Joint Audit and Governance Committee

South Oxfordshire
District Council

Listening Learning Leading

Vale
of White Horse
District Council

Report of Assurance Manager

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To: Joint Audit and Governance Committee

DATE: 21 March 2016

Internal audit activity report quarter four 2015/2016
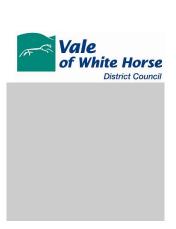
> **Recommendation**
>
> That members note the content of the report

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 Adrianna Partridge, Assurance Manager for South Oxfordshire District Council (SODC) and Vale of White Horse District Council (VWHDC), telephone 01235 540389.

Strategic Objectives

3.   Managing our business effectively.

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

2015/2016 Audit Reports

7.   Since the last Audit and Governance Committee meeting, the following audits and follow up reviews have been completed:

Completed Audits

Full Assurance: 2
Substantial Assurance: 0
Satisfactory Assurance: 4
Limited Assurance: 6
Nil Assurance: 0

	Assurance Rating	No. of Recs	High Risk Recs.	No. Agreed	Medium Risk Recs.	No. Agreed	Low Risk Recs.	No. Agreed
SODC								
Leisure Centres 15/16	Satisfactory	10	0	0	3	3	7	7
1. Neighbourhood Planning Grants 15/16	Limited	5	1	1	3	3	1	1
2. Creditor Payments 15/16	Limited	6	3	3	0	0	3	3
Sundry Debtors 15/16	Satisfactory	5	0	0	2	2	3	3
Housing Benefits and Council Tax Reduction Scheme 15/16	Full	1	0	0	0	0	1	1
4. Payroll	Limited	5	1	1	1	1	3	3
VWHDC								
Leisure Centres 15/16	Satisfactory	11	0	0	3	3	7	7
1. Neighbourhood Planning Grants 15/16	Limited	5	1	1	3	3	1	1
3. Creditor Payments 15/16	Limited	5	3	3	0	0	2	2
Sundry Debtors 15/16	Satisfactory	4	0	0	2	2	2	2
Housing Benefits and Council Tax Reduction Scheme 15/16	Full	0	0	0	0	0	0	0
4. Payroll	Limited	5	1	1	1	1	3	3

Follow Up Reviews

	Initial Assurance Given	No. of Recs	Implemented	Partly Implemented	Not Implemented	Ongoing
SODC						
N/A						
VWHDC						
N/A						

8.   **Appendix 1** of this report sets out the key points and findings relating to the completed audits which have received limited or nil assurance, and satisfactory or full assurance reports which members have asked to be presented to committee

9.   Members of the committee are asked to seek assurance from the internal audit reports and/or respective managers that the agreed actions have been or will be undertaken where necessary.

10. A copy of each report has been sent to the appropriate service manager, the strategic management board, the section 151 officer and the relevant member portfolio holder. In addition to the above arrangements, reports are now published on the councils' intranet.

11. Internal audit continues to carry out a six month follow up on all non-financial and non-key financial audits to establish the implementation status of agreed recommendations. All key financial system recommendations are followed up as part of the annual assurance cycle.

Overdue Recommendations

12. **Appendix 2** of this report summarises all overdue recommendations within each service area. The report has been circulated to the relevant service manager, heads of service, the strategic management board and the portfolio holder.

Financial Implications

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

Legal Implications

14. None.

Risks

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

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ADRIANNA PARTRIDGE
ASSURANCE MANAGER
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1. <u>JOINT NEIGHBOURHOOD PLANNING GRANTS 2015/2016</u>

1. INTRODUCTION

1.1   This report details the internal audit review of procedures, controls and the management of risk in relation to neighbourhood planning grant. The audit has a priority score of 15. The draft report was issued on 20 January 2016 and the final report was issued on 8 February 2016.

1.2   The following areas have been covered during the course of this review to provide assurance that:

- There is a comprehensive and clear framework for the application process and for the award of neighbourhood planning grants that has been appropriately authorised.
- The requirements and conditions of neighbourhood planning grant awards are suitably considered, detailed and complied with.
- Suitable records are maintained with relevant supporting documentary evidence, including compliance with conditions.
- Payments are appropriately made, authorised and recorded.

2. BACKGROUND

2.1   Neighbourhood planning is a government initiative to empower local communities to make and take forward planning proposals at a local level. The neighbourhood plans should be drawn and aligned to the local development plan. The neighbourhood plans are developed by the local communities and supported by the district councils.

2.2   In 2015/2016 to date (January 2016) the district councils have received nine (six SODC and three VWHDC) applications from town/parish councils to start developing their neighbourhood plan. The district councils have applied for £100,000 of funding from the Department of Communities and Local Government (DCLG) for the neighbourhood plans, of which £35,000 was for SODC and £65,000 for VWHDC.

3. PREVIOUS AUDIT REPORTS

3.1   Neighbourhood planning grant has not previously been subjected to an internal audit review.

4. 2015/2016 AUDIT ASSURANCE

4.1   **Limited assurance:** There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.

4.2   Five recommendations have been raised in this review. One high risk, three medium risk and one low risk.

5. MAIN FINDINGS

5.1   **Neighbourhood planning grant framework**

5.1.1   The framework for neighbourhood planning grants is provided from central government, which details what the three stages of the grant process are and how much can be paid to district councils at each stage of the process. As such this ensures that the approach is consistent. On the district councils' websites, there is guidance available to town/parish councils in terms of a neighbourhood planning toolkit, which includes steps on obtaining a neighbourhood planning grant.

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

5.2   **Requirements of neighbourhood planning grants**

5.2.1   The councils can apply to DCLG for £30,000 of funding for each town/parish council wanting to develop a neighbourhood plan. The DCLG funding payment structure is as follows:-
         • £5,000 - after area designation is approved;
         • £5,000 - when the final pre-examination version of the neighbourhood plan is publicised by the LPA prior to examination;
         • £20,000 - after successfully completing the neighbourhood planning examination.

5.2.2   The councils determine how to use the funds to promote neighbourhood planning as it includes development of the plan, administration and examination of the plan. The councils award grants to bodies preparing neighbourhood plans (normally parish councils) in accordance with an approved scheme. The amount of funding is dependent on where the town/parish is on the settlement hierarchy, which is appendix four of the Core Strategy. The allocations currently are:-
         • £15,000 for a town;
         • £10,000 for a large village; and
         • £5,000 for a small village.

         The councils retain the remainder of the grant to fund their own costs.

5.2.3   Approval of the area designation and decision statement is required prior to the councils applying for the relevant element of the neighbourhood planning grant from DCLG. The scheme of delegation, which is part of the constitution, states the level of approval required. Review of 12 neighbourhood planning grants confirmed that the appropriate level of approval was established prior to council application of grant.

5.2.4   The district councils can only apply for a DCLG neighbourhood planning grant four times (June, September, December and March) a year. Written procedures are in place for the neighbourhood planning area designation process to ensure that the town/parish councils are awarded the grant in line with the Neighbourhood Planning (General) Regulations 2012, but procedures are not in place for the remainder of the councils'

neighbourhood planning process.

5.2.5 After the district councils have approved the area designation and applied for the grant from DCLG, a grant informative letter is sent to the town/parish councils notifying them of the amount of grant being offered and for them to request the funding and submit their neighbourhood project plan. Review of 12 neighbourhood planning grants applications found that the grants were issued to two (one SODC and one VWHDC) town/parish councils. A request of funding letter and neighbourhood project plan was received from the town/parish councils prior to the two neighbour planning grants being issued.

