debts in their area. A random sample of 40 (20 SODC and 20 VWHDC) aged sundry debts as at 31 December 2018 were selected and review found that:

- corporate debt recovery procedures were followed, including communicating to legal for recovery;
- for two (one SODC and one VWHDC) accounts in debt, no legal action has been taken with the debts being on the legal list since 21 December 2018 and 21 August 2018 respectively; and
- for three (one SODC and two VWHDC) debt accounts, legal notified the service area but received no response to start legal recovery action.

5.5.2 Internal audit reviewed the aged debt report and sorted the aged debts into customers to establish how many of the aged debts related to one debtor. Review found that out of 1,149 (679 SODC and 470 VWHDC) there were 75 (45 SODC and 30 VWHDC) debtors with more than one aged debt. Of the 75 debtors, a random sample of 20 (six SODC and 14 VWHDC) accounts was selected and found that:

- six (three SODC and three VWHDC) aged debts require write off;
- the councils are in dispute with three (one SODC and two VWHDC) customers; and
- four (one SODC and three VWHDC) debts were not picked up by the debt recovery process and no recovery actions were taken.

- 5.5.3 A random sample of 40 (20 SODC and 20 VWHDC) write offs was selected and review confirmed that sundry debts were:
- written off for an appropriate reason;
  - included in a write off batch managed and recorded by the councils' revenue and benefits officer;
  - appropriately authorised prior to being written off;
  - actioned within five working days of being approved; and
  - signed off by the revenue and benefits manager as reconciled after the batch had been entered by Capita.

Furthermore, review of the write off reconciliations confirmed that write off amounts per Agresso agreed to the batch reports held by the revenues and benefits team.

- 5.5.4 Area assurance: Limited

Two recommendations have been made and one previous recommendation has been restated as a result of our work in this area (Recs 1, 2 and 3).

## 5.6 Supressed invoices

- 5.6.1 Sundry debtor invoices/accounts requiring suppression must be authorised by the council officer and requested to Capita's exchequer services. The monthly SLA performance statistics provided to the council by Capita, through the revenues and benefits team, reports on any accounts receivable invoices that have been suppressed for that period. Internal audit reviewed the invoice suppression process and can confirm that there are sufficient controls and monitoring arrangements in place for suppressed invoices. Review of the latest SLA performance statistics report found that there were only two (one SODC and one VWHDC) invoices/accounts suppressed.

- 5.6.2 Area assurance: Full

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>Rec 3</b>
<b>Medium risk</b>	Other control weakness for local management action	<b>Rec 2</b>
<b>Low risk</b>	Recommended best practice to improve overall control	<b>Rec 1</b>

## OBSERVATIONS AND RECOMMENDATIONS

### PREVIOUS RECOMMENDATION RESTATED

**1. Aged debt review****(Low Risk)**

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Aged debts are regularly reviewed to consider the cost effectiveness and likelihood of recovery actions.</p> <p><u>Findings</u> Review of the aged sundry debtors report as at 31 December 2018, identified 378 (25.2%) out of 1,498 SODC accounts and 152 (8.3%) out of 1,842 VWHDC accounts with an aged debt over 12 months. Based on a random sample of 20 (six SODC and 14 VWHDC) sundry debtor accounts with more than one outstanding invoice, we noted that six (three SODC and three VWHDC) debtors' aged debtor invoices required write off.</p> <p><u>Risk</u> If debts are not written off in a timely manner, there is a risk of more costs being incurred than the value of debt recovery.</p>	A review of the aged debt should be undertaken, and a decision be made on long term outstanding debts to either write off or progress alternative action.	Property Team Leader  Revenues and Benefits Client Manager  Litigation Lawyer
Management Response	Implementation Due Date	
<p>Recommendation is <b>Agreed</b> Generally, debts are written off promptly, however the debts found during the audit were property debts which due to the outsourcing of the property team, the service suffered, including its engagement in the debt management process. Now it has been insourced (and subsequently restructured) we are now seeing welcome commitment in this area along with effective engagement. Management response: Revenues and Benefits Client Manager</p>	30 September 2019	

**AGED DEBT AND WRITE OFFS****2. Aged debt recovery process****(Medium Risk)**

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Service areas are undertaking all possible measures to recover aged debts and, in failure, promptly notifying the legal team, so legal action can be taken.</p> <p><u>Findings</u> Review of the legal list, as at 31 December 2018, found that there are 54 SODC and 76 VWHDC sundry debtors accounts with an aged debt and with the legal team. A random sample of 40 (20 SODC and 20 VWHDC) aged debt accounts were selected and review found that for three (one SODC and two VWHDC) aged debt accounts, the legal team notified the service areas but received no response to start legal recovery action.</p> <p><u>Risk</u> If aged debts are not recovered as soon as possible, there is a risk of the debts becoming irrecoverable which would lead to loss of income to the councils.</p>	Service areas should be reminded to review the debtor's legal list and chase up any outstanding debt. If unsuccessful, the service areas should notify legal services as soon as possible so legal proceeding can begin to recoup the outstanding debt, in line with the corporate debt recovery strategy.	Revenues and Benefits Client Manager  Litigation Lawyer
Management Response	Implementation Due Date	
<p>Recommendation is <b>Agreed</b> Service teams have a collective responsibility to help recover debts for services they have provided. It is not often that this is required, but where it is, they should use the working relationships they have with their clients to persuade them to pay. This, along</p>	31 May 2019	

with failing to respond to the Litigation Lawyer, will be highlighted in future legal list communications and service team meetings. Where adherence is not forthcoming, it will be raised with SMT via the Head of Finance. Management response: Revenues and Benefits Client Manager	
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**3. Aged debt review****(High Risk)**

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> All aged debts are picked up through the recovery process.</p> <p><u>Findings</u> Review of the aged debt reports found that there were 75 (45 SODC and 30 VWHDC) debtors with more than one aged debt. Of the 75 debtors, internal audit selected 20 (six SODC and 14 VWHDC) and found that four (one SODC and three VWHDC) debtors' debts were not picked up by the recovery process.</p> <p><u>Risk</u> If aged debt is not picked up by the recovery process there is a financial risk to the council as debt owed is missed and not chased.</p>	The accounts receivable team (Capita) should put an additional check in place to ensure that all aged debts are picked up for recovery.	Revenues and Benefits Client Manager  Transactional Finance Team Leader (Capita)
<b>Management Response</b>		<b>Implementation Due Date</b>
<p><b>Recommendation is Agreed</b> This anomaly is a result of service team staff changing the sales order default payment type which goes against procedure note instructions. The cases highlighted in the audit have now been addressed and a report run by Capita AR highlighted another eight cases for Vale (four of which were in credit) and 14 cases for Vale (eight of which were temporary accommodation cases). These will be cleared down and monthly reports will now be run to pick up future miscreants. When further training is rolled out, we will ensure the proper process for raising sales orders is reiterated.</p> <p>Management response: Revenues and Benefits Client Manager</p>		31 May 2019