

# Audit and Corporate Governance Committee



Report of Audit Manager

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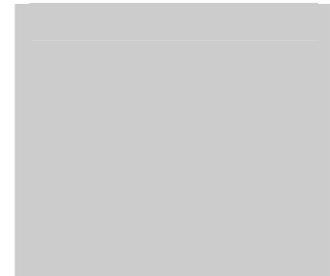
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To: Audit and Corporate Governance Committee

DATE: 17 March 2015



## Internal audit activity report quarter four 2014/2015

### Recommendation

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

### Purpose of report

1. The purpose of this report is to summarise the outcomes of recent internal audit activity for the committee to consider. The committee is asked to review the report and the main issues arising, and seek assurance that action has been or will be taken where necessary.

### Background

2. 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 councils' 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.
3. 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.

4. 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.

5. 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

### Internal Audit Activity

6. Since the last audit and corporate governance committee meeting, the following audits have been completed:

#### Planned Audits

Full Assurance: 2

Substantial Assurance: 0

Satisfactory Assurance: 2

Limited Assurance: 2

Nil Assurance: 0

	Assurance Rating	No. of Recs	High Risk Recs.	No. Agreed	Medium Risk Recs.	No. Agreed	Low Risk Recs.	No. Agreed
Travel and Subsistence 1415	Full	2	0	0	0	0	2	2

	Assurance Rating	No. of Recs	High Risk Recs.	No. Agreed	Medium Risk Recs.	No. Agreed	Low Risk Recs.	No. Agreed
Petty Cash 1415	Satisfactory	5	0	0	1	1	4	4
Bank Contract 1415	Full	1	0	0	0	0	1	1
1. Payroll 1415	Limited	8	2	2	4	4	2	2
2. S106 1314-1415	Limited	8	2	2	5	5	1	1
Land Charges 1415	Satisfactory	6	0	0	1	1	5	5

### Follow Up Reviews

	Initial Assurance Given	No. of Recs	Implemented	Partly Implemented	Not Implemented	Ongoing
Cash Office 1314	Full	1	1	0	0	0
Temporary Accommodation 1415	Limited	8	6	2	0	0

7. **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.
8. Members of the committee are asked to seek assurance from the internal audit report and/or respective managers that the agreed actions have been or will be undertaken where necessary.
9. A copy of each report has been sent to the appropriate head of service, the relevant strategic director, the section 151 officer and the relevant member portfolio holder. In addition to the above arrangements, reports are now published on the council intranet and committee members are alerted by e-mail when reports are published.
10. Internal audit continues to carry out a six month follow up on all non-financial audits to establish the implementation status of agreed recommendations. All key financial system recommendations are followed up as part of the annual assurance cycle.

## Overdue Recommendations

11. **Appendix 2** of this report summarises all overdue recommendations within each service area. However, due to the Crowmarsh fire the internal audit recommendations database has not been kept up to date. The report will be circulated to the relevant service manager, heads of service, the strategic management board and the portfolio holder, and internal audit will ensure that progress against the recommendations is reported fully at the next meeting.

## 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.

ADRIANNA PARTRIDGE  
AUDIT MANAGER

## 1. PAYROLL 2014/2015

### 1. INTRODUCTION

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

### 2. BACKGROUND

- 2.1 Since 1 February 2012, Capita have provided the council's payroll service from their offices based in Carlisle. Payments are made through BACS and Capita process payroll data through the 'Ingenuity At Work' system.
- 2.2 In July 2014, SODC paid £500,740.99 to 310 employees including councillors (SODC councillors' payment amounted to £17,130.61).

### 3. PREVIOUS AUDIT REPORTS

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

#### 4. 2014/2015 AUDIT ASSURANCE

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

#### 5. MAIN FINDINGS

##### 5.1 **Policies and Procedures**

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

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

##### 5.2 **Payroll system parameters**

5.2.1 The nominated officer responsible for maintaining payroll system (Ingenuity At Work - IAW) parameters is the Capita payroll team leader. Internal audit reviewed a sample of the budget codes and tax coded on the system and no issues were identified. Any changes made in the system parameters are authorised by the Capita payroll team leader prior to instructing the IAW IT support team to implement the changes.