5.2.6 Neighbourhood planning grant conditions are in place, which the town/parish councils must agree to comply with prior to receiving the grant. Review of 12 neighbourhood planning grants found that there was no evidence confirming that the town/parish accepted the grant conditions prior to the grant being issued. It is noted that post payment of grants is also not being monitored to ensure that the town/parish councils have complied with the grant conditions.

5.2.7 Area assurance: Limited
Three recommendations have been made as a result of our work in this area (Recs 1, 2 & 3).

5.3 **Maintenance of records**

5.3.1 The Neighbourhood Planning Regulations (General) 2012 giving guidance of the process required to be undertaken by the district councils on the development of neighbourhood plans are within the Neighbourhood Planning (General) Regulations 2012. A tracker spreadsheet is in place showing the progress made by both the district councils and the town/parish councils on the neighbourhood plan. Supporting documentation on the progression for each plan is kept on the planning services' shared drive. Review of the 12 neighbourhood planning grants found no evidence was found to confirm on:-
- One (VWHDC) occasion, the application form and area map were received;
- Three (VWHDC) occasions, consultation was undertaken;
- One (VWHDC) occasion, the approval of area designation letter was issued;
- Four (VWHDC) occasions, the informative grant letters were issued;
- Six (two SODC and four VWHDC) occasions, the project plans were received.

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

5.4 **Payment of grants**

5.4.1 Town/parish councils receive funding for developing their neighbourhood plan. There are three approval stages required to be completed prior to the town/parish councils receiving their funding for neighbourhood plan:-

- Approval of the area designation;
- Approval of the grant on the LOGASnet system prior to DCLG offering the grant;
- Approval of the purchase order.

It is noted that prior to the district councils applying for funding, after successfully completing the neighbourhood planning examination, the decision statement requires to be approved. Review of 12 neighbourhood planning grants confirmed that the area designations, decision statement and grants on the LOGASnet system were approved appropriately in line with the councils' scheme of delegations. Of the 12 grants, nine related to area designation, which according to the Neighbourhood Planning (General) (Amendment) Regulations 2015 requires to be approved within eight weeks (20 weeks if more than one area applied for) of the application first being publicised. Review of the nine grants confirmed that area designations are approved in line with regulations.

5.4.2 The neighbourhood planning grants are applied for on a quarterly basis (June, September, December and March) after the area designation or decision statements are approved. Review of 12 neighbourhood planning grants found that six grants were not applied for efficiently after approval.

5.4.3 Neighbourhood planning grant payments received from DCLG are recorded on the Agresso system and coded to NP01 9090 for SODC and NP02 9090 for VWHDC. Review of 12 neighbourhood planning grants found that 11 payments were appropriately coded on the Agresso system. It is noted that at the time of the audit one grant payment had not been received as the grant claim form was approved by the Head of Finance on the 5 January 2016. Prior to grant payments being given to town/parish councils (area designation only), a purchase order is raised and an invoice is requested. It is noted that the grant payment is paid against the invoice raised by the town/parish council. Review of nine neighbourhood planning grants found that one invoice was received for grant payment and payment was appropriately made. It is noted that the payment transaction is recorded on the Agresso system within accounts payable.

5.4.4 Area assurance: Satisfactory
One recommendation has been made as a result of our work in this area and also see related recommendation in 5.2.4 (Rec 5).

OBSERVATIONS AND RECOMMENDATIONS

REQUIREMENTS AND CONDITIONS OF NEIGHBOURHOOD PLANNING GRANTS

1. Procedures   **(Medium Risk)**

Rationale	Recommendation	Responsibility
Best Practice Written procedures are in place, documenting the whole neighbourhood planning process.	Written procedures should be in place and followed when undertaking the neighbourhood planning	Senior Planning Policy Officer (NP)

<u>Findings</u> There are no written procedures in place covering the end to end neighbourhood planning process. <u>Risk</u> If no written procedures are in place, there is a risk that the neighbourhood planning process undertaken is not complying with the requirements of the Neighbourhood Planning (General) Regulations 2012.	process to ensure that both SODC & VWHDC are complying with the requirements of the Neighbourhood Planning (General) Regulations 2012.	

Management Response	**Implementation Date**
Recommendation is **Agreed** Thank you, this audit has highlighted a gap in our written procedures which will be rectified. Management response: Team Leader, Customer Service & Performance	30 April 2016

2. Grant conditions acceptance   (High Risk)

Rationale	**Recommendation**	**Responsibility**
<u>Best Practice</u> Neighbourhood planning grants are only issued after the town/parish councils' sign and return the condition acceptance form. <u>Findings</u> A neighbourhood planning grant conditions letter and acceptance of conditions form are in place, which the parish/town council must comply with, accept and sign, and return. From review of 12 neighbourhood planning grants, it could not be confirmed if the town/parish councils accepted the grant conditions as evidence was not available. <u>Risk</u> If the neighbourhood planning grant acceptance of conditions form is not signed and returned by the town/ parish council prior to the grant being given, there is a risk that both SODC and VWHDC could not prevent the town/parish councils using the grant for other projects, or request the return of grant funds.	Prior to the grant being issued, the planning policy team should ensure that the town/ parish councils have signed and returned the acceptance of grant conditions form so that the grant awarded can be withdrawn for non-compliance.	Senior Planning Policy Officer (NP)

Management Response	**Implementation Date**
Recommendation is **Agreed** Noted and agreed.	30 April 2016

Management response: Team Leader, Customer Service & Performance	

3. Post funding checks

(Medium Risk)

Rationale	Recommendation	Responsibility
<u>Best Practice</u> Town/parish council provide information to the district councils confirming that the funding received was used in the development of the neighbourhood plan. <u>Findings</u> After the district councils provide the town/parish councils funding to develop their neighbourhood plan, no checks or monitoring arrangements are in place to ensure that the funding is actually being used on the development of the neighbourhood plan. <u>Risk</u> If the district councils do not expect the town/ parish councils to provide information confirming that the funding was used on the development of the neighbourhood plan, there is a risk that the town/parish councils only require part of the funding and use the rest on other projects instead of returning the remaining amount.	At the submission stage, the district councils should request from the town/parish councils' confirmation that all the funding provided was used on developing the neighbourhood plan.	Senior Planning Policy Officer (NP)

Management Response	Implementation Date
Recommendation is **Agreed** Noted and agreed. Management response: Team Leader, Customer Service & Performance	30 April 2016

MAINTENANCE OF RECORDS

4. Supporting documentation

(Medium Risk)

Rationale	Recommendation	Responsibility
<u>Best Practice</u> Supporting documentation relating to neighbourhood planning grants are filed appropriately. <u>Findings</u> Review of 12 neighbourhood planning grants found that on six (two SODC & four VWHDC) occasions confirmation that the process was undertaken appropriate could not be gained as evidence was not available.	The supporting documentation for neighbourhood planning grants should be filed appropriately so that an audit trail is in place confirming compliance with the Neighbourhood Planning (General) Regulations 2012.	Senior Planning Policy Officer (NP)

