



## INTERNAL AUDIT

### DRAFT REPORT

**Title: Officer & Member Disbursements**

#### **Report Distribution**

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## **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 Corporate Services.

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	0	5

The detailed findings and associated recommendations are provided in the second part of the report. There were no high or medium risk recommendations made within the report.

### 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
<b>Recommendation 1 - Officers Disbursements (Authorisation)</b> <b>Level of Risk - Low</b>			
<p>Travelling &amp; Sundry (T&amp;S) Expense claim forms require authorisation by Line Managers prior to processing by Payroll. Payroll staff undertake checks to ensure forms are authorised in line with the authorised signatory list. Review and testing of the claims revealed that:</p> <ul style="list-style-type: none"> <li>1 claim form for the period June – August 2008 was not authorised.</li> <li>An authorising signature was not on the authorised signature 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><b>Action: Alison Ball – Financial Services Manager</b></p>	<p><b>Management Comment:</b> Recommendation agreed.</p> <p><b>Planned Corrective Action:</b> Signature lists to be updated April 09. Payroll to continue to check and return unauthorised claims back to Departments.</p> <p><b>Timescale:</b> Immediate</p>

Observation	Risks	Recommendation	Management's Response
<b>Recommendation 2 - Officers Disbursements (Verification)</b> <b>Level of Risk - Low</b>			
<p>Travelling &amp; Sundry (T&amp;S) Expense claim forms require completion in accordance to the guidance notes provided in the cover of the claim form booklets.</p> <p>Review and testing of a sample of claims revealed that:</p> <ul style="list-style-type: none"> <li>• The approved base is occasionally not specified.</li> <li>• Columns A or B are not always completed in accordance with the guidance notes,</li> <li>• In one case the mileage on 2 separate claims for the same journey details were different.</li> <li>• The milometer reading was omitted on one claim form.</li> </ul>	<p>Failure to comply with the authorities policy and procedures and Inland Revenue requirements</p>	<p>Travel and Sundry Expense claim forms should not be authorised for payment or processed by payroll if they are not fully completed in accordance with the guidance notes.</p> <p><b>Action: Alison Ball – Financial Services Manager</b></p>	<p><b>Management Comment:</b> HOCS has previously stated the milometer readings are not required. All three actual mileage columns do need to be completed, as per Inland Revenue audit.</p> <p><b>Planned Corrective Action:</b> Finance will write again to all Departments reminding them of the correct procedures when completing these claims. Payroll will continue to check the claims for errors and return to employees where required.</p> <p><b>Timescale:</b> April/May 2009</p>

Observation	Risks	Recommendation	Management's Response
<b>Recommendation 3 - Officers Disbursements (Vehicle Documentation)</b> <b>Level of Risk - Low</b>			
<p>Travelling &amp; Sundry (T&amp;S) Expense claim forms require to be completed in accordance to the guidance notes provided, and includes three questions that required to be answered in respect of the user vehicle and license.</p> <p>Most departments maintain copies of the required documents and periodically check this to the claim submitted.</p> <p>A review of the departments records and testing of the sample selected revealed that:</p> <ul style="list-style-type: none"> <li>• Corporate Services [except for the IT section] do not maintain any documents.</li> <li>• Direct Services do not keep licence copies but do maintain Insurance and MOT certificates.</li> <li>• All other departments including Chief Executive maintain the documents but not all were up to date.</li> </ul>	<p>Failure to comply with the policy and procedures.</p>	<p>It is essential that the necessary copy documents are maintained and kept up to date by all departments to support the travelling claims made by the car user.</p> <p>This allows the authoriser of the claim form to verify periodically that the claims are for a valid and genuine vehicle and is covered for business use.</p> <p><b>Action: Alison Ball – Financial Services Manager</b></p>	<p><b>Management Comment:</b> Recommendation agreed.</p> <p><b>Planned Corrective Action:</b> A) As agreed with Head of Department, the Exchequer Section will maintain the Corporate Services Vehicle documents on an annual basis.</p> <p>B) AD to write to the Head of Direct Services to raise the issue of non-business use on employee's Insurance certificates.</p> <p><b>Timescale:</b> 30<sup>th</sup> June 2009</p>

Observation	Risks	Recommendation	Management's Response
<b>Recommendation 4 - Car Loan Facility (Vehicle Documentation)</b> <b>Level of Risk - Low</b>			
<p>Guidance issued with the assisted car purchase scheme requires that the applicant produces a registration document, however, copies of these are not currently filed with the application.</p> <p>Of the 10 applications reviewed it was found that none for the year 2008/2009 and 3 out of 6 applications for the previous years had copies of the required documents.</p> <p>This issue was raised in the previous report (IAR0708-24), issued in May 2008, and the outstanding issues reiterated in this report.</p>	<p>Failure to comply with the car loan policy terms and conditions.</p>	<p>Copies of vehicle registration documents should be obtained and filed with the car loan application.</p> <p><b>Action: Alison Ball – Financial Services Manager</b></p>	<p><b>Management Comment:</b> Email previously sent to all employees with a car loan – to date only one returned.</p> <p><b>Planned Corrective Action:</b> Finance to write again to employees requesting a copy of the registration documents.</p> <p><b>Timescale:</b> April/May 09</p>



Observation	Risks	Recommendation	Management's Response
<b>Recommendation 5 - Members' Disbursements (Verification)</b> <b>Level of Risk - Low</b>			
<p>Members submit a claim form for travelling and subsistence, which is verified before payment is processed by payroll.</p> <p>Review of the claims applications on file and a sample of 20 member claim forms selected to confirm that travelling and subsistence allowances paid were correct.</p> <p>The following issues were identified:</p> <ul style="list-style-type: none"> <li>• A claim paid in July included journeys in excess of 100 miles, and the reduced rate for the excess miles was not applied, resulting in an overpayment of approx £8.64.</li> <li>• A claim split the return journey therefore the reduced rate applied was incorrect, resulting in overpayment of £12.90.</li> <li>• A claim form covering a period of 4 months had not been approved by the Head of Corporate Services.</li> </ul>	<p>Incorrect payments made to members.</p> <p>Failure to comply with the policy.</p>	<p>All claims processed should be examined carefully to minimise any errors or overpayments.</p> <p>The Head of Corporate Services should approve all claim forms in excess of 3 months.</p> <p><b>Action: Alison Ball – Financial Services Manager</b></p>	<p><b>Management Comment:</b> Recommendation agreed.</p> <p><b>Planned Corrective Action:</b> Payroll will continue to check the claims and return any incomplete/incorrect.</p> <p><b>Timescale:</b> Immediate</p>

**ANNEX A**

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**Risk & Assurance – Standard Definitions**Audit Recommendations

Audit recommendations are categorised, depending upon the level of associated risk, as follows:

Level	Category	Definition
1	<b>High</b>	Action is essential to manage exposure to fundamental risks.
2	<b>Medium</b>	Action is necessary to manage exposure to significant risks.
3	<b>Low</b>	Action is desirable and should result in enhanced control or better value for money.

Assurance Statement

Each report will provide an opinion on the level of assurance that is provided with respect the risk emanating from the controls reviewed. The categories of assurance are as follows:

Category	Definition
<b>No</b>	The majority of the significant risks relating to the area reviewed are not effectively managed.
<b>Limited</b>	There are a number of significant risks relating to the area reviewed that are not effectively managed.
<b>Substantial</b>	The risks relating to the objectives of the areas reviewed are reasonably managed and are not cause for major concern.

### **What Happens Now?**

The final report is distributed to those involved with discharging the recommended action, the Head of Finance, Audit Commission and, where applicable, the relevant Heads of Service.

A synopsis of the audit report is provided to the authority's Audit Sub-Committee. Internal Audit will carry out a follow-up exercise approximately six months after the issue of the final audit report. The on-going progress in implementing each recommendation is reported by Internal Audit to each meeting of the Audit Sub-Committee.

### **Any Questions?**

If you have any questions about the audit report or any aspect of the audit process please contact the auditor responsible for the review or Vince Rimmington, Manager of Audit & Risk Services on telephone number 0115 9013850 or via e-mail to [vince.rimmington@gedling.gov.uk](mailto:vince.rimmington@gedling.gov.uk)