

INTERNAL AUDIT PROGRESS REPORT – JANUARY 2017

1 Purpose

- 1.1 To receive the Internal Audit Progress Report of activity undertaken since March 2016.

2 Recommendations

- 2.1 The committee is recommended to note the progress report, including the completed internal audit reports.
- 2.2 The committee is requested to monitor progress against the plan and identify any issues they wish to be considered as part of the ongoing work.

3 Supporting Information

- 3.1 This report provides an update on the progress made against the 2016/17 Assurance Plan. The appendices include information on:
- Final reports issued since the previous Committee meeting.
 - Overdue recommendations and follow up work.
 - Three Internal Audit reports in full.

4. Reasons for Recommendations

- 4.1 Ensuring a proper and effective flow of information to Audit Committee Members enables them to perform their role effectively and is an essential element of the corporate governance arrangements at the Council.

5. Resource Implications

- 5.1 There are no resource implications to report.



Internal Audit Progress Report

January 2017





Contents

1. Activity and progress	3
Final reports issued since the previous Committee meeting.....	3
Internal audit plan work in progress	5
2. Overdue recommendations and follow up work.....	6
Appendix 1: Internal audit opinion and classification definitions.....	7
Appendix 1: Internal audit plan and progress tracker	9
Appendix 3: Internal audit reports	11

1. Activity and progress

The annual internal audit plan was approved by the Audit Committee in March 2016. A summary of the plan is included in Appendix 2. We monitor progress against the plan during the year and advise the Audit Committee of any changes.

Final reports issued since the previous Committee meeting

Name of review	Conclusion*	Date of final report	No of recommendations made*			
			 Critical	 High	 Medium	 Low
Fixed Assets	Medium	10.01.2017	-	-	2	4
Treasury Management	Medium	10.01.2017	-	-	2	2
Payroll	Low	10.01.2017	-	-	1	3

* See Appendix 1 for the basis for classifying internal audit findings and reports.

The full reports are attached in Appendix 3 and summarised below:

Fixed Assets

The findings from this review raise concerns over the annual fixed asset register process, regarding the accuracy and completeness of assets held. It should be noted however, that our findings do not identify material errors. If acted upon promptly the findings in this report could be rectified for the fixed asset register as at 31 March 2017 which will form part of the 2016-17 Statement of Accounts and external audit.

The Council is planning to replace the existing LogoTech fixed asset software. The findings and recommendations outlined in this report should be considered as part of any future system implementation and process redesign.

Two medium risk findings were identified:

- There is no process where the assets on the Council's fixed asset register are checked with department asset lists to ensure accuracy. We found discrepancies in IT and Fleet asset listings.
- We re-performed depreciation for all assets, and discrepancies have been discovered from depreciation schedules for the 2015/16 year. No reconciliation has taken place between the fixed asset register general ledger.

Four low risk findings were identified relation to:

- Segregation of duties is not maintained for the processes of recording, updating and monitoring fixed assets.
- In its current set-up, LogoTech is not capable of providing sound financial functionality to allow the accurate and complete recording of fixed assets. Our testing highlighted a number of issues.
- There has been a lack of consultation and involvement with the Commercial Property department in the annual valuation process.
- In our sample testing, we identified one heritage asset for which no evidence of cost or valuation could be obtained.

Treasury Management

We considered the Council's performance compared to best practice drawn from knowledge of processes in other local authorities . A number of areas of good practice were noted and no significant risks were identified. Two medium risk and two low risk findings were raised relating to:

- The Council breached C.15 of the Financial Regulations by not issuing the Treasury Management Strategy on or before the start of the 2016-17 financial year; it was issued on 18 May 2016. C.17 was also breached by not issuing a Mid-Year Treasury Report by 30 September 2016; at the time of this report being issued there was no Mid-Year Report in issue.
- Whilst value for money can be demonstrated in some regards by adherence to the Strategy, on an investment by investment basis, it could not be documented to specifically identify the considerations as to why an investment was made with a particular counter party. Therefore value for money is not documented sufficiently.
- Procedures need to be documented setting out the key processes of Treasury Live, including roles and responsibilities, segregation of duties and risk management considerations. Although borrowings have not been undertaken in recent years, prior to any future loans procedures and controls will need to be updated.
- The Council should provide training to Members to support their Treasury duties and an annual assessment of the training needs for Members regarding treasury activity should be made.