Risk If supporting documentation for neighbourhood planning grants is not filed appropriately, there is a risk of not obtaining all of the required information to fulfil the requirement of the Neighbourhood Planning (General) Regulations 2012.		
Management Response		**Implementation Date**
Recommendation is **Agreed** Noted and agreed. Management response: Team Leader, Customer Service & Performance		30 April 2016

GRANT PAYMENTS

5. Efficiency of grant application   (Low Risk)

Rationale	**Recommendation**	**Responsibility**
Best Practice At the end of the quarter after the area designation/decision statements are approved, the neighbourhood planning grant is applied for from DCLG. Findings The councils apply for neighbourhood planning grants from DCLG on a quarterly basis (end of each quarter), but only after area designation or decision statement are approved. Review of 12 neighbourhood planning grants found that on four occasions, the grant was not applied for efficiently, in the next quarter, from DCLG. Risk If the grants are not applied for from DCLG as soon as the area designation/decision statements are approved, there is a risk of the application being forgotten, resulting in delays in the development of neighbourhood plans.	Neighbourhood planning grants should be applied for from DCLG at the next possible time after the area designations/decision statements are approved.	Senior Planning Policy Officer (NP)
Management Response		**Implementation Date**
Recommendation is **Agreed** Noted and agreed. Management response: Team Leader, Customer Service & Performance		31 March 2016

2. SODC CREDITOR PAYMENTS 2015/2016

1. INTRODUCTION

1.1   This report details the internal audit review of procedures, controls and the management of risk in relation to creditor payments. The audit has a priority score of 20. The draft report was issued 21 December 2015 and the final report was issued 12 February 2016.

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, also known as creditors or accounts payable, are payments the council makes to third party suppliers for goods or services purchased by the council.

2.2   The creditor payments process is managed through the Agresso financial system. Capita provide the exchequer services function, which includes creditors, from their offices at Shepton Mallet. All invoices are to be sent to Capita's exchequer services team via the post box number that routes to their Darlington office for scanning and registering. Should any be received directly by the council, officers should check they are correct and send them on to Capita for processing.

2.3   As at the time of review there were 5191 invoices received for the period of February 2015 to October 2015 totalling £25,409,436.68. Of these, 2,806 are purchase order invoices totalling £15,902,059.70 and 2,385 are non-purchase order invoices totalling £9,507,376.98.

3. PREVIOUS AUDIT REPORTS

3.1   Creditor payments were last subject to an internal audit review in February 2015 and one recommendation was raised and agreed. A full assurance opinion was issued.

3.2   The recommendation related to duplicate payments through the creditors system (Agresso). Whilst measures have been put in place to try and mitigate this error, internal audit identified duplicate payments that were made through Agresso. The recommendation has been restated (Rec 6).

4. 2015/2016 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 and three low risk.

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 creditor payments and they are available to staff on the council's intranet. Roles and responsibilities are defined clearly within the procedures notes with evidence of regular updates and reviews taking place. There is an up to date service level agreement (for exchequer services) between Capita and SODC documenting items required from the relevant departments, enabling Capita to perform its tasks efficiently and to agreed timeframes. The service level agreement is version controlled with any updates and reviews documented.

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

5.2   **Invoice processing**

5.2.1   Capita are currently responsible for processing the council's invoices for payment. Invoices are receipted, scanned onto Agresso, checked to the original purchase order and are paid (more often) on weekly BACS and cheque runs. Urgent payments can be made if appropriately authorised and requested within a reasonable timeframe. Internal audit identified that there is a monthly review of invoices paid outside of the target 30 days by the service managers through emails received from the revenues and benefits team. It was also established that the monthly monitoring of the creditor payments performance analysis was last undertaken in May 2015.

5.2.2   From checks undertaken on a sample of 20 invoices, all were found to be supported by appropriate documentation in the form of either an electronic invoice or scanned image of a hardcopy invoice. Internal audit also identified that there was a visible audit trail within the Agresso system for 19 out of 20 of the transactions showing who had registered, coded, and for non-purchase order invoices, approved the payment. One of the payments had been made prior to the goods received note being entered on the system. Invoices were also addressed to various council offices instead of the Darlington address documented in the council accounts payable procedure notes.

5.2.3   Area assurance: Substantial
         Two recommendations have been made as a result of our work in this
         area (Rec 1 and 2).

5.3   **Payments**

5.3.1   Internal audit established that manual payments are made for urgent
         payments outside of the regular weekly payment runs. Urgent non-
         invoiced payment are normally requested through an urgent payment
         voucher and are treated similarly to normal payment requests within
         Agresso.

5.3.2   Internal audit established that BACS is the default payment with cheque
         payments as an alternative. There were no suppliers found to be set up
         for payment by direct debit. Weekly payment reports for both BACS and
         cheque payments are reviewed with the report being signed off by an
         authorised signatory who also sends an email to Capita's exchequer
         services authorising payment. No issues were identified from the review
         of the payment run documentation.

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

5.4   **Duplicate payments**

5.4.1   Agresso's account payable system has built in controls to prevent invoice
         numbers being registered more than once for a supplier. Purchase
         orders can only be matched to one invoice. The accounts payable
         procedure notes outline the importance of checking and avoiding
         duplicate invoices to be approved in the system. The procedure notes
         also has information on how the officer approving payment of an invoice
         must ensure payment has not already been made against the invoice.

5.4.2   Internal audit reviewed the supplier accounts starting with the letters D
         and J (103) accounts and identified two duplicate invoices that were
         processed through the system. During the review, internal audit also
         identified supplier accounts which had duplicate payments processed for
         the period being tested. These included invoices that had been
         registered twice on the Agresso system due to variations being made
         manually to the invoice reference. This meant the system would be
         bypassed as it is designed to raise an alert for invoice references that
         have been already registered for payment in Agresso. The total amount
         to be recovered at the time of audit due to the duplicate payments
         amounted to £24,234.50.

5.4.3   Area assurance: Limited
         Three recommendations have been made as a result of our work in this
         area (Recs 3, 4 and 6).

5.5   **Refunds**

5.5.1   Internal audit established that there are adequate procedures in place

covering the management of refunds in the form of credit notes received to offset invoices due. A sample of 20 credit notes were selected for the period being audited and the checks undertaken established that there are no concerns regarding credit notes. However, from the duplicate testing sample documented in 5.4, one of the invoice payments was made on a credit note with resulted in a duplicate payment being made on the supplier account (Rec 6).

5.5.2 A monthly report is produced by Capita of supplier accounts with a debit balance which indicates that the council is owed money. Internal audit established this had not been circulated to service areas by the revenues and benefits client team since May 2015. As at October 2015, the monthly report indicated that there are 43 suppliers with debit balances and the total that appears owed to the council is £52,587.03. Of this total, £37,242.34 was for suppliers with debit balances for over 43 days. This information had not been circulated to the relevant service managers for further review (Rec 2).

5.5.3 Area assurance: Satisfactory
No recommendations have been made as a result of our work in this area but findings have been incorporated within two recommendations (Rec 2 and 6).

5.6 **VAT**

5.6.1 Internal audit identified that the council accounts for VAT separately in the financial management system (Agresso) and has a nominated officer in the accountancy team responsible for completing VAT returns. This is documented in the accounts payable procedure notes which is available to all officers in the event that they may require advice on how to account for VAT.

5.6.2 A review of 20 creditor invoices found that 19 of the invoices had been treated and coded correctly. One of the invoices sent to the council had accounted for VAT although the invoice did not have a VAT registration number recorded. The details on the invoice were also registered and recorded in the Agresso system accounting for VAT although the invoice.

