



# **GEDLING**

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## BOROUGH COUNCIL

### INTERNAL AUDIT

### FINAL REPORT

**Title: Officer & Member Disbursements**

**Report Distribution**

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Contents	Page
Executive Summary	2
Introduction	4
Detailed Findings	5-13
Annex A – Audit Definitions / Responsibilities	14-15

## **EXECUTIVE SUMMARY**

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### **Introduction**

By the powers conferred on Local Authorities within the Members' Allowances (England) regulations 2003, Gedling Borough Council has established its scheme of allowances. The scheme may be amended and revised from time to time in accordance with the regulations in force under Section 99 of the Local Government Act 2000 and by the authority's Remuneration panel.

The authority ensures that all employees are made aware of the general terms and conditions under which they are employed. These are provided in the Employee Handbook, which is available to all employees.

The Payroll section processes all allowances, travelling and sundry expense claims. The Assistant Accountant administers the assisted car purchase scheme.

Officers and members are permitted to claim expenses incurred in travelling on council business and any sundry expenses by completing a Travelling & Sundry Expenses claim form. Regulations for the reclaiming of expenses are set out in the employees' handbook and are governed by National Joint Consultative (NJC) regulations. Guidance notes, for the completion of the claim form is provided in the cover of the claim form booklets. Rates of allowances are published each year and again these are aligned to NJC regulations.

Part 6 of the constitution outlines the scheme in detail, along with an attached schedule for the current period detailing allowance rates as agreed by the independent remuneration panel. The allowances are applied in respect of individual positions within the council and through membership of specific committees. In addition, certain Special Responsibility allowances are paid as outlined in the schedule.

The Council offers car loan facilities to employees in the posts designated as 'essential' or 'casual' users. The scheme is outlined in appendix 10 of the Employee Handbook. An employee wishing to take advantage of the facility completes an application for a loan obtained from the Assistant Accountant (Financial Services) to purchase a vehicle. The detailed terms and conditions are provided with the form including a table showing the typical monthly payment amount for the duration of the loan and the current interest rate. All loan applications require approval by the respective Head of Service and The Head of Finance.

The purpose of the review is to provide assurance that procedures for the processing of allowances and expense claims, and the administration of the assisted car purchase scheme are effective in providing adequate control to ensure only valid and accurate payments and deductions are processed.

### Principal Findings

	High	Medium	Low
Number of recommendations	0	1	7

The detailed findings and associated recommendations are provided in the second part of the report. The medium risk recommendation relates to:

- The management decision not to account for VAT on travel mileage claims.

### Assurance Statement

Internal Audit can provide **substantial assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed.

## **INTRODUCTION**

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### **Objective & Scope**

To ensure the authority pays the correct subsistence and mileage payments to the officer or member for the claims made, which are adequately authorised in accordance with established policy and that these are accurately and correctly accounted for.

The scope of the review encompassed the car loan scheme facility, travel and subsistence claims and members' allowances.

The key risks associated with the system objectives are:

- The car loan scheme does not comply with the council's policy and legal requirements.
- Unauthorised car loans are processed or not disclosed.
- The loan terms applied are not in accordance with the authority's policy.
- Inability to recover outstanding loans.
- Travel and expense claims fail to comply with the authorities policy and procedures and Inland Revenue requirements.
- Incomplete and unauthorised claim forms processed.
- Allowance claims fail to meet the established policies and procedure.
- Failure to comply with VAT legislation.

The control areas included within the scope of the review are:

- The car loan scheme facility is operated and administered in accordance with the authority's pay policy.
- Subsistence allowance and mileage claims are approved and paid only in respect of legitimate business costs.
- Members' allowances are disbursed in accordance with established policies and regulations.

This audit report is presented on an exception basis. The detailed findings include only those areas where controls should be enhanced to improve their effectiveness and mitigate the risks that affect the authorities objectives for the system reviewed. Controls and risks identified in the scope that are not mentioned in the detailed findings were considered to be adequate and operating effectively.

### **Acknowledgement**

A number of staff gave their time and co-operation during the course of this review. We would like to record our thanks and appreciation to all the individuals concerned.