Payroll

Against the key objective of payroll i.e. payments made are in line with Council establishment lists and are accurate and complete through to payslips, we did not identify any issues and a number of areas of good practice were noted. Following the prior year audit recommendation, a reconciliation is now performed between the general ledger and iTrent. One medium and three low findings were raised relating to:

- the Council’s inability to produce reports from the payroll system (iTrent) to monitor changes to pay rates/hours/grade. This is an expected key control to periodically check for unauthorised changes.
- Insufficient detail to support expense claims, including low level narrative and inconsistencies in the receipting procedures
- New Starter and Leaver forms are not completed in full, with instances where management have not signed off checklists
- The Council need to formally adopt a Corporate ‘Pay Rate Structure’ for Casual Workers. This issue has been re-raised from the prior year.

Internal audit plan work in progress

As at the date of preparing this report the following reviews are in progress:

<i>Name of review</i>	<i>Update on progress</i>
Debt Recovery	<p>In response to internal audit recommendations arising from 2015/16 reviews, a project is underway to review the Council’s strategic approach to debt recovery. The scope includes:</p> <ul style="list-style-type: none"> – understand the level of debt – including all income streams and age profile – develop strategic direction/policy for debt management and recovery action – recommend future operating model, structure of teams and resources to maximise efficient collection of debts – clarity over responsibility & ownership of debt collection – identify reporting needs to effectively monitor and manage debt at the budget holder and corporate level – identify best practice and benchmark debt management elsewhere – apply customer insight to profile debtors which will support more focused recovery action and reduce overall debt <p>This is not an assurance review and IA is supporting in an advisory capacity.</p>
Safeguarding	Review started but on hold pending restructure. Revised scope to be agreed January 17
General Ledger	Work completed and report being prepared
Accounts Receivable	Work completed and report being prepared
Accounts Payable	Work completed and report being prepared
Service Charges	Review is in progress

2. *Overdue recommendations and follow up work*

We monitor the implementation of actions and recommendations raised by internal audit reviews to ensure that the control weaknesses identified have been satisfactorily addressed. We only report to the Audit Committee when more than 3 months has passed since the original agreed target date.

Update on financial systems

The Commercial AVDC Financial Systems & Processes Review Board is continuing to monitor the implementation of actions identified in the 2015/16 Accounts Payable & Receivable and the General Ledger and Budgetary Control internal audit reports.

During Q3 and Q4 financial systems will be subject to internal audit review again. This will pick up on previous actions and provide assurance over the design and operation of financial controls.

Overdue recommendations

Taxi Licensing (October 2015) – Medium priority recommendation to be completed by 31 March 2016 – Complete

Finding - There is no policy on document retention governing the licensing application process so there is a risk that personal data is being held for longer than appropriate. Management agreed to adopt a document retention policy that incorporates the whole licensing function.

Management update – A policy has been drafted along with the data retention schedule. This has been incorporated into the system specification and data migration processes for the new Salesforce system.

Appendix 1: Internal audit opinion and classification definitions

Individual reviews - Basis of classifications

The overall report classification is determined by allocating points to each of the individual findings included in the report.

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification		Points
●	Critical risk	40 points and over
●	High risk	16– 39 points
●	Medium risk	7– 15 points
●	Low risk	6 points or less

Individual findings are considered against a number of criteria and given a risk rating based on the following:

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact [quantify if possible = materiality]; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact [quantify if possible]; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact [quantify if possible]; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance; or • Minor monetary or financial statement impact [quantify if possible]; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix 2: Internal audit plan and progress tracker

The 2016/17 Annual Internal Audit Plan was approved by members of the Audit Committee in March 2016. Progress and changes are reported below.