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

OBSERVATIONS AND RECOMMENDATIONS

INVOICE PROCESSING

1. Invoices		(Low Risk)
Rationale	**Recommendation**	**Responsibility**
Best Practice Invoices are processed and paid in a timely manner. Findings	a) The service teams need to ensure that: • payments are paid within the agreed payment terms,	Finance & Systems Manager

Internal audit reviewed 20 invoices and identified that: a) Nine of the invoices were paid over the invoice payment terms. It was also identified that four out of theses nine invoices were sent to the service areas (sent to Abbey House) first instead of being sent to the Agresso team in Darlington as stated in the accounts payable procedure. It should be noted that it is the responsibility of the service area to inform the supplier of the correct details to ensure prompt payments are completed in the invoice payment terms provided. b) One invoice payment was registered and processed although it had not been entered into the Agresso system in full. The purchase order had been entered onto the system correctly but there was no evidence of acknowledgement of receipt of goods by the appropriate service area officer. Risk There is a risk of reputation damage and financial loss through late payment charges. Possible loss of prompt payment discounts and impaired relations with suppliers.	• invoices are sent to the Darlington address in the first instance and, • all items received should be acknowledged and date stamped on the Agresso system by the relevant officer. b) Cost centre managers should also ensure that all relevant information is entered in full and authorised sufficiently prior to being processed for payment.	

Management Response	Implementation Date
Recommendation is **Agreed** The risks highlighted are covered during the Agresso training that is currently being rolled out to end users. The training programmed will be completed by the end of March 2016. In the meantime, Heads of Service will be advised of Internal Audit's findings and reminded of the correct procedures to be followed. Management response: Finance & Systems Manager	31 March 2016

2. Accounts payable performance monitoring   (Low Risk)

Rationale	Recommendation	Responsibility
Best Practice Accounts payable performance should be monitored and reviewed regularly by the appropriate officer. Findings Internal audit identified that there is a lack of review in regards to the monthly statistics received from Capita (e.g. suppliers with debit balance for more than 43 days,	Regular review processes should be performed by the relevant council officer to check that the monthly statistics provided by Capita to the council.	Finance & Systems Manager

parked approved transactions, monthly monitoring information). The last review undertaken of the monthly statistics was in May 2015. Risk No regular reviews or monitoring of the monthly statistics received from the council's contractor providing exchequer services could lead to unidentified poor performance and result in potential financial losses in the council.		

Management Response		Implementation Date
Recommendation is **Agreed in Principle** The principle of regular monitoring is agreed. However, in the next few months a new client manager will be appointed who will be responsible for implementing monitoring procedures for the next nine years. It would be prudent to wait for this to happen before implementing any new procedures now. In the meantime, officers will endeavour to review the monthly statistics from Capita. Management response: Finance & Systems Manager		Ongoing

DUPLICATE PAYMENTS

3. Sundry suppliers account   (High Risk)

Rationale	Recommendation	Responsibility
Best Practice The sundry supplier account is only used for one off payments and where no unique supplier account is already in place. Findings Internal audit found that within the sample of 20 invoice payments, there were five instances where the account 99999 (sundry supplier) was used by the planning policy department although a valid supplier account was in place (Matchech supplier ID 16186). Further audit testing identified that the same invoices were also authorised for payment on the valid supplier account resulting in duplicate payments. The value of the duplicate invoice payments that requires a refund request amounted to £7,917.30. A regular review of the sundry supplier account (supplier ID 99999) is undertaken by the finance and system manager to ensure the attached suppliers are appropriate. Internal audit established that the last review was undertaken in May 2015.	a) The sundry supplier account should only be used in appropriate circumstances. b) Efforts must be made by the planning policy department to recover the duplicate payments made through the sundry supplier accounts to the supplier. c) Regular reviews of the sundry supplier account must be undertaken to ensure that the supplier code is being used correctly.	Finance & Systems Manager

There were 912 transactions made for the period 1 February 2015 to 30 October 2015. Risk If the sundry supplier account is used inappropriately and not reviewed, there is potential for transactions being processed through different accounts leading to duplicate payments.		

Management Response	**Implementation Date**
Recommendation is **Agreed** The Sundry Supplier account will be reviewed on a quarterly basis as previously agreed. The Planning department is actively discussing repayment of the duplicate invoices. All staff who attend Agresso training are being reminded of when it is appropriate to use the Sundry Supplier account. Management response: Finance & Systems Manager	31 January 2016

4. Duplicate Suppliers on Agresso   (High Risk)

Rationale	**Recommendation**	**Responsibility**
Best Practice Processes are efficient and unnecessary duplication is removed. Findings Internal audit identified two supplier accounts (Vodafone and Elegant Cuisine) that were recorded more than once in the financial management system – Agresso. The name of the accounts were different but the address and payment details for the suppliers matched making them duplicate suppliers. Internal audit testing identified duplicate invoice payments that had been processed and authorised by the human resources department on the two Vodafone supplier accounts. The value of the duplicate invoice payments that requires a refund request amounted to £10,383.40. Risk If duplicate suppliers are on the Agresso system, there is a risk of payments being against the wrong account.	a) Regular reviews should be undertaken on the supplier master file to ensure that possible duplicate suppliers are reviewed and if necessary, closed on the Agresso system. b) Service managers to be reminded that they ensure they perform the necessary checks prior to authorising invoice payments on Agresso. c) The human resources department should ensure that a refund request is requested for the invoice payment duplications made by the council as soon as possible.	Finance & Systems Manager

Management Response	Implementation Date
Recommendation is **Agreed** The accounts payable team will provide the Finance & Systems Manager with a report every six months which details suppliers that have not had transactions in the preceding 18 months. This list will be circulated to service teams and unless a positive response is received, all suppliers will be closed. All staff who attend Agresso training are being reminded of the importance of checking all system details (including supplier name) when processing invoices on Agresso. The IT team is in discussions with Vodafone for the repayment of the duplicate invoice. Management response: Finance & Systems Manager	1 April 2016

VAT

5. VAT Invoices   (Low Risk)

Rationale	Recommendation	Responsibility
<u>Best Practice</u> VAT is only coded for reclaim when there is appropriate documentation. <u>Findings</u> From a sample of 10 invoices, it was identified that one of the invoices had a VAT breakdown although it was not a valid VAT invoice. This was due to the fact that there was no VAT registration documented on the invoice. <u>Risk</u> If correct VAT documentation is not available to support supplier payments then the council may not be able to prove it is eligible to reclaim the amounts.	a) VAT should only be coded for reclaim when suitable VAT invoices/receipts are provided. b) Guidance should be provided to officers as to what constitutes appropriate VAT documentation.	Finance & Systems Manager

Management Response	Implementation Date
Recommendation is **Agreed** All staff who attend Agresso training are being advised of the importance of ensuring that all transactions where VAT is being accounted for have an associated VAT compliant invoice. Staff are advised of the Government webpage that lists the requirements. Management response: Finance & Systems Manager Darlington scanning team have already been provided further guidance as to what is a VAT invoice and when to reject – this has been done by Exchequer Services. Management response: Head of Finance (Capita)	31 January 2016

PREVIOUS RECOMMENDATIONS RESTATED

6. Duplicate invoices   (High Risk)

Rationale	Recommendation	Responsibility

Best Practice
Duplicate invoices are not registered within the Agresso accounts payable system.
 	