## DETAILED FINDINGS

Observation	Risks	Recommendation	Management's Response
<p><b>Recommendation 1 – Officers Disbursements (VAT)</b>  <b>Level of Risk - Medium</b></p>			
<p>The payroll system has the facility to record and account for VAT if supported by receipts for processed claims.</p> <p>The published VAT per mile rate of 1.38p can be claimed for all mileage claims, provided that all claims are supported by fuel invoices/receipts. It is estimated that approximately £3,000.00 p.a. could be reclaimed by the authority.</p> <p>In addition, where subsistence is claimed, VAT is not always separately identified, and is not, therefore reclaimed.</p> <p>The authority has previously reviewed the cost effectiveness of recovering VAT from such claims and decided the administrative cost is prohibitive.</p>	<p>Failure to recover VAT costs.</p>	<p>The authority should periodically review the cost effectiveness of VAT recovery for Travel and Subsistence claims.</p> <p><b>Action: Alan Doig – Assistant Accountant</b></p>	<p><b>Management Comment:</b> Agreed.</p> <p><b>Planned Corrective Action:</b> An annual review will be undertaken to establish the cost effectiveness of VAT recovery for T&amp;S claims. The aim is to undertake the first review prior to the introduction of Phase 2 ResourceLink.</p> <p><b>Timescale:</b> 30/04/07</p>

Observation	Risks	Recommendation	Management's Response
<p><b>Recommendation 2 – Officers Disbursements (Authorisation)</b>  <b>Level of Risk – Low</b></p>			
<p>Travelling &amp; Sundry Expenses claim forms require authorisation by Line Managers and respective Departmental Heads prior to processing by Payroll.</p> <p>Payroll undertakes checks to ensure forms are authorised in line with the authorised signatory list.</p> <p>Of the 24 claims reviewed it was found that:</p> <ul style="list-style-type: none"> <li>• There were seven claims that had been signed by only one manager, and in 3 instances the line manager had signed in both places.</li> <li>• A number of Heads of Service claims had been authorised by a manager or another Head of Service instead of the Chief Executive or his deputy.</li> <li>• Two examples were found of officers authorising claim forms who were not on the authorised signatory list.</li> </ul>	<p>Failure to observe the appropriate authorisation procedure and to prevent payments without proper authorisation.</p>	<p>The signature list maintained by payroll should be updated and claims not appropriately authorised should not be processed.</p> <p>All managers should be reminded of the correct authorisation procedures with respect to Travelling &amp; Sundry Expense claim forms.</p> <p><b>Action: Alan Doig – Assistant Accountant</b></p>	<p><b>Management Comment:</b> Agreed.</p> <p><b>Planned Corrective Action:</b> T&amp;S expense claims will be amended, to require an “authorised signature”. This will be checked against the authorised signatory list. Initial checks on the forms will still require an evidenced signature. New forms are scheduled to be ordered in June/July.</p> <p><b>Timescale:</b> 31/07/07</p>

Observation	Risks	Recommendation	Management's Response
<p><b>Recommendation 3 – Officers Disbursements (Submission of Forms)</b>  <b>Level of Risk – Low</b></p>			
<p>Travel and Sundry Expenses Claim forms are required to be submitted for processing on a monthly basis.</p> <p>Claims processed in July to September 2006 were obtained and reviewed to confirm the submission time scales. The following issues were identified:</p> <ul style="list-style-type: none"> <li>The submissions of claim forms are consistently exceeding the required monthly deadline. One example identified that a claim form was submitted for the preceding 10-month period.</li> <li>The claim forms have been revised to incorporate vehicle document checks, however, some officers are still using the old forms.</li> </ul>	<p>Failure to comply with the Authority's pay policy and guidance.</p>	<p>Claim forms should be submitted on a monthly basis.</p> <p>Payroll should remind all managers to use the revised forms.</p> <p><b>Action: Alan Doig – Assistant Accountant</b></p>	<p><b>Management Comment:</b> Agreed.</p> <p><b>Planned Corrective Action:</b> Payroll are currently completing an exercise to identify who are still using the old style forms. Once completed Payroll will send new claim forms out.</p> <p>Any new claims on the old style form will be returned to the claimant.</p> <p>Claims in excess of 6 months require approval from the Head of Finance prior to payment.</p> <p><b>Timescale:</b> Immediate</p>

Observation	Risks	Recommendation	Management's Response
<p><b>Recommendation 4 – Officers Disbursements (Creditor Payments)</b>  <b>Level of Risk – Low</b></p>			
<p>Expense claims are occasionally processed via the Creditors system. Review of this process identified that a subsistence claim had been processed which included accommodation for Rushcliffe members. This expense has not been recovered from Rushcliffe. [Total including VAT - £896.00]</p>	<p>Failure to recover expenditure costs not appropriate to the authority.</p>	<p>The expenses attributable to the Rushcliffe members should be recovered.</p> <p><b>Action: David Graham – Democratic Services Manager</b></p>	<p><b>Management Comment:</b> Agreed.</p> <p><b>Planned Corrective Action:</b> A sundry debtor will be raised to recover this amount.</p> <p><b>Timescale:</b> 31/03/07</p>