5.2.2 Internal audit reviewed the IAW user access policy and identified that there is sufficient security in regards to allocating access to the payroll system. All requests are made through the Capita payroll team leader who then instructs the IT support team to set up the necessary access levels. Additional security has been implemented into the system as a user requires more than one password to gain access into the payroll records in the IAW system. Internal audit identified 2 user access names that were scheduled to be deleted in 2013/14 on the current profile list. A member of staff who left the council in August 2014 was still appearing on the user profile list.

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

**5.3 Management of changes to data**

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

5.3.2 Internal audit reviewed the procedure between Capita and the council for starters (sample size of 20) and leavers (20); overtime (20); additions/deductions or variations to pay, i.e. pay rises (20); maternity/paternity (9 – full sample) and personal data changes (10). Four related recommendations have been made from the sample tested. Internal audit also noted that changes in the remuneration of pay is authorised through the correct channels in human resources although this is not communicated to the head of finance as documented in the council's constitution.

5.3.3 Area assurance: Limited  
Five recommendations have been made as a result of our work in this area (Recs 3-7).

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

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

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

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

**5.5 Payroll reconciliations**

5.5.1 The council's accountancy team perform monthly reconciliations which include checks to payroll postings made in the general ledger, budget codes, cost centre codes and tax codes used in the payroll process. The

head of finance authorises the reconciliations with any issues identified being investigated through the hr and payroll teams. An issue was identified within the council's departmental operations in regards to delays in informing payroll of changes in contractual arrangements.

5.5.2 Area assurance: Satisfactory  
One recommendation has been made as a result of our work in this area (Rec 8).

5.6 **Establishment lists and payroll reconciliations**

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

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

**OBSERVATIONS AND RECOMMENDATIONS**

**POLICIES AND PROCEDURES**

**1. Capita payroll handbook**

**(Medium Risk)**

<b>Rationale</b>	<b>Recommendation</b>	<b>Responsibility</b>
<p><u>Best Practice</u> All policies and procedures need to be kept up to date.</p> <p><u>Findings</u> Internal audit identified two changes in the calculation of a day's pay from the date of last audit completed in 2013/14. The first agreed change to the holiday pay calculation for leavers was in 1 January 2014 and next was in 1 July 2014. There is no evidence of these changes recorded in the current Capita handbook manual. It was also noted that the last review of the Capita manual took place on 22 January 2014.</p> <p><u>Risk</u> There is a risk of error in</p>	<p>The Capita payroll handbook should be updated as soon as possible when agreed changes have been made.</p>	<p>Payroll Team Leader (Capita)</p>

calculations of final pay leading to under or over payments being processed by the payroll staff.		
<b>Management Response</b>		<b>Implementation Date</b>
Recommendation is <b>Agreed</b> The handbook will be updated with the change in payroll calculations.  Management response: Payroll Team Leader (Capita)		31 January 2015

## PAYROLL SYSTEM PARAMETERS

### 2. User access of payroll system

(Low Risk)

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

## MANAGEMENT OF CHANGES TO DATA

### 3. Starters

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> A full audit trail needs to be available for all amendments made to standing data.</p> <p><u>Findings</u> Internal audit identified that the administration of the starters'</p>	<p>All starter processes should comply with the council's agreed policies and procedures i.e.</p> <p>a) Two references must be received for all starters and filed within the</p>	Human Resources Manager

<p>process was not being completed in accordance to the agreed procedures. A random selection of 20 starters were tested and it was identified that:</p> <ul style="list-style-type: none"> <li>• Four out of 20 starters received only one reference which is not in line with the agreed recruitment procedures. It was also noted that out of those four, two of the employees did not have any references received prior to the start of their employment or recorded on the hr files at the time of audit.</li> <li>• One of the starters received a main reference from the person who was performing the interview for a grade 8 post.</li> <li>• One of the staff members started employment in the council as an agency worker. The employee was then made a permanent member of the council. There was no evidence of the council employing its procedures for all new starters. The hr files for the employee did not have full information retained in their records i.e. references, relevant qualifications.</li> </ul> <p><u>Risk</u> Insufficient audit trails detailing that the starters process has been completed accurately may lead to a risk of ineligible or inappropriate personnel being employed by the council.</p>	<p>personnel records.</p> <p>b) All references received must show sufficient independence from the staff members conducting the interview.</p> <p>c) All new starters who joined via agency employment or contractual work need to have the council's standard documentation requested and filed in their personnel records.</p>	
<p><b>Management Response</b></p>		<p><b>Implementation Date</b></p>
<p>Recommendation is <b>Agreed</b> Recommendation, a) I have amended our recruitment policy to allow for exceptional circumstances when we will accept one reference instead of two (for example if the prospective employee has been with their employer for many years, thereby nullifying the benefit of a reference prior to this).</p> <p>Recommendations b) and c) : Agreed</p> <p>Management response: Human Resources Manager</p>		<p>With immediate effect</p>

**4. Payroll Checks - Overtime**

**(Medium Risk)**

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Effective separation of duties should be in place for all procedures and processes.</p>	<p>Capita need to ensure that all amendments or new entries made in the payroll system show adequate separation of duties.</p>	<p>Payroll Team Leader (Capita)</p>

<p><u>Findings</u> Internal audit identified that there is insufficient evidence to show that checks are always performed to ensure data is input accurately onto the payroll system for payment. Five out of 20 overtime forms did not show evidence that checks had been made to ensure data had been input accurately into the payroll system by Capita.</p> <p><u>Risk</u> There is a risk of information being entered onto the payroll system in error leading to over or under payments to employees. Misuse of the payroll system which could lead to fraudulent activities.</p>		
<b>Management Response</b>		<b>Implementation Date</b>
<p>Recommendation is <b>Agreed</b> The paperwork will be signed and dated by the administrator completing the input and then again by the administrator carrying out the checking.</p> <p>Management response: Payroll Team Leader (Capita)</p>		With immediate effect

**5. Changes in remuneration policies**

**(Low Risk)**

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

**6. Standard Overtime Form**

**(Medium Risk)**

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Overtime calculations should be consistently applied in accordance with the councils agreed methods and any variances investigated.</p> <p><u>Findings</u> Internal audit testing identified that one of the five authorised standby/call-out/out of hours overtime claims sent by the council employees to Capita were not completed using the council's standard standby/call-out/out of hours overtime forms.</p> <p>An overtime claim form authorised by the line manager sent to payroll for processing showing a total of 18 hours of overtime in the breakdown of time worked and a summary of total hours claimed being totalled as 22 hours. Payroll processed the payment for 22 hours without detail of why there was a difference in the figures leading to an overpayment of 4 hours to the staff employee.</p> <p><u>Risk</u> If overtime calculations are not made in a consistent manner then the council may be making under or over payments to employees.</p>	<p>a) Line managers should always adequately check and authorise overtime claims that have been submitted on the appropriate overtime form prior to being sent to Capita for processing, to ensure that claim totals are valid and completed correctly.</p> <p>b) Human resources team should engage with line managers to ensure they understand the correct process of authorising forms and the appropriate overtime form to be used.</p> <p>c) Capita should also ensure that the information submitted for payment is correct and consistent in regards to what is documented on the overtime forms.</p>	<p>a) Human Resources Manager</p> <p>b) Human Resources Manager</p> <p>c) Payroll Team Leader (Capita)</p>
<b>Management Response</b>		<b>Implementation Date</b>
<p>Recommendation is <b>Partly Agreed</b></p> <p>a) <b>Agreed</b> We will re-send the correct overtime form to the Operational Management Group (after amending it as in recommendation 7)</p> <p>b) <b>Agreed</b> See management response a) above</p> <p>c) <b>Not Agreed</b> Capita do not total the hours on the overtime claims. It is the responsibility of the Line Manager to check the hours and place the totals worked on the front page of the form in the correct rate for the overtime and authorise for payment.</p> <p>Management response: a) Human Resources Manager Management response: b) Human Resources Manager Management response: c) Payroll Team Leader</p>		<p>a) and b) 31 January 2015</p>

**7. Payment for Breaks**

**(High Risk)**

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Pay calculations for employees should be consistent and in accordance with working time directives or an alternative formally</p>	<p>The formulas for calculating pay for employees should be reviewed and a consistent approach considered which should be suitably agreed</p>	<p>Human Resources Manager</p>

<p>agreed formula which is advised to officers</p> <p><u>Findings</u> Testing conducted on the overtime showed that claim forms are being authorised by management without a clear identification of breaks being taken off from the time claimed as stated in the <i>European Working Time Regulations</i>.</p> <p>It was also identified that overtime is being authorised without the standard breaks being removed from the hours claimed, as specified in the European Working Time regulations. From the sample of 20 selected, a total of 8hrs was paid in overtime claims that should have been deducted as a break.</p> <p>The council's standard overtime form does not allow for staff to record the start time and end time of their shifts to ensure that the breaks are correctly indicated and calculated properly prior to the authorisation being given.</p> <p><u>Risk</u> If the council does not calculate pay for employees in accordance with the working time directive then, in the absence of an alternative agreement, it may be incorrectly paying employees and subject to challenge.</p>	<p>and documented in accordance with European Working Time Regulations. Otherwise the working time directive formula should be used and applied consistently.</p> <p>All council's standard overtime forms and timesheets must allow for employees to record any breaks taken to ensure that they are correctly indicated prior to the authorisation being given to Capita for payment processing.</p>	
<b>Management Response</b>		<b>Implementation Date</b>
<p>Recommendation is <b>Agreed</b> We will amend the overtime form to emphasise that breaks are not paid.</p> <p>Management response: Human Resources Manager</p>		31 January 2015

**PAYROLL RECONCILIATION**

**8. Payroll reconciliation – reversal report**

**(High Risk)**

<b>Rationale</b>	<b>Recommendation</b>	<b>Responsibility</b>
<p><u>Best Practice</u> All changes to contractual arrangements should be accurately communicated to the relevant departments as soon as possible.</p> <p><u>Findings</u> During the audit, an overpayment error was identified by the accountancy team due to a payroll reconciliation reversal report that</p>	<p>A recovery of the planning team overpayment identified must be put in place through the human resources team.</p> <p>A reminder should be sent out to all managers on the importance of sending human resources accurate and timely information in regards to temporary</p>	Human Resources Manager

<p>had been raised. Investigations showed that a council employee (planning department) had been overpaid by over £3800 for the period 1 October 2013 to 1 October 2014. Internal audit identified that there had been a temporary increase in the employee hours from 28.4hours to 37hours requested by the planning team through human resources department. The increase in hours request from planning should have been from 28.4hours to 33hours.</p> <p>Internal audit also noted that the increase in hours had been recorded as 37hours instead of 33hours in the monthly establishment lists sent to heads of service for confirmation and approval. This error had not been identified in their monthly checks sent back to human resources by the heads of service.</p> <p>The planning team only identified the error in September 2014 through a human resources enquiry on the contract extension.</p> <p><u>Risk</u> Over and under payments being processed through payroll which may be difficult to recover/repay, leading to financial loss to the council.</p>	<p>changes in the contracts.</p> <p>Human resources to reinforce the need for more thorough checks within service teams on the monthly establishment lists sent for confirmation of posts to ensure that errors are identified and rectified as soon as possible.</p>	
<p><b>Management Response</b></p>	<p><b>Implementation Date</b></p>	
<p>Recommendation is <b>Agreed</b> A recovery plan has been put in place for the specific error referred to.</p> <p>Management response: Human Resources Manager</p>	<p>31 March 2015</p>	

## **2. S106, COMMUTED SUMS AND CIL 2013/2014 – 2014/2015**

### **1. INTRODUCTION**

- 1.1 This report details the internal audit review of procedures, controls and the management of risk in relation to Section 106 (S106), commuted sums and Community Infrastructure Levy (CIL). The audit has been undertaken in accordance with the 2013/2014 audit plan agreed with the audit and corporate governance committee of South Oxfordshire District Council (SODC), but extended to cover 2014/2015 as well due to changes in the planning service area. The audit has a priority score of 21. The audit approach is provided in the audit framework in Appendix 1.
- 1.2 The following areas have been covered during the course of this review to provide assurance that in respect of S106 and commuted sum agreements:
- The council has agreed, and is using, standard policies and appropriate methods for correctly calculating contributions and securing agreements with clearly identified responsibilities.
  - To ensure the council has a robust process for monitoring arrangements to ensure contributions are collected and recorded in accordance with agreed timescales.
  - To ensure that expenditure is appropriately monitored and recorded, and appropriate decision-making processes are in place for the use of contributions.
  - To ensure that there is clear documentation evidencing income and expenditure of funds, and that financial records are reconciled to their respective agreements on a regular basis.
  - To ensure that adequate reporting arrangements are in place, including details of schemes which have made contributions, that have had funds used or have funds still to be received.
- and
- There are appropriate preparations underway for the implementation of the Community Infrastructure Levy (CIL).

### **2. BACKGROUND**

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

CIL schedules and 130 that were in progress at various stages from preliminary draft charging schedules to publishing an examiners report.

- 2.3 As at 11 September 2014, a total of 1914 S106 agreements were recorded within the Ocella S106 module. Not all of these will have financial obligations and the agreements may include, or be with, third parties such as Oxfordshire County Council.

### 3. PREVIOUS AUDIT REPORTS

- 3.1 S106, commuted sums was last subject to an internal audit review in 2009/2010 and 13 recommendations were raised. Twelve recommendations were agreed. A limited assurance opinion was issued.
- 3.2 Of the twelve recommendations that were agreed, four were found to be implemented during a follow up in September 2011. From findings of the current review, a further four recommendations have been implemented. One has been partly implemented so has been updated and restated together with the remaining three outstanding recommendations. (Recs 5 – 8)

### 4. 2013/2014 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, five medium risk and one low risk. However, before finalising this report, five of the recommendations have been implemented. Two of the medium risk and one of the low risk recommendations remain with implementation dates agreed.

### 5. MAIN FINDINGS

#### 5.1 Policies and procedures

- 5.1.1 The council adopted the South Oxfordshire Core Strategy 2027 (CS) on 13 December 2012 and this partially replaced the South Oxfordshire Local Plan 2011 (LP). Two Infrastructure Delivery Plans support the LP and CS and set out the council's general policy towards securing S106 agreements within the larger towns in the district. An Interim Planning Guidance which currently sets out the approach to S106 was agreed by cabinet September 2008. At the time of review a draft S106 Planning Obligations SPD had been developed which sets out the approach to S106 and compiles all the types of contribution into the one document. This will go to cabinet in September to be followed by public consultation starting in October prior to examination and adoption.
- 5.1.2 Procedures are in place covering the recording and monitoring of agreements but not for the entire process from securing the agreements to expenditure of funds. There is a training need for officers providing input to the calculation of S106 amounts.

- 5.1.3 Area assurance: Satisfactory  
One recommendation has been made as a result of our work in this area and one previous recommendation has been restated. (Recs 1 and 5)

5.2 **Monitoring and income**

- 5.2.1 The S106/commuted sum agreements are recorded within the Ocella system which is used for planning purposes. The agreements themselves are legal documents that are recorded, held and managed by the legal team. The elements within the agreement are captured within Ocella and any contributions received are recorded through the council's Agresso financial system and then manually updated within Ocella. A listing of agreements is available on the council's intranet and also through the councils website.
- 5.2.2 Ten agreements were reviewed to ensure details had been correctly recorded within the Ocella system. Two of the ten were found to have a difference, which was correct during the review. Differences were noted in a further two cases within the intranet listing which were explained by a bug in the system that was fixed promptly.

- 5.2.3 Area assurance: Satisfactory  
Two recommendations have been made as a result of our work in this area. (Recs 2 – 3)

5.3 **Expenditure**

- 5.3.1 Council spending is recorded through the Agresso financial accounting system. There is currently no facility within the S106 module in Ocella to record expenditure details. A new module is being tested which is expected to include this functionality. Whilst evidence was seen during checks undertaken within this review that agreements are made when expenditure is passed to third parties, there is no protocol or procedure setting out how expenditure is managed.
- 5.3.2 Area assurance: Limited  
No recommendations have been made as a result of our work in this area but a previous recommendation has been updated and restated. (Rec 6)

5.4 **Documentation and reconciliation**

- 5.4.1 The S106 officer recently undertook a reconciliation which matched income recorded in the Agresso financial system with that recorded on the Ocella system. Two differences remain outstanding and are under review. Supporting evidence for the reconciliation was not available during the review and there does not appear to be a documented process for undertaking the reconciliations.
- 5.4.2 Area assurance: Limited  
No recommendations have been made as a result of our work in this area but a previous recommendation has been restated. (Rec 7)

5.5 **Reporting**

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

5.5.2 Area assurance: Satisfactory  
One recommendation has been made as a result of our work in this area and a previous recommendation has been restated. (Recs 4 and 8)

5.6 **CIL**

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

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

**OBSERVATIONS AND RECOMMENDATIONS**

**POLICIES AND PROCEDURES**

**1. Training**

**(High Risk)**

<b>Rationale</b>	<b>Recommendation</b>	<b>Responsibility</b>
<p><u>Best Practice</u> All officers with input to the calculation of S106 contributions should be trained to ensure they are sufficiently skilled and comfortable in carrying out the task.</p> <p><u>Findings</u> From conversation with officers involved in calculating S106 contributions, training has not been provided.</p> <p><u>Risk</u> If officers are not trained adequately in their role, errors and inappropriate action could occur leading to operational difficulties, legal challenge and reputational implications.</p>	<p>All officers should be adequately trained in their s106 responsibilities.</p>	<p>N/A</p>
<b>Management Response</b>		<b>Implementation</b>

	Date
<p><b>Recommendation is Agreed</b>                      A training session on S106 and CIL was held on 8 July 2014 and colleagues from other departments including Leisure, Corporate Strategy, Parks were invited and attended. Staff were informed about the S106 Interim Statement that has recently been adopted at Vale and provides guidance to staff. The S106 Planning Obligations Interim Statement for South is a current document and is in the process of being updated. This also provides guidance to staff.</p> <p>Management response: Planning Policy Manager</p>	Implemented

**MONITORING AND INCOME**

**2. Recording S106**

**(Medium Risk)**

Rationale	Recommendation	Responsibility
<p><b>Best Practice</b>                      Details of S106 agreements recorded in Ocella should match the agreement details.</p> <p><b>Findings</b>                      From review of ten S106 agreements, comparing the agreement with amounts recorded in Ocella and on the intranet, two differences were noted. Whilst these were corrected during the review a quality check mechanism was not in place.</p> <p><b>Risk</b>                      If incorrect amounts are recorded then incorrect advice may be given resulting in under or over payments being received.</p>	A method of quality checking data input to ensure all relevant agreements are captured correctly and not duplicated should be considered.	N/A
<b>Management Response</b>		<b>Implementation Date</b>
<p><b>Recommendation is Agreed</b>                      A quality control method for data entry has been identified as part of the S106 Partnership and Process Project. A quality check of a sample of data entered into Ocella is being carried out on a monthly basis.</p> <p>Management response: Planning Policy Manager</p>		Implemented

**3. Payment information**

**(Medium Risk)**

Rationale	Recommendation	Responsibility
<p><b>Best Practice</b>                      Details of how payments are to be made to the council for S106 agreements should be readily available.</p> <p><b>Findings</b>                      Once officers are aware that a contribution is due an invoice can be raised. However, the council does not readily provide details to agreements holders on how payments should be made when developers are aware a trigger point has been reached.</p> <p><b>Risk</b></p>	Information should be made readily available to developers covering the process to follow for making payments to the council when trigger points have been reached.	N/A

<p>If developers are aware that a payment is due and the council does not proactively provide details of the payment process then delays may occur in receipt of the amounts due.</p>		
<p><b>Management Response</b></p>		<p><b>Implementation Date</b></p>
<p>Recommendation is <b>Agreed</b>                  This information has been drafted and will be made available on our website. This task is being put into the programme of the appropriate officer.                   Management response: Planning Policy Manager</p>		<p>Implemented</p>

**REPORTING**

**4. Internet and intranet register**

**(Low Risk)**

<p><b>Rationale</b></p>	<p><b>Recommendation</b></p>	<p><b>Responsibility</b></p>
<p><u>Best Practice</u>                  Information for section 106 agreements including amounts due, paid and spent should be readily available.</p> <p><u>Findings</u>                  Whilst monies received are displayed in the register of agreements, details of expenditure are not yet recorded. It is understood that the facility to record expenditure is being discussed with the software provider.</p> <p><u>Risk</u>                  If section 106 agreement information is not readily available then the council may not be seen to be open and transparent.</p>	<p>When expenditure is recorded within Ocella, this should also be made available within the intranet and internet listings.</p>	<p>S106 Monitoring Officer</p>
<p><b>Management Response</b></p>		<p><b>Implementation Date</b></p>
<p>Recommendation is <b>Agreed in Principle</b>                  An upgrade to Ocella is required to implement this recommendation as the system currently does not have capacity to store information on expenditure. The upgrade is due to take place in January 2015. Subject to satisfactory testing of the system this information can be made available on the intranet and internet by the end of March. We have therefore suggested an implementation date of May 2015 to allow for a period of testing and refinement of the upgrade.</p> <p>In the interim we are storing all information on financial transactions in an Access database. This allows us to record details of all S106 funds spent, who by and on what. This data can be migrated by IT to the new Ocella system once it is upgraded. In the event that the upgraded Ocella system requires further development we will investigate the creation of internet / intranet reports from the Access database.</p> <p>Management response: Planning Policy Manager</p>		<p>31 May 2015.</p>

**PREVIOUS RECOMMENDATIONS – 2009/2010 RESTATED**

**5. Procedures, Roles and Responsibilities**

**(Medium Risk)**

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

**6. Expenditure Protocol**

**(High Risk)**

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> When s106 monies are paid to third parties such as parish councils, appropriate documentation is retained supporting the expenditure and evidence sought that expenditure was appropriate</p>	<ul style="list-style-type: none"> <li>A protocol should be developed covering the requirements to demonstrate that s106 monies are expended in accordance with the</li> </ul>	<p>N/A</p>

<p>and within agreed timescales.</p> <p><u>Findings</u> An expenditure protocol, as recommended in the 2009/10 audit, has not yet been implemented.</p> <p>The Ocella S106 module does not currently have a facility to record expenditure against the agreement. It is understood that a newer version of the module being tested at the time of the review may provide that facility but an implementation date is not yet known.</p> <p><u>Risk</u> If monies cannot be proven to have been expended in accordance with legal requirements then the council may be required to return contributions it has already spent.</p>	<p>terms of the agreement particularly where third parties are involved. This should include what steps are needed to identify appropriate expenditure, what documentation is required prior to making funding available and evidence in support of actual expenditure.</p> <ul style="list-style-type: none"> <li>• A suitable mechanism for recording expenditure against individual agreements should be implemented and documented.</li> </ul>	
<p><b>Management Response</b></p>		<p><b>Implementation Date</b></p>
<p>Recommendation is <b>Agreed</b></p> <p>a. Expenditure procedures have been put in place and a SOP created for the Monitoring Officer. An application form has been created which can be used by third parties to apply for S106 funding.</p> <p>b. An upgrade to Ocella is our preferred method of implementing this recommendation. Whilst we await the Ocella upgrade we are storing all information on financial transactions in an Access database. This allows us to record details of all S106 funds spent, who by and on what. This data can be migrated by IT to the new Ocella system once it is upgraded.</p> <p>Management response: Planning Policy Manager</p>		<p>Implemented</p>

**7. Reconciliations**

**(Medium Risk)**

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> A regular reconciliation of legal agreements is undertaken to ensure all agreements are appropriately recorded within Ocella. Financial transactions are reflected within Ocella so should be subject to reconciliation within the General Ledger.</p> <p><u>Findings</u> There has been an improvement in the recording of agreements including more historic agreements than at the previous review. The S106 officer has undertaken a reconciliation to match the financial data recorded in Agresso with that in Ocella. At the time of review two discrepancies remained outstanding and were being investigated. The reconciliation was not documented and there does not appear to be an agreed process for this to be a regular task.</p>	<p>A regular reconciliation of agreements recorded within Ocella should be undertaken with general ledger transactions to ensure income is accurately recorded.</p>	<p>S106 Monitoring Officer</p>

<p><u>Risk</u> If there is no reconciliation of agreements then delays may occur in resolving any income not recorded in Ocella or miscoded within Agresso.</p>		
<p><b>Management Response</b></p>		<p><b>Implementation Date</b></p>
<p>Recommendation is <b>Agreed</b> An exercise has been carried out to reconcile Ocella and Agresso. A large number of incorrect Agresso attributes were identified. Ledgers have been completed for each one and passed to Finance who have corrected Agresso. The S106 Monitoring Officer is now responsible for entering information into both Agresso and Ocella and can ensure the records match at the point of entry. An annual reconciliation will take place prior to the creation of annual S106 reports.</p> <p>Management response: Planning Policy Manager</p>		<p>30 April 2015</p>

**8. Reporting**

**(Medium Risk)**

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> S106 agreements are regularly reported to show income, expenditure and future amounts due.</p> <p><u>Findings</u> Although it is acknowledged that there is a register of agreements, as per the 2009/10 findings, there is no current requirement to regularly report on s106 agreements.</p> <p><u>Risk</u> If s106 agreement funds are not regularly reported in sufficient detail and in a timely manner, then progress in managing the funding may not be recognised.</p>	<p>A formal reporting mechanism should be agreed and implemented to regularly report on agreements to include income, expenditure and future amounts due. This should be circulated to all interested parties.</p>	<p>S106 Monitoring Officer</p>
<p><b>Management Response</b></p>		<p><b>Implementation Date</b></p>
<p>Recommendation is <b>Agreed</b> Annual reports on South S106 are taken to the relevant cabinet briefing for information. Due to the need to complete the reconciliation of Agresso and Ocella prior to taking the report, and the large number of incorrect Agresso entries, the report for 2013/14 has not yet been taken. However, an update on the CIL and the S106 projects was taken to cabinet briefing on 21 May 2014. The reconciliation of Agresso and Ocella is now complete and a full annual S106 cabinet briefing report can be prepared.</p> <p>Management response: Planning Policy Manager</p>		<p>31 January 2015</p>