Findings
From a sample of 20 invoices, it was identified that three of the invoices were duplicate payments.
 	
One invoice from the community safety team had been entered onto the appropriate supplier although the reference on the invoice had been manually varied and pre-coded by the Darlington team (Capita staff) to enable the Agresso system to accept entry of the invoice to be processed for payment. The correct invoice reference was then registered into the system on the same supplier. Both invoices were authorised for payment by the community safety department.
 	
Internal audit also identified a credit note that was processed and authorised by the facilities department as an invoice resulting in a duplicate payment being made on the invoice.
 	
One invoice was identified by internal audit that had been processed through the human resources department and paid to the wrong supplier. The original supplier then made a follow up on their outstanding account and received their payment. A refund from the payment made to the wrong supplier had not been requested at the time of audit.
 	
The value of the all duplicate payments identified in the audit testing to be recovered totalled £24,234.50.
 	
Risk
Without appropriate controls in place, duplicate invoice registration and payments will occur.
	a)
	    he Darlington team need to ensure that all invoices being registered go to a "coding group" for coding in Agresso in the first instance for council officers to check and authorise that all the details are correct (including supplier account).
	
	b)
	    he community safety department, human resources department, facilities department and Capita staff need to review the duplicate registration and payment highlighted during the audit and recover any overpayments from suppliers.
	
	c)
	    ervice managers to be trained/reminded to ensure they perform the necessary checks prior to authorising invoice payments on Agresso.
	
	d)
	    ontrols need to be reviewed, analysed and communicated to the relevant officers to prevent reoccurrence.
		Finance & Systems Manager

Management Response		**Implementation Date**
Recommendation is **Agreed** Capita will ensure that non-PO invoices are always directed to a coding		30 June 2016

group in the first instance rather than distributing as "pre-coded". Capita will liaise with the relevant service teams to recover the duplicate payments from suppliers. All staff who attend the Agresso training are given instruction on what checks they must undertake before coding and approving invoices. Management response: Finance & Systems Manager	

3. VWHDC CREDITOR PAYMENTS 2015/2016

1. INTRODUCTION

1.1   This report details the internal audit review of procedures, controls and the management of risk in relation to creditor payments. The audit has a priority score of 20. The draft report was issued 15 January 2016 and the final report was issued 12 February 2016.

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, also known as creditors or accounts payable, are payments the council makes to third party suppliers for goods or services purchased by the council.

2.2   The creditor payments process is managed through the Agresso financial system. Capita provide the exchequer services function, which includes creditors, from their offices at Shepton Mallet. All invoices are to be sent to Capita's exchequer services team via the post box number that routes to their Darlington office for scanning and registering. Should any be received directly by the council, officers should check they are correct and send them on to Capita for processing.

2.3   As at the time of review there were 4463 invoices received for the period of February 2015 to October 2015 totalling £20,944,233.70. Of these, 1,919 are purchase order invoices totalling £13,178,730.02 and 2,544 are non-purchase order invoices totalling £7,765,503.68.

3. PREVIOUS AUDIT REPORTS

3.1   Creditor payments were last subject to an internal audit review in February 2015 and one recommendation was raised and agreed. A full assurance opinion was issued.

3.2   The recommendation related to duplicate payments through the creditors system (Agresso). Whilst measures have been put in place to try and mitigate this error, internal audit identified duplicate payments that were made through Agresso. The recommendation has been restated (Rec 5).

4. 2015/2016 AUDIT ASSURANCE

4.1   **Limited assurance:** There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.

4.2   Five recommendations have been raised in this review. Three high risk and two low risk.

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 creditor payments and they are available to staff on the council's intranet. Roles and responsibilities are defined clearly within the procedures notes with evidence of regular updates and reviews taking place. There is an up to date service level agreement (for exchequer services) between Capita and VWHDC documenting items required from the relevant departments, enabling Capita to perform its tasks efficiently and to agreed timeframes. The service level agreement is version controlled with any updates and reviews documented.

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

5.2   **Invoice processing**

5.2.1   Capita are currently responsible for processing the council's invoices for payment. Invoices are receipted, scanned onto Agresso, checked to the original purchase order and are paid (more often) on weekly BACS and cheque runs. Urgent payments can be made if appropriately authorised and requested within a reasonable timeframe. Internal audit identified that there is a monthly review of invoices paid outside of the target 30 days by the service managers through emails received from the revenues and benefits team. It was also established that the monthly monitoring of the creditor payments performance analysis was last undertaken in May 2015.

5.2.2   From checks undertaken on a sample of 20 invoices, all were found to be supported by appropriate documentation in the form of either an electronic invoice or scanned image of a hardcopy invoice. Internal audit also identified that there was a visible audit trail within the Agresso system for the 20 transactions tested showing who had registered, coded, and for non-purchase order invoices, approved the payment. Invoices were also addressed to various council offices instead of the Darlington address documented in the council accounts payable procedure notes.

5.2.3   Area assurance: Substantial

Two recommendations have been made as a result of our work in this area (Rec 1 and 2).

5.3   **Payments**

5.3.1   Internal audit established that manual payments are made for urgent payments outside of the regular weekly payment runs. Urgent non-invoiced payment are normally requested through an urgent payment voucher and are treated similarly to normal payment requests within Agresso.

5.3.2   Internal audit established that BACS is the default payment with cheque payments as an alternative. There were no suppliers found to be set up for payment by direct debit. Weekly payment reports for both BACS and cheque payments are reviewed with the report being signed off by an authorised signatory who also sends an email to Capita's exchequer services authorising payment. No issues were identified from the review of the payment run documentation.

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

5.4   **Duplicate payments**

5.4.1   Agresso's account payable system has built in controls to prevent invoice numbers being registered more than once for a supplier. Purchase orders can only be matched to one invoice. The accounts payable procedure notes outline the importance of checking and avoiding duplicate invoices to be approved in the system. The procedure notes also has information on how the officer approving payment of an invoice must ensure payment has not already been made against the invoice.

5.4.2   Internal audit reviewed the supplier accounts starting with the letters A and B (288) accounts and identified one duplicate invoice that was processed through the system. During the review, internal audit also identified supplier accounts which had duplicate payments processed for the period being tested. These included invoices that had been registered twice on the Agresso system due to variations being made manually to the invoice reference. This meant the system would be bypassed as it is designed to raise an alert for invoice references that have been already registered for payment in Agresso. The total amount to be recovered at the time of audit due to the duplicate payments amounted to £8,132.24.

5.4.3   Area assurance: Limited
        Three recommendations have been made as a result of our work in this area (Recs 3, 4 and 5).

5.5   **Refunds**

5.5.1   Internal audit established that there are adequate procedures in place covering the management of refunds in the form of credit notes received

to offset invoices due. A sample of 20 credit notes were selected for the period being audited and the checks undertaken established that there are no concerns regarding credit notes.

5.5.2 A monthly report is produced by Capita of supplier accounts with a debit balance which indicates that the council is owed money. Internal audit established this had not been circulated to service areas by the revenues and benefits client team since May 2015. As at October 2015, the monthly report indicated that there are 23 suppliers and the total that appears owed to the council is £45,575.54. Of this total, £45,480.54 was for suppliers with debit balances for over 43 days. This information had not been circulated to the relevant service managers for further review (Rec 2).