Review	Description	Status/Comment	Risk Rating
General Ledger	Ongoing input to Commercial AVDC Finance Review project (Q1&Q2) and assurance over implementation and effectiveness of processes (Q3 &Q4)	In progress	
Payroll		In progress	Low
Accounts Receivable		In progress	
Accounts Payable		In progress	
Treasury		Complete	Medium
Fixed Assets		Complete	Medium
HR - Recruitment	Review recruitment processes and controls	Processes are being assessed as part of Commercial AVDC reviews. Consider audit in 207/18.	Defer to 17/18
Electoral & Democratic Services	Deferred from 15/16. Roll out of ModGov – review processes post implementation	Implementation has gone wells so far but not yet using full functionality. This is being considered as part of the Business Review. IA to consider once review has concluded.	Defer to 17/18
Contract Management – Supplier Resilience	Deferred from 15/16. Assurance that key suppliers/contracts have adequate business continuity plans in place. Consider outcomes of Commercial AVDC review.	Q4	
Budget Management		Q4	
Information Governance	Information governance effectiveness review.	Scope of was work agreed. Now pending outcome of Intel report. Scope will be modified as needed.	
Health & Safety	Compliance with OHSAS18001; review of H&S Management System	New H&S provider from 1 Oct 16 will review management systems following departure of H&S officer. Work will be overseen by BAS Manager but not likely to require specific IA resource. Audit should be deferred until systems are in place.	Defer to 17/18
Safeguarding	Review pre Sec 11 audit. Also consider vulnerable adults.	In progress	
Debt Recovery	Council wide review of debt management and recovery processes, including council tax, business rates, HB overpayments and other income streams.	Work commenced July 2016 to support review of processes. This is IA advisory work.	

My Account	Review security of payments, information and interfaces with other systems	Q4	
Good Governance Framework for Local Government	Review compliance with new CIPFA code and implications for AGS 16/17	CIPFA framework has been published. Review will commence in Q3.	
Risk Management	Continuous assurance over risk management process	Corporate risk register reviewed and reported to Audit C'ttee.	
Enterprise zones	Processes governing management of E Z partnerships	Not considered a key risk area for focus at this time.	Remove
Housing benefits		Start w/c 23 Jan 2017	
Collection fund		Start w/c 23 Jan 2017	
Estates – Service Charges	Basis for and calculation of service charges, collection processes	In progress	
Business Reviews	Ongoing	Internal audit has supported Commercial AVDC reviews: <ul style="list-style-type: none"> • Procurement & Contract Management • Business Intelligence • Financial Systems and Processes 	
Vale Lottery	The review focussed on four areas identified as being key to ensuring that the lottery is being operated effectively and in compliance with the Gambling Act.	Complete	Low

Appendix 3: Internal audit reports

The Committee requested to see all internal audit reports in full. Those completed since the last meeting are attached below.

1. Fixed Assets
2. Treasury Management
3. Payroll



Internal Audit Report 2016/17

Fixed Assets

January 2017



Contents

1. Executive summary	2	This report has been prepared only for Aylesbury Vale District Council (the Council), in accordance with the agreed terms of reference. The findings
2. Background and Scope	4	should not be relied upon by any other organisation and the Business Assurance Manager of AVDC should be consulted before any content is
3. Detailed findings and action plan	5	shared.
Appendix 1. Finding ratings and basis of classification	16	
Appendix 2. Terms of Reference	18	
Appendix 3. Asset Lists Comparison	19	

Distribution List

For action	Tony Skeggs – Finance Manager
	Andrew Small – Section 151 Officer
For information	Kate Mulhearn – Business Assurance Manager

1. Executive summary

Report classification*	Total number of findings				
	Critical	High	Medium	Low	
Medium risk (10 points)	Control design	-	-	1	2
	Operating effectiveness	-	-	1	2
	Total	-	-	2	4

*We only report by exception, which means that we only raise a finding / recommendation when we identify a potential weakness in the design or operating effectiveness of control that could put the objectives of the service at risk. The definition of finding ratings is set out in Appendix 1.

Summary of findings

This report is classified as Medium. This review raises findings around both the control design and operating effectiveness of the fixed asset procedures in place.