Observation	Risks	Recommendation	Management's Response
<p><b>Recommendation 5 – Officers Disbursements (Vehicle Documents)</b>  <b>Level of Risk – Low</b></p>			
<p>Departments are required to review vehicle documents (Driving Licence, Insurance and MOT) annually to ensure that valid and current copies are kept on file.</p> <p>Department's document files were reviewed to verify that valid documents were held. The following was identified:</p> <ul style="list-style-type: none"> <li>Records within Housing, Finance, P&amp;OD and the Cabinet Office were not up to date.</li> <li>Vehicle document records for the Chief Executive and the Deputy Chief Executive are not maintained by anyone.</li> </ul>	<p>Failure to ensure the legality of personal vehicles whilst on being used for Gedling business purposes.</p>	<p>Departments should undertake periodic checks to ensure that all vehicle documents are valid and current.</p> <p><b>Action: Alan Doig – Assistant Accountant</b></p>	<p><b>Management Comment:</b> Agreed.</p> <p><b>Planned Corrective Action:</b> A Cognos report is being produced to list all Car details where claims have been made.</p> <p>Confirmation was received on the 8<sup>th</sup> March that the report is available to test.</p> <p>Upon completion of satisfactory testing the report will be used to confirm checks are completed.</p> <p><b>Timescale:</b> 30/04/07</p>

Observation	Risks	Recommendation	Management's Response
<p><b>Recommendation 6 – Car Loan Applications (Terms &amp; Conditions)</b>  <b>Level of Risk – Low</b></p>			
<p>The terms and conditions issued with the car loan application form differ from those outlined in the Employee Handbook.</p>	<p>Inconsistent terms and conditions with respect to the Car Loan Facility, resulting in potential litigation costs.</p>	<p>The terms and condition issued with the loan applications should be aligned to those in the employee handbook.</p> <p><b>Action: Alan Doig – Assistant Accountant</b></p>	<p><b>Management Comment:</b> Agreed.</p> <p><b>Planned Corrective Action:</b> Discussions will be held between Payroll and Personnel to ensure the terms and conditions are appropriately amended.</p> <p><b>Timescale:</b> 31/03/07</p>

Observation	Risks	Recommendation	Management's Response
<p><b>Recommendation 7 - Members' Disbursements (Verification)</b>  <b>Level of Risk – Low</b></p>			
<p>Testing was carried out on 21 members claim forms to confirm that allowances paid were correct. The following issues were identified:</p> <ul style="list-style-type: none"> <li>Two member claim forms were submitted for journey's in excess of 100 miles and the reduced rate was not applied to the excess, resulting in an overpayment of approx £62.40.</li> <li>Credit card receipts were attached to one claim. These are not valid VAT receipts.</li> </ul>	<p>Incorrect payments made to members.</p> <p>Failure to recover VAT from subsistence expenditure.</p>	<p>All claims processed should be examined carefully to minimise any errors or overpayments.</p> <ul style="list-style-type: none"> <li>Care should be taken to ensure that any single journey over 100 miles is paid at an appropriate reduced rate.</li> <li>Only valid VAT receipts should be attached to the claim forms and reimbursed.</li> </ul> <p><b>Action: Alan Doig – Assistant Accountant</b></p>	<p><b>Management Comment:</b> Agreed</p> <p><b>Planned Corrective Action:</b> Both examples are due to errors within Payroll. Management checks will be enhanced to minimise the risk of errors.</p> <p><b>Timescale:</b> Immediate</p>

Observation	Risks	Recommendation	Management's Response
<p><b>Recommendation 8 - Members' Disbursements (Attendance Allowances)</b>  <b>Level of Risk – Low</b></p>			
<p>The Personal Assistant to the Chief Executive and Administrative Officer/Telephonist in Legal and Democratic Services undertake procedures for the verification of committee attendance by members.</p> <p>Legal &amp; Democratic Services maintain an attendance record for all standing committee meetings and this evidence is checked when processing claim forms.</p> <p>Member attendance at other meetings / events are verified by the PA contacting Departments for verbal verification or obtaining attendance records.</p> <p>It was noted that the payroll section is not always informed of changes to member's responsibilities prior to payment, resulting in amendments to recover over/under payments.</p>	<p>Increased administration time / costs for verifying member attendance allowances.</p>	<p>A review should be undertaken of the process for confirming changes to member responsibilities to minimise administration time and costs.</p> <p><b>Action: Sue Sale – Head of Legal &amp; Democratic Services</b></p>	<p><b>Management Comment:</b> Agreed.</p> <p><b>Planned Corrective Action:</b> It will be ensured that in future, all changes to members allowances and attendances will be reported to Payroll in time for monthly payroll processing.</p> <p><b>Timescale:</b> Immediate</p>