5.5.3 Area assurance: Satisfactory
No recommendations have been made as a result of our work in this area but findings have been incorporated within one recommendation (Rec 2).

5.6 **VAT**

5.6.1 Internal audit identified that the council accounts for VAT separately in the financial management system (Agresso) and has a nominated officer in the accountancy team responsible for completing VAT returns. This is documented in the accounts payable procedure notes which is available to all officers in the event that they may require advice on how to account for VAT. A review of 20 creditor invoices found that all invoices had been treated and coded correctly.

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

OBSERVATIONS AND RECOMMENDATIONS

INVOICE PROCESSING

1. Invoices (Low Risk)

Rationale	Recommendation	Responsibility
<u>Best Practice</u> Invoices are processed and paid in a timely manner. <u>Findings</u> Internal audit reviewed 20 invoices and identified that: c) One of the invoices was paid over the invoice payment terms. d) It was also identified that ten out of the 20 invoices were sent to the service areas (e.g. sent to Abbey House) first instead of being sent to the	The service teams need to ensure that: c) payments are paid within the agreed payment terms and, d) invoices are sent to the Darlington address in the first instance.	Finance & Systems Manager

Agresso team in Darlington as stated in the accounts payable procedure. It should be noted that it is the responsibility of the service area to inform the supplier of the correct details to ensure prompt payments are completed in the invoice payment terms provided. <u>Risk</u> There is a risk of reputation damage and financial loss through late payment charges. Possible loss of prompt payment discounts and impaired relations with suppliers.		

Management Response	**Implementation Date**
Recommendation is **Agreed** The risks highlighted are covered during the Agresso training that is currently being rolled out to end users. The training programmed will be completed by the end of March 2016. In the meantime, Heads of Service will be advised of Internal Audit's findings and reminded of the correct procedures to be followed. Management response: Finance & Systems Manager	31 March 2016

2. Accounts payable performance monitoring   (Low Risk)

Rationale	**Recommendation**	**Responsibility**
<u>Best Practice</u> Accounts payable performance should be monitored and reviewed regularly by the appropriate officer. <u>Findings</u> Internal audit identified that there is a lack of review in regards to the monthly statistics received from Capita (e.g. suppliers with debit balance for more than 43 days, parked approved transactions and monthly monitoring information). The last review undertaken of the monthly statistics was in May 2015. <u>Risk</u> No regular reviews or monitoring of the monthly statistics received from the council's contractor providing exchequer services could lead to unidentified poor performance and result in potential financial losses in the council.	Regular review processes should be performed by the relevant council officer to check and monitor the monthly statistics provided by Capita to the council.	Finance & Systems Manager

Management Response	**Implementation Date**
Recommendation is **Agreed in Principle** The principle of regular monitoring is agreed. However, in the next few months a new client manager will be appointed who will be responsible for implementing monitoring procedures for the next	Ongoing

nine years. It would be prudent to wait for this to happen before implementing any new procedures now. In the meantime, officers will endeavour to review the monthly statistics from Capita. Management response: Finance & Systems Manager	

DUPLICATE PAYMENTS

3. Sundry suppliers account (High Risk)

Rationale	Recommendation	Responsibility
<u>Best Practice</u> The sundry supplier account is only used for one off payments and where no unique supplier account is already in place. <u>Findings</u> Internal audit found that within the sample of 20 invoice payments, there was one instance where the account 99999 (sundry supplier) was used by the facilities department although a valid supplier account was in place (Vale of White Horse District Council supplier ID 10281). Further audit testing identified that the same invoice was also authorised for payment on the valid supplier account resulting in duplicate payments. The value of the duplicate invoice payment that requires a refund request amounted to £80.00. Internal audit identified two duplicate payments that had been made through the sundry supplier account. i) The first payment identified was for a repair and renewal grant through the facilities department. A cheque was issued with the name recorded incorrectly thereby causing the cheque to be returned. A new payment was issued to the supplier by the council. Internal audit testing identified that the cheque that had been reported as being paid incorrectly had been paid as well leading to a duplicate payment. The value of the duplicate invoice payment that requires a refund request amounted to £5,000. ii) The second payment had been entered onto the appropriate supplier although the reference on the invoice had been manually varied and pre-coded by the Darlington	d) The sundry supplier account should only be used in appropriate circumstances. e) Efforts must be made by the facilities department to recover the duplicate payment made through the sundry supplier accounts to the supplier. f) Regular reviews of the sundry supplier account must be undertaken to ensure that the supplier code is being used correctly. g) he Capita team need to ensure that all invoices being registered go to a "coding group" for coding in Agresso in the first instance for council officers to check and authorise that all the details are correct (including supplier account).	Finance & Systems Manager

team (Capita staff) to enable the Agresso system to accept entry of the invoice to be processed for payment. The correct invoice reference was then registered into the system on the same supplier. Both invoices were authorised for payment by the planning department. The value of the duplicate invoice payment that requires a refund request amounted to £9.00. A regular review of the sundry supplier account (supplier ID 99999) is undertaken by the finance and system manager to ensure the attached suppliers are appropriate. Internal audit established that the last review was undertaken in May 2015. There were 497 transactions made for the period 1 February 2015 to 30 October 2015. <u>Risk</u> If the sundry supplier account is used inappropriately and not reviewed, there is potential for transactions being processed through different accounts leading to duplicate payments.		

Management Response		**Implementation Date**
Recommendation is **Agreed** The Sundry Supplier account will be reviewed on a quarterly basis as previously agreed. The Facilities department will contact its supplier to discuss repayment of the duplicate invoices. All staff who attend Agresso training are being reminded of when it is appropriate to use the Sundry Supplier account. Capita will ensure that non-PO invoices are always directed to a coding group in the first instance rather than distributing as "pre-coded". Management response: Finance & Systems Manager		31 May 2016

4. Duplicate Suppliers on Agresso   (High Risk)

Rationale	Recommendation	Responsibility
<u>Best Practice</u> Processes are efficient and unnecessary duplication is removed. <u>Findings</u> Internal audit identified five supplier accounts (Vodafone, Americanino Ltd, Anna Dillon, Barnados and British Standards Institute) that were recorded more than once in the financial management system –	d) Regular reviews should be undertaken on the supplier master file to ensure that possible duplicate suppliers are reviewed and if necessary, closed on the Agresso system. e) Service managers to be reminded that they ensure they perform the necessary checks prior to authorising	Finance & Systems Manager

Agresso. The name of the accounts were different but the address and payment details for the suppliers matched making them duplicate suppliers. Internal audit testing identified duplicate invoice payments that had been processed and authorised by the licensing department on the two Vodafone supplier accounts. The same issue of duplicate invoice payment through Vodafone was also identified in the IT department. The value of the duplicate invoice payments that requires refund requests amounted to £389.03. <u>Risk</u> If duplicate suppliers are on the Agresso system, there is a risk of payments being processed against the wrong account.	invoice payments on Agresso. f) The licensing department and the IT department should ensure that a refund request is requested for the invoice payment duplications made by the council as soon as possible. g) The IT operations manager should remind all Vodafone account holders in the council on the uses of the Vodafone accounts in Agresso to ensure they use the correct supplier id when making payments.	