The control design currently does not include an annual verification of the existence of assets in departments where there is high turnover i.e. IT and Fleet; we identified differences in the assets recorded on the fixed asset register and listings provided by these two departments (see Appendix 3). We noted inaccurate application of depreciation as per the Council's Accounting Policy; our findings identified 3 instances of depreciation being charged in full in one year when it should have been split over the asset's useful economic life.

The findings from this review raise concerns over the annual fixed asset register process, regarding the accuracy and completeness of assets held. It should be noted however, that our findings do not identify material errors. To support the implementation of an improved control environment, on page 5 of this report we have set out the current and suggested annual fixed asset register process. If acted upon promptly the findings in this report could be rectified for the fixed asset register as at 31 March 2017 which will form part of the 2016-17 Statement of Accounts and external audit.

The Council is planning to replace the existing LogoTech fixed asset software. The findings and recommendations outlined in this report should be considered

as part of any future system implementation and process redesign.

Key Findings

Two medium risk findings were identified:

- There is no process where the assets on the Council's fixed asset register are checked with department asset lists to ensure accuracy. We found discrepancies in IT and Fleet asset listings.
- We re-performed depreciation for all assets, and discrepancies have been discovered from depreciation schedules for the 2015/16 year. No reconciliation has taken place between LogoTech (fixed asset register) and Tech1 (general ledger).

Four low risk findings were identified relation to:

- Segregation of duties is not maintained for the processes of recording, updating and monitoring fixed assets.
- In its current set-up, LogoTech is not capable of providing sound financial functionality to allow the accurate and complete recording of fixed assets. Our testing highlighted a number of issues.
- There has been a lack of consultation and involvement with the Commercial Property department in the annual valuation process.
- In our sample testing, we identified one heritage asset for which no evidence of cost or valuation could be obtained.

Good practice noted

- External valuers were instructed on a timely basis to ensure that material changes were reflected in the financial statements correctly and in a timely manner.

Management comments

We accept the findings of this report. We recognise the procedures can be improved regarding the annual process and in the short term will seek to implement the segregation of duties and engagement with IT/Fleet to obtain updated asset registers. In the longer term we have begun to consider the functionality of Tech1 our main accounting software over whether the asset register would be better managed on this software. If this is the case it may resolve many challenges faced with the current system and improve the control environment. Tony Skeggs, Finance Manager.

2. Background and Scope

Background

The Council holds the variety of fixed assets expected for an organisation of its type and size i.e. property plant and equipment, heritage assets and investment properties; the respective 31 March 2016 values in the Statement of Accounts for each of these types of assets was £120.1m, £0.220m and £0.415m. The recording of fixed asset transactions onto Tech1 (general ledger) is a year-end only process and is facilitated through the LogoTech software. The fixed asset central year-end process is performed by the Finance Manager who is supported by wider members of the Finance Team.

The purpose of this audit is to review the design and effectiveness of controls in relation to fixed asset activity to provide assurance over the accuracy, completeness and timeliness of transactions undertaken to compile the fixed asset register.

Scope

The scope covered the key risks set out in Terms of References (see Appendix 2), including review of accuracy, completeness of the fixed asset register and the existence of current fixed assets.

We have reviewed the Council's current process of updating of the fixed asset register in LogoTech through discussions with the Finance Manager and by conducting the following tests:

- Recalculating depreciation for all assets
- Verifying all Gross Book Values (GBV) against revaluation reports provided by the external valuer
- For those assets not covered by the external valuers reports, we selected a sample of five assets to match their GBV against the evidence of cost
- Selected a sample of 15 assets to verify their physical existence.

The above is not a comprehensive list of all tests. The review also involved holding discussions with the Council's external auditor and external valuer.

