

Government and Public Sector
Internal Audit Services

Northampton Borough Council Internal Audit Report 2010-11 Expenses Review

Report No. 10_11 NBC 07 – Final Report

Assurance rating this review	Limited Assurance
Assurance rating previous review	N/A

Distribution List

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Background and scope

Introduction

The expenses review was undertaken as part of the 2010/11 Internal Audit plan agreed by the Audit Committee.

This report has been prepared solely for Northampton Borough Council in accordance with the terms and conditions set out in our contract dated 1st January 2007. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

Background

This review was undertaken as part of the Core Financial Systems audit work included within the 2010/11 Internal Audit Plan. This review considered controls and processes in place with regards to expenses as at the time of our internal audit fieldwork, which took place during September 2010.

Approach and Scope

Approach

Our work is designed to comply with Government Internal Audit Standards [GIAS] and the CIPFA Code.

Scope

In accordance with our Terms of Reference (Appendix 1), agreed with the Exchequer Team Leader and the Head of Finance, we undertook a limited scope audit of expenses.

This limited scope audit involved a review of the design of the key controls together with detailed testing to determine whether the controls are operating in practice.

Limitations of scope

The scope of our work was limited to those areas identified in the terms of reference.

Staff involved in this review

We would like to thank all client staff involved in this review for their co-operation and assistance.

Name of client staff
Matthew Lee – Exchequer Team Leader
Karen Holmes – Payroll Team leader

Our opinion and assurance statement

Introduction

This report summarises the findings of our review of expenses.

Each of the issues identified has been categorised according to risk as follows:

Risk rating	Assessment rationale
●● Critical	Control weakness that could have a significant impact upon, not only the system, function or process objectives but also the achievement of the Authority's objectives in relation to: <ul style="list-style-type: none"> • the efficient and effective use of resources • the safeguarding of assets • the preparation of reliable financial and operational information • compliance with laws and regulations.
● High	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall Authority objectives.
● Medium	Control weakness that: <ul style="list-style-type: none"> • has a low impact on the achievement of the key system, function or process objectives; and/or • has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.
● Low	Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.

Summary of Findings

Our detailed findings and recommendations are set out in the findings and recommendations section of this report. The table below summarises the number of findings raised and the priority rating assigned.

Risk Rating	Number of findings
Critical	0
High	1
Medium	5
Low	1
Total	7

Opinion

We are required to provide an opinion on the adequacy and effectiveness of internal control in relation to the area under review. Our opinion is based on the work performed as set out in the agreed terms of reference and is subject to the inherent limitations set out in the limitations and responsibilities section of this report. We also provide an assurance statement for the area under review.

Design of the controls under review

We identified 5 weaknesses in the design of controls in relation to the expenses, 1 of which has been assessed as high risk. In our opinion this control weakness is likely to have a significant impact on the achievement of the key objectives of the expenses function.

Operation of the controls under review

We identified 2 instances where the controls were not operating as designed in practice at the time of our audit, all of which have been assessed as medium or low risk. Based upon the sample testing we performed, in our opinion these weaknesses are not likely to have a significant impact on the achievement of the key objectives of the expenses function.

Value for Money

During our review we did not identify any specific value for money issues.

Assurance statement

Limited Assurance

There are some weaknesses in the design of controls which could have a significant impact on the achievement of key system, function or process objectives but should **not have a significant impact** on the achievement of organisational objectives. However, there are discrete **elements of the key system**, function or process where we have not identified any significant weaknesses in the design or operation of controls which could impair the achievement of the objectives of the system, function or process. We are therefore able to give limited assurance over certain discrete aspects of the system, function or process.

Detailed findings and recommendations

Our detailed findings and recommendations are set out in the findings and recommendations section of this report. Management responses are included which identify actions to be taken, responsibility and timeframe.

Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of expenses, subject to the following limitations.

Internal control

Internal control, no matter how well designed and operated, can provide only **reasonable** and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

The assessment of controls relating to expenses is that historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We shall endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

Findings and recommendations

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
Control Design						
1	<p>The members' allowances policy is outdated.</p> <p>The expenses policy is not in place.</p> <p>The expense policy is not readily available to all staff and/or members.</p>	<p>There is little guidance in place for members claiming travel and subsistence expenses</p> <p>The Member's allowances policy includes minimal information regarding expenses.</p> <p>Furthermore there is a conflict between the policy and the information on the claim forms. The policy states; 'it would be helpful if receipts are provided'</p> <p>The claim form states;</p> <p>'When claiming for taxi fares, buses, car park expenses, meals etc, please ensure that you attach the relevant receipts. Receipts for fuel are not required for every claim made, but sufficient receipts should be submitted during the year to cover the total amount of fuel used on council business'</p>	Medium	<p>The Authority should introduce a specific Member's expenses policy with clear guidance on the level of receipts required.</p>	<p>Agreed</p> <p>A member's policy for travel and subsistence claims will be introduced and shared with all members.</p>	<p>Cassie Triggs</p> <p>28th February 2011</p>

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
2	<p>Debts to the council are not repaid and bad debts go unrecognised. Employees are overpaid and this is not detected. Provisions are not made to cover these debts.</p>	<p>There is insufficient control in place for recovering overpayments The payroll administrator confirmed that there is no written record maintained for payroll overpayment debtors. There are no controls in place to detect duplicate payments.</p>	<p>Medium</p>	<p>The Authority should investigate whether a report can be run identifying duplicate payments. Overpayments should be recorded, monitored and traced and recovery procedures instigated where necessary. The payroll department should ensure that progress is communicated to budget holders.</p>	<p>Once overpayments are identified they are deducted from the following monthly payroll. If the person has left the organisation then a sundry debtor invoice is raised. Arrears reports are sent to budget managers on a monthly basis which display outstanding arrears for overpaid salaries.</p> <p>In relation to further reducing the chance of duplicate payments. We will investigate new processes to identify potential overpayments.</p>	<p>Matthew Lee 28th February 2011</p>

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
3	<p>Errors in processing employee's expenses are unrecognised and not reported.</p>	<p>There are no spot checks performed by payroll on employee expenses. Reliance is placed on the budget holder authorisation process for expense claims. However as identified within finding 8, numerous errors have been identified on expense claims and thus the control is not operating effectively.</p>	<p>Medium</p>	<p>Spot checks should be performed on employee's expenses to check for mathematical accuracy, validity and compliance with policy. The spot checks should also cover the authorisation of the expenses claim, to ensure that this is in line with the Authorised Signatory Listing. This element of the spot check should be linked to payroll staff performance assessments as it is their responsibility to check that expense claims are appropriately authorised.</p>	<p>A spot check will be carried out every month to check employee's expenses for accuracy. A sample of five expenses will be spot checked.</p>	<p>Matthew Lee 31st January 2011</p>

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
4	Expenses are charged to the incorrect cost centres.	The expenses policy for employees does not specify that all claims should have a costs centre recorded in them before processing.	<ul style="list-style-type: none"> ● Low 	The policy should be updated to specify that costs centres should be entered onto claim forms before processing	Employees are linked to their own cost centre on Agresso, therefore in 99% of cases the cost centre will be for their own individual area. Payroll numbers are linked to the cost centres for the employees budgeted area. However we can add a comment to the expense form to state "Please enter cost centre if charging expense to a cost centre outside your budget cost centre."	Matthew Lee 28 th February 2011

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
5	<p>Expenses are processed without being checked for appropriate authorisation</p> <p>Increased risk of inappropriate and unauthorised expenses being claimed</p> <p>ASL is not in a practical format for frequent use.</p>	<p>In the employee expenses sample tested, 5 out of 25 claims had authorising signatures which could not be matched to the Authorised Signatory Listing (ASL).</p> <p>During the audit, a member of the payroll team was also unable to match these signatures to the ASL.</p> <p>This indicates that payroll staff are processing claims without checking to see if they are authorised.</p> <p>The ASL is difficult to use and contains duplicate signatures and sheets going back to 2007.</p> <p>Temporary employees are used to process expense claims from time to time and it is difficult to understand how they would be able to check the signatures to the ASL.</p> <p>There is no reference to authorisers' job role or cost centres on the ASL.</p>	<ul style="list-style-type: none"> High 	<p>The expenses claims in question should be investigated to ensure they are valid and appropriately authorised.</p> <p>Payroll staff should be reminded it is their responsibility to check the authorisation of expense claims. A further recommendation around spot checks of authorisation has been raised in finding number 4.</p> <p>The ASL should be completely overhauled and organised in a structured way to enable officers to access it easily.</p> <p>Expense claims should be rejected if the authoriser can't be matched to the ASL.</p> <p>The ASL should be updated on an annual basis and should include the job role and cost centre of the authorisers.</p>	<p>The authorised signatory list is to be updated, and payroll will be given a copy of the new update Authorised signatory list.</p> <p>If an expense form is received and it is authorised by a person not on the authorised signatory list it will be returned and not processed.</p> <p>We had temporary employees processing claims previously but since August 2010 we have had a full time permanent employee processing expenses..</p>	<p>Matthew Lee</p> <p>31st January 2011</p>

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
Operating effectiveness						
6	<p>Non-compliance with expenses policy</p> <p>Increased risk of inappropriate expense claims processed.</p>	<p>Testing of a sample of 25 employee expenses highlighted the following:</p> <ul style="list-style-type: none"> • 3 out of 25 expenses claimed were for items outside the scope of the policy, including, cash boxes for residential properties, ink cartridges, biscuits and plastic cups. Although these were work related expenses they should have been paid for upfront by the Authority. • 18 out of 25 employees did not include their cost centre on the claim form • 1 out of 25 had no claimant signature • 1 out of 25 claimed for their own and a colleagues dinner costs, which is not allowed in the policy • 4 out of 25 did not include receipts with the claims • 1 out of 25 claims was not date stamped by payroll 	<p>● Medium</p>	<p>Employees and budget holders should be reminded of the expenses policy requirements and the compliance issues identified as part of this review.</p> <p>Budget holders should reject claims which do not comply with the policy.</p> <p>As per recommendation 4, Payroll should introduce spot checks of expense claims. Any issues identified following these should be followed up with the claimant and the budget holder.</p> <p>Consideration should be given to linking the results of these checks to budget holders personal performance ratings.</p>	<p>Agreed. Budget holders and employees were informed via the inside new publication on 4th November 2010 about how to properly process expenses. In this brief to all staff, amongst other points, it was highlighted that staff should:</p> <ul style="list-style-type: none"> • Give sufficient details for a journey or claim • Claim expenses within 3 months. • Casual and essential users can claim a maximum of 75 miles and 125 miles respectively per round trip. Any additional mileage requires further authorisation. • Alcohol is not allowed to be claimed • Staff can only claim for themselves and not on behalf of colleagues • Receipts must be provided or tax will be deducted. 	<p>Matthew Lee</p> <p>With immediate effect</p>

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
7	The Authority is overpaying expenses.	We also tested an interview expense claim made in year. The claim had used the incorrect mileage rate and the candidate had been overpaid by £87	Medium	The budget holders should be reminded of the correct mileage rates. As per recommendation 4, Payroll should introduce spot checks of expense claims. Any issues identified following these should be followed up with the budget holder.	Spot checks of Expenses will commence, five expense forms will be randomly selected for spot checking each month. Budget managers will be contacted if there are issues with the expense claim.	31 st January 2011

Appendix 1 - Terms of Reference

Internal audit 2010/11

Expenses

September 2010

Background

This review will be undertaken as part of the Core Financial Systems audit work included within the 2010/11 Internal Audit Plan. This review will consider controls and processes in place with regards to Expenses as at the time of our internal audit fieldwork, which is due to take place during September 2010

Objective

Our objective is to review the Expenses process to ensure that an adequate level of control is in place over the claims and payments being made by Officers and Members.

Our scope and approach

Our work will focus on identifying the guidance, procedures and controls in place to mitigate key risks. Our work will focus on identifying the guidance, procedures and controls in place to mitigate key risks through:

- Documenting the underlying guidance, policy and processes in place and identifying key controls.
- Considering whether the policies and procedures in place are fit for purpose
- Testing key controls.

The key points of focus will be:

- Review of all policies and procedures in place in relation to Officer and Members expenses.
- Policies and procedures are regularly updated and reviewed.
- Ease of access to the latest policies and procedures.
- Officers and Members expense claims are being made in line with relevant and current policies.
- Claim forms are accurately completed and correctly cast.
- Any discrepancies on expense claims are followed up and resolved prior to payments being made.
- Proof of expenditure is attached to support claims being made.
- Authorised signatory list in place and only authorised expense forms are processed.

- Only permissible expenses are being claimed.
- Payment of professional fees in line with role of officer.
- Expenditure is properly accounted for on the ledgers.
- Appropriate arrangements are in place for transparency of expenses

We will discuss our findings with the Exchequer Team Leader or nominated representative to develop recommendations and action plans. A draft report will be issued to the Exchequer Team Leader, Head of Finance and other relevant officers, for review and to document management responses. .

Information request

Listed below is information that may be required at the commencement of the audit, if available:

- Policies and procedures for claiming and processing expenses
- Access to reports detailing expense claims made since 1st April 2010 by staff and members (separated into staff and members)
- Access to expenses claim forms

The list is not intended to be exhaustive. Evidence should be available to support all operating controls. Other information identified during the review of Expenses may be requested on an ad hoc basis.

Limitations of Scope

The scope of our work will be limited to those areas identified in the terms of reference

Deliverables from PwC

Our deliverable will be a report detailing our findings with regard to our assessment of the design and effectiveness of controls in place over Expenses.

Stakeholders and responsibilities

Key Stakeholder(s)

Assignment Role	Contact(s)	Responsibilities
Audit sponsor	Matthew Lee, Exchequer Team Leader	Review and approve terms of reference Review draft report. Review final report. Hold initial scoping meeting Review and meet to discuss issues arising and develop management responses and action plan

Other roles and responsibilities

Role	Contacts	Responsibilities
Main contact	Karen Holmes, Payroll Team Leader	<ol style="list-style-type: none"> 1. Review and approve terms of reference 2. Review draft report. 3. Review final report. 4. Hold initial scoping meeting 5. Review and meet to discuss issues arising and develop management responses and action plan
Head of Finance	Bill Lewis	<ul style="list-style-type: none"> • Review and approve terms of reference • Review draft report. • Review final report
Director of Finance	Isabell Procter	<ul style="list-style-type: none"> • Review draft report. • Review final report

Our team

Engagement Leader	Richard Bacon
Engagement Manager	Chris Dickens
Team Manager	Matthew Plummer
Audit Executive	Louisa Metcalfe

Appendix 2 - Assurance ratings

Level of assurance	Description
High	No control weaknesses were identified; or Our work found some low impact control weaknesses which, if addressed would improve overall control. However, these weaknesses do not affect key controls and are unlikely to impair the achievement of the objectives of the system. Therefore we can conclude that the key controls have been adequately designed and are operating effectively to deliver the objectives of the system, function or process.
Moderate	There are some weaknesses in the design and/or operation of controls which could impair the achievement of the objectives of the system, function or process. However, either their impact would be less than significant or they are unlikely to occur.
Limited	There are some weaknesses in the design and / or operation of controls which could have a significant impact on the achievement of key system, function or process objectives but should not have a significant impact on the achievement of organisational objectives. However, there are discrete elements of the key system, function or process where we have not identified any significant weaknesses in the design and / or operation of controls which could impair the achievement of the objectives of the system, function or process. We are therefore able to give limited assurance over certain discrete aspects of the system, function or process.
No	There are weaknesses in the design and/or operation of controls which [in aggregate] could have a significant impact on the achievement of key system, function or process objectives and may put at risk the achievement of organisation objectives.

In the event that, pursuant to a request which Northampton Borough Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PricewaterhouseCoopers (PwC) promptly and consult with PwC prior to disclosing such report. Northampton Borough Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Northampton Borough Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Northampton Borough Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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