Management Response		**Implementation Date**
Recommendation is **Agreed** The accounts payable team will provide the Finance & Systems Manager with a report every six months which details suppliers that have not had transactions in the preceding 18 months. This list will be circulated to service teams and unless a positive response is received, all suppliers will be closed. All staff who attend Agresso training are being reminded of the importance of checking all system details (including supplier name) when processing invoices on Agresso. The IT team is in discussions with Vodafone for the repayment of the duplicate invoice. Management response: Finance & Systems Manager		1 April 2016

PREVIOUS RECOMMENDATIONS RESTATED

5. Duplicate invoices   (High Risk)

Rationale	**Recommendation**	**Responsibility**
<u>Best Practice</u> Duplicate invoices are not registered within the Agresso accounts payable system. <u>Findings</u> From a sample of 20 invoices, it was identified that two instances had duplicate payments. One invoice was identified by internal audit that had been processed through the legal department and paid to the wrong supplier. The original supplier then made a follow up on their outstanding account and received their payment. A refund from the	e) he legal department, facilities department and Capita staff need to review the duplicate registration and payment highlighted during the audit and recover any overpayments from suppliers. f) ervice managers to be trained/reminded to ensure they perform the necessary checks prior to authorising invoice payments on Agresso. g)	Finance & Systems Manager

payment made to the wrong supplier was in the process of being recovered at the time of audit. One invoice was paid twice through the Agresso system through the facilities department. The invoice had been entered onto the appropriate supplier although the reference on the invoice had been manually varied and pre-coded by the Darlington team (Capita staff) to enable the Agresso system to accept entry of the invoice to be processed for payment. The value of the duplicate payments identified in the audit testing to be recovered totalled £2,654.21. <u>Risk</u> Without appropriate controls in place, duplicate invoice registration and payments will occur.	ontrols need to be reviewed, analysed and communicated to the relevant officers to prevent reoccurrence.	
Management Response		**Implementation Date**
Recommendation is **Agreed** Capita will liaise with the relevant service teams to recover the duplicate payments from suppliers. All staff who attend the Agresso training are given instruction on what checks they must undertake before coding and approving invoices. Management response: Finance & Systems Manager		30 June 2016

4. JOINT PAYROLL 2015/2016

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 2015/2016 audit plan agreed with the audit and governance committee of both 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 are in place regarding pay which are available to relevant council staff.
- payroll system parameters are up-to-date and appropriate.
- amendments to standing data are appropriately authorised, documented and actioned promptly, including:
  - starters and leavers;
  - overtime;
  - additions/deductions or variations to pay, e.g. pay rises;
  - personal data.
- data and information is held and transferred between payroll, HR and finance securely, accurately and in a timely manner.
- payroll reconciliations are accurate, timely and independently reviewed; and
- payroll records are regularly reconciled with HR's establishment listing and appropriate actions are taken to address any discrepancies.

2. BACKGROUND

2.1   Since 1 February 2012, Capita have provided the councils' 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   As at the end of January 2016, the councils are employing 432 staff members of which 278 are employed by SODC and 154 by VWHDC. From reviewing the general ledger, pay costs were £8,248,789.64, of which £5,373,351.74 is for SODC and £2,875,437.90 is for VWHDC.

3. PREVIOUS AUDIT REPORTS

3.1   SODC
Payroll was last subject to an internal audit review in November 2014, and eight recommendations were raised. Seven recommendations were agreed and one recommendation was partly agreed. A limited assurance opinion was issued. Of the eight recommendations, seven were implemented and one recommendation had not been implemented.

3.2   VWHDC
        Payroll was last subject to an internal audit review in November 2014,
        and eight recommendations were raised. All eight recommendations
        were agreed. A limited assurance opinion was issued. Of the eight
        recommendations, seven were implemented and one recommendation
        had not been implemented.

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

4. 2015/2016 AUDIT ASSURANCE

4.1   **Limited assurance:** There are some weaknesses in the adequacy of the
        internal control system which put the system objectives at risk and/or the
        level of non-compliance puts some of the system objectives at risk.

4.2   Five recommendations have been raised in this review. One high risk,
        one medium risk and three low risk.

5. MAIN FINDINGS

5.1   **Policies and procedures**

5.1.1   The councils have relevant policies and procedures in place to cover all
        aspects of pay. However, review of the policies and procedures found
        that version control was not fully utilised as:-
        • There was no evidence that the policies were approved;
        • There was no date stating when review of the policy is next due; and
        • The author of the policy was not stated on the policy.
        In addition, the travel and expenses policy requires updating as it still
        refers to Crowmarsh Gifford when the council moved to Milton Park in
        June 2015. The policies and procedures are readily available for all staff
        on the council's intranet website.

5.1.2   A service level agreement between the council and Capita is not in place,
        however a payroll processes reference outlines and makes reference to
        the various processes and procedures required to process the payroll.
        This can be used by stakeholders to understand where the responsibility
        lies for any relevant process. It is noted that the current contract with
        Capita is due to end 31 July 2016 and a service level agreement for
        payroll will be in place for the new contract.

5.1.3   Capita have in place comprehensive payroll handbook which is available
        to all staff dealing with payroll issues and was last reviewed in January
        2015. Review of the handbook confirmed that it covers all elements of
        the payroll provision that would be expected.

5.1.4   Area assurance: Satisfactory
        Two recommendations have been made as a result of our work in this
        area (Recs 1 & 2).

5.2   **System parameters**

5.2.1   Capita payroll receive from HMRC the tax code parameters on an annual basis. The IAW (Ingenuity At Work) system is updated as soon as the parameters are received and reviewed by the payroll team leader (Capita). A review of 20 staff members was undertaken to establish if their tax code was updated accurately and in a timely manner. Review confirmed that tax codes have been accurately updated on the IAW system in a timely manner before the first payroll run in the 2015/2016 financial year. Review also confirmed that the payroll team leader (Capita) signed off the parameters to confirm adequate checks.

5.2.2   Gaining access to the IAW system requires a request being made through the payroll team leader (Capita), who instructs the IAW support team to set up the necessary access levels if appropriate. Additional security is in place in to the system as a user requires more than one password to gain access. Review of the IAW system access list found that one council staff member who had left still had access to the system, however, with the staff member not having access to the council's network access to the system is prevented.

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

5.3   **Amendments to standing data**

5.3.1   On a monthly basis, the HR team e-mails any amendments to Capita payroll via a control spreadsheet. The spreadsheet is updated from either the starters, leavers or amendment to pay forms received from the service areas and are checked independently by the HR business support manager. One payroll officer inputs and another checks the data has been entered correctly onto the payroll system, while the process is counter-checked by the payroll team leader (Capita) to confirm. Testing of 37 (20 SODC and 17 VWHDC (100% sample) starters, 40 (20 SODC and 20 VWHDC) leavers and 40 (20 SODC and 20 VWHDC) amendments to pay were selected and reviewed. Review found that:-
         • The starters, leavers and amendment to pay forms were all fully completed. It was noted that 11 (five SODC & six VWHDC) amendments to pay did not require a form as they were either a requirement of the officer's contract or a legal requirement.
         • The forms were authorised by an appropriate officer. However due to the forms being completed electronically, the relevant officers name was typed in or a cut and paste signature was inserted and HR did not keep and file the accompanying email to confirm that the forms were actually received and approved by the relevant officer.
         • The control spreadsheets were accurately updated against the form and checked independently by the HR business support manager.
         • Capita payroll received information prior to the new employee being created within payroll.
         • Pay was calculated appropriately after amendments were made.