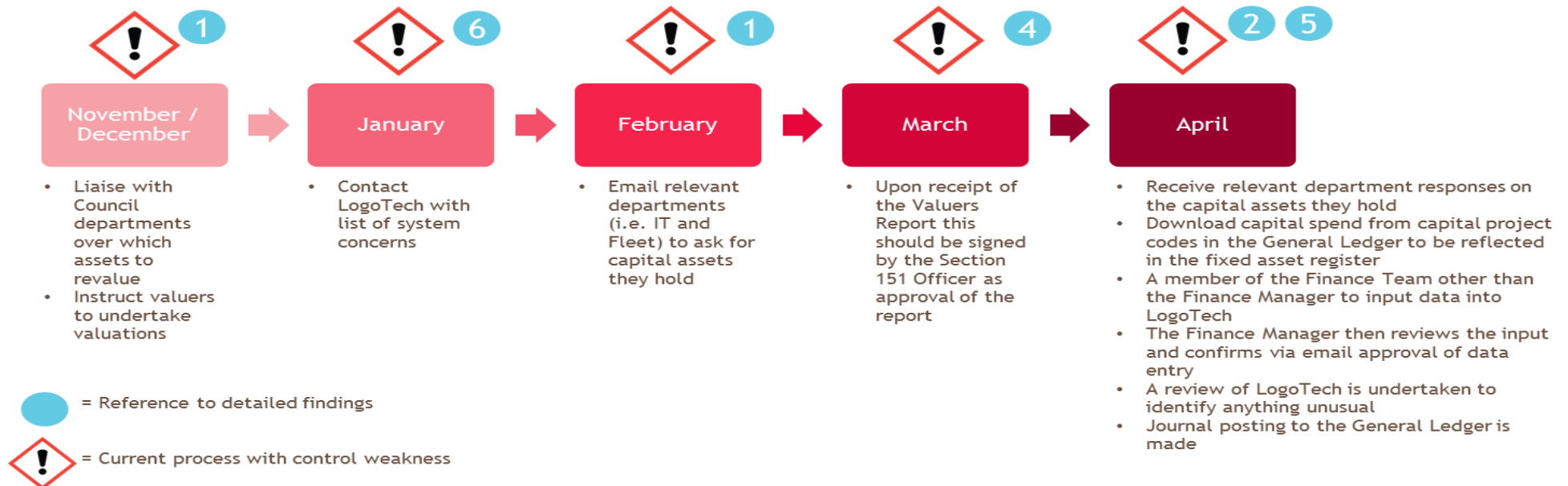
3. Detailed findings and action plan

Set out below is a comparison of the current annual process to compile and authorise the fixed asset register and Internal Audit’s recommended process based on the findings of this review.

Current Process



Recommended Process



1. Fixed asset register inconsistent with department assets lists – Control design

Finding

There is no process where the assets on the Council's fixed asset register are checked with department asset lists to ensure accuracy. We found discrepancies in IT and Fleet asset listings.

LogoTech is the system used for recording and maintaining fixed assets. The Finance Manager runs capital ledger codes from the Council's general ledger system – Tech1, to obtain balances at the year end, and inputs relevant movements on to LogoTech. See page 5 for the current process.

The only material movements in the year are the revaluations of land and buildings conducted by the Council's external valuer. Other categories of assets such as IT equipment and fleet hold immaterial Net Book Values (NBV) and therefore less significance is placed on the accuracy and validity of these assets. The Finance Manager advised that:

- IT assets: There has been no update to the asset register since 2008/2009
- Fleet assets: There has been no update to the asset register since 2013/2014.

We selected a sample of 12 fixed assets from the Council's asset register to confirm their physical existence. We could not locate the assets labelled as *Digital Cameras*, which recorded Gross Book Value (GBV) of £19,793 from IT, and the Land Rover Defend (GBV £19,999) from Fleet. The Fleet Manager advised that there were two Land Rovers, but one of them was stolen and the other one sold in the previous years. However, none of the changes of assets had been reflected in the Council's fixed asset register.

The updated lists of fixed assets were obtained from the IT Manager and the Fleet Manager as part of this review, which show a number of variances when compared to the Council's fixed asset register. See Appendix 3 for detailed listings. Most of the IT and fleet assets have been fully depreciated to zero Net Book Values (NBV) so from an accounting point of view, there is no material financial impact on the Council's accounts. However, those assets are still in use and any misplacement (loss/ theft/damage) would lead to expenditure to further repair or replace.

Moreover, from the list obtained from the Fleet Manager, some of the vehicles have been owned by the Council for less than 3 years, which means that based on the Council's accounting policy (depreciate vehicles for 3 years on straight line basis), they still have NBV remaining. With incomplete fleet assets recorded on the Council's asset register, the value of assets contained in previous years' accounts and the depreciation charged could have been underestimated. The Fleet Manager advised that the fleet records can easily be extracted from Tech1, therefore this should be included as part of the year end process of asset register updating.

It is anticipated that the fixed asset system will be replaced during 2017/18 and concerns raised here will be addressed as part of the replacement system implementation.

Risks / Implications

Fixed asset balance and depreciation charges are not accurate or complete.

Finding rating

Action Plan

Medium

Finance Manager should contact the IT Manager and Fleet Manager in February each year to request:

- A comprehensive listing of all capital assets they hold
- The location of the assets
- The unique identifier of the asset
- The current cost estimate of the asset
- The useful economic life of the asset

The Finance Manager should ensure the details are received by 31 March each year. Any necessary updates to LogoTech along with the relevant accounting changes should be made.

Ongoing, regular reconciliation should be undertaken to ensure that system errors are identified and corrected. Management should determine the frequency but of there is significant movements, this could be quarterly.

See Recommended Process on page 5.

Responsible person / title

Tony Skeggs – Finance Manager

Target date

Start in February 2017 to complete by April 2017

2. Incorrect depreciation has been applied– Operating effectiveness

Finding

We recalculated the depreciation for every asset on the Council's fixed asset register in line with the Council's Accounting Policy. The following discrepancies were identified:

- CCTV (Asset No. 0061) has not been depreciated in year 2015/16, with NBV of £15,745. The CCTV was first recorded at a GBV of £326,038 in year 2007/08, with useful life of 10 years. Based on the accounting policy, however, it should have been depreciated by £32,604 (£326,038/10) during the year, with NBV at the end of year of £65,207 (two years of useful lives remaining). As a result, depreciation was understated by £32,604, and NBV was understated by £49,462 (£65,207-£15,745). It is difficult to explain how LogoTech has obtained £15,745 as NBV left after eight years of depreciation (08/09-15/16).
- Three Refuse Freighters (Asset No. 364-366) were acquired on 01/01/2014, with a GBV of £60,226 for each asset at the time of purchase. Based on the accounting policy, there should be no depreciation in the year of purchase (2013/14), and for the following years of 2014/15, 2015/16, and 2016/17, there should be depreciation of £20,075 recorded for each Refuse Freighter. However they were fully depreciated in 2015/16, with zero NBV left at 31/03/2016. As a result, depreciation was overcharged in 2015/16 by £20,075 each (£60,226 in total), and closing value of assets were understated by £20,075 each (£60,226 in total).
- Another Refuse Freighter (Asset No. 373) was acquired on 01/07/2014, with the same GBV of £60,226. It has not been depreciated during year 2015/16 at all on the Assets Register. Based on the accounting policy, it should have been depreciated by £20,075 (£60,226/3), with NBV of £40,150 at 31/03/2016. Therefore, depreciation has been underestimated by £20,075, and closing value overestimated by £20,075.

We have reviewed LogoTech with regards to the above assets and noted that the asset classification, GBV and remaining lives were correctly input for each individual asset but the reason for the discrepancies could not be explained by the Finance Manager.

Due to lack of annual reconciliation procedures between the depreciation schedule and assets register report, errors were not identified and corrected, which leads to the risk that material balances could be incorrectly entered onto the Council's general ledger system, Tech1.

Risks / Implications

Fixed assets and depreciation are misstated.