5.3.2   Capita payroll receive overtime claim forms from line managers authorising the claim. The claim forms are entered by one payroll officer (Capita) and checked by another to confirm that the amounts have been entered onto the payroll system appropriately. Review of 40 (20 SODC and 20 VWHDC) overtime claims form confirmed that:-

- All overtime claim forms were completed and signed by the officer claiming overtime;
- All officers' claiming overtime used the most up-to-date claim form to ensure that they comply with European Working Time regulations;
- All claim forms were authorised by an appropriate officer;
- All claim forms were received by Capita payroll prior to the overtime being paid;
- All overtime pay was corrected calculated.

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

5.4   **Security of payroll information and data**

5.4.1   Appropriate measures are in place between the councils and Capita payroll to ensure that all payroll data is held and transferred securely. Payroll information held by both the councils and Capita payroll are password controlled, which is only accessible to relevant officers. Capita payroll use a checklist when undertaking the monthly payroll to ensure that they receive and process all data received from the councils' HR and finance teams prior to payment being made.

5.4.2   Capita payroll has in place a complaints and queries log, which assists in managing and dealing with queries efficiently. Review of the complaints & queries log confirmed that the queries are appropriately managed and efficiently dealt with.

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

5.5   **Payroll reconciliation**

5.5.1   Capita payroll undertake a monthly payroll reconciliation within the IAW payroll system between the payroll grand total, the creditor listing and the remittance run. Review of six (SODC three & VWHDC three) monthly payroll reconciliations confirmed that the reconciliations are undertaken on a monthly basis and checked by payroll team leader (Capita) and no concerns were noted.

5.5.2   The councils' accountancy team also undertake a monthly payroll reconciliation, but between the general ledger and the payroll system. Review of six (SODC three & VWHDC three) monthly payroll reconciliations confirmed that:-

- Data evidencing the reconciliation from both the Agresso system and the IAW payroll system is kept and filed with the reconciliations;
- The reconciliations are undertaken on a timely basis; and

- The reconciliations had no discrepancies.

    It is noted that due to the checks undertaken by both the finance and systems manager and the HR business support manager prior to the head of finance authorising the payroll pay run, the payroll reconciliation is independently reviewed.

5.5.3   Area assurance: Full

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

5.6   **Establishment listings**

5.6.1   HR retain an establishment list that records the authorised posts within the councils including information of the contracted hours, grade for each post and vacant posts. On a monthly basis, HR sends the establishment list to Capita payroll and it is reconciled with payroll records on a six monthly basis, with a reconciliation last undertaken on 30 September 2015. Review of the latest reconciliation found that there were discrepancies between the establishment list and the payroll system. The reconciliation was emailed to HR, but no action was undertaken in rectifying and ensuring that the establishment list reconciles with the payroll system. One recommendation has been made as a result of our work in this area.

5.6.2   Area assurance: Limited

One recommendations have been made as a result of our work in this area (Rec 4).

OBSERVATIONS AND RECOMMENDATIONS

POLICIES AND PROCEDURES

1. Version control   (Low Risk)

Rationale	Recommendation	Responsibility
Best Practice Version control on policies are in place, fully completed and up-to-date. Findings Review of the payroll related policies on the councils' intranet could not confirm:- • The author of the policies; • Who the policies were approved by; and • Date of next review. Risk If version control is not fully completed and up-to-date, there is a risk of policies not being reviewed and updated appropriately leading to incorrect practices being followed.	Version control on the policies should be revised to also include:- • the author of the policy; • the date the policy was approved and by whom; • the next review date due.	HR Manager

Management Response	Implementation Date
Recommendation is **Agreed** Management response: HR Manager	31 December 2016

2. Travel and expenses policy (Low Risk)

Rationale	Recommendation	Responsibility
<u>Best Practice</u> The travel and expenses policy is up-to-date and refers to Milton Park for claiming business mileage. <u>Findings</u> Review of the travel and expenses policy found that the policy still referred to Crowmarsh Gifford as the council offices for claiming business mileage. <u>Risk</u> If the travel and expenses policy is not updated, there is a risk of the officers not calculating and claiming business mileage to/from the appropriate location.	The travel and expenses policy should be reviewed and amended as the policy still refers to Crowmarsh Gifford when claiming business mileage.	HR Manager

Management Response	Implementation Date
Recommendation is **Agreed** Management response: HR Manager	31 August 2016

AMENDMENT TO STANDING DATA

3. Authorisation of appointment/leaver/amendment forms (Medium Risk)

Rationale	Recommendation	Responsibility
<u>Best Practice</u> Emails are kept along with the notification of appointment forms, leaver forms and amendment to confirm that the forms are approved and sent by the appropriate officer. <u>Findings</u> Testing of 37 notification of appointment forms, 40 leaver forms and 40 amendment to pay forms found that none of the sample had evidence confirming appropriate officers authorised the forms. It was noted that the forms were completed electronically and the relevant officers either typed in their name or a signature was cut and pasted onto the forms, but HR	HR should ensure that the emails are filed alongside the notification of appointment, leaver and amendment forms to confirm that the forms are approved and sent by the appropriate officer.	HR Business Support Manager

did not keep and file the accompanying email to confirm that the form was actually sent and approved by the relevant officer and manager. Risk If the emails are not kept and filed when receiving the notification of appointment forms, leaver forms and amendment to pay forms, there is a risk of the forms being fraudulently sent to or set up by HR and payroll.		

Management Response	Implementation Date
Recommendation is **Agreed** Management response: HR Business Support Manager	Ongoing from March 2016

ESTABLISHMENT LISTING

4. Establishment listing reconciliation   (High Risk)

Rationale	Recommendation	Responsibility
Best Practice The reconciliation between the establishment list and the payroll system is regularly reconciled and any discrepancies are dealt with appropriately and efficiently. Findings Capita payroll reconcile between the establishment list and the payroll system twice a year and findings are sent to HR to action or to provide Capita instructions to action. However, it was confirmed from the HR business manager that no action was undertaken by HR to rectifying and ensure that the establishment list reconciles with the payroll system following the last Capita reconciliation undertaken in September 2015. Risk If discrepancies between the establishment list and the payroll system are not dealt with appropriately and efficiently, there is a risk that staff could be paid at the incorrect pay scale.	Discrepancies found from the reconciliation between the establishment list and the payroll system should be dealt with efficiently to ensure that records held by both HR and Capita payroll are accurate.	HR Business Support Manager

Management Response	Implementation Date
Recommendation is **Agreed** Payroll have agreed to provide a report following completion of the monthly Establishment/Payroll reconciliation and HR will endeavour to review and amend their records where necessary.	30 April 2016

Management response: HR Business Support Manager	

2014/2015 PREVIOUS RECOMMENDATION RESTATED

5. Starters

(Low Risk)

Rationale	Recommendation	Responsibility
Best Practice A full audit trail needs to be available for all amendments made to standing data. Findings The HR business support manager stated that the process is to obtain two references for all new starters, however in practice this is still not being done. Risk 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.	All starter processes should comply with the council's agreed policies and procedures i.e. a) Two references must be received for all starters and filed within the personnel records. b) All references received must show sufficient independence from the staff members conducting the interview. 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.	HR Business Support manager
Management Response		**Implementation Date**
Recommendation is **Agreed** Management response: HR Business Support Manager		31 March 2016