<i>Finding rating</i>	<i>Action Plan</i>	
Medium	<p>When the fixed asset register is updated annually in April the following steps should be taken:</p>	<i>Responsible person / title</i>
	<ul style="list-style-type: none"> • Sample checks should be conducted to verify the correct calculation of depreciation in line with the Council’s Accounting Policy 	Tony Skeggs – Finance Manager
	<ul style="list-style-type: none"> • A review of the draft fixed asset register should be performed by the Finance Manager to identify any anomalies such as those identified as part of this review and these should then be investigated and corrected 	<i>Target date</i> April 2017
	<ul style="list-style-type: none"> • The above tasks should be recorded on a template to identify that one member of the Finance Team conducted the sample checks and another member of the Finance Team (i.e. the Finance Manager) reviewed these checks. The template should be signed and dated by the two separate members of the Finance Team. <p>See Recommended Process on page 5.</p>	

3. Lack of segregation of duties – Control design

<i>Finding</i>		
<p>The Finance Manager has the following responsibilities regarding the fixed asset register, on top of his other management activities:</p> <ul style="list-style-type: none"> • Reviewing and updating the fixed assets register annually by extracting balances off the general ledger • Arranging the revaluation exercise with external valuers • Monitoring and authorising capital expenditure for capital projects • Inputting additions and disposals onto both LogoTech and Tech1 <p>We recognise that the Council’s fixed asset register is relatively small with less than 300 fixed assets in total, however the lack of segregation of duties could lead to the risk of self-review and asset misappropriation. Moreover, two people in the Finance Team can get access to LogoTech, but currently only the Finance Manager knows how to use it. When the Finance Manager is on leave or unavailable, there is no designated responsible person to cover these duties.</p>		
<i>Risks / Implications</i>		
Duties are not properly segregated to ensure accuracy of asset recording.		
<i>Finding rating</i>	<i>Action Plan</i>	
Low	Responsibility for updating the fixed asset register should be assigned to another member staff in the Finance Team, and the Finance Manager should be supervising and monitoring the activities undertaken.	<i>Responsible person / title</i> Tony Skeggs – Finance Manager
	This will be addressed as part of the finance review and Commercial AVDC restructure.	<i>Target date</i> June 2017
	See Recommended Process on page 5.	

4. LogoTech configuration issues – Operating effectiveness

Finding

In its current set-up, LogoTech is not capable of providing sound financial functionality to allow the accurate and complete recording of fixed assets. Our testing has highlighted a number of issues:

- 1) '5 Year Revaluation Summary' (The Summary) – we obtained this report from LogoTech and all external revaluation reports from 2012/13 to 2015/16. We noted that there are 47 assets involved in the rolling revaluation programme, however, seven of the assets were recorded incorrectly (double the value) on The Summary. Although each individual asset's revised value was input correctly on LogoTech, the system has generated incorrect balances on The Summary; this system error could not be explained by the Finance Team.

The Summary should be used by the Finance Manager to verify the correctness of values input into the system against the value provided by the external valuer. It could also flag up assets which are due to be revalued in the financial year. With the incorrect balance contained in the Summary however, the report cannot support management monitoring processes effectively.

- 2) In Finding 2 we identified "system errors" that LogoTech has treated the same group of assets differently and calculated the depreciation charge incorrectly for five assets.
- 3) The system is not user-friendly and it does not generate correct and useful management information. LogoTech reports are in PDF format, which are difficult to edit and review.

The Council is looking to replace the fixed asset system. The findings from this report should inform the specification of a future system. In the short term however the issues with Logotech should be addressed with the software provider.

Risks / Implications

Incorrect accounting for fixed assets.

Finding rating

Action Plan

Low

For year end 2016/17, the Finance Manager should contact the system provider and raise all system errors so that they can be fixed i.e. the concerns regarding Summary Report, how to generate reports in excel

Responsible person / title

Tony Skeggs – Finance Manager

documents or other findings as part of this report which changes in system functionality could support.

Target date

It is anticipated that the system will be replaced during 2017/18 and concerns raised here will be addressed as part of the replacement system implementation.

January 2017

See Recommended Process on page 5.

5. Revaluations are not discussed with other departments and/or properly authorised by the s151 officer – Control design

Finding

It is the Council's Accounting Policy that, 'Assets included in the balance sheet at current value are revalued on a rolling basis within a five year time-frame'.

The Finance Manager is responsible for arranging the external valuation of assets aiming to cover all the assets on the five year rolling basis as per the Accounting Policy. The valuation is undertaken by the external valuer (Wilks Head and Eve LLP) before the year end. The external valuer provides a report to the Council setting out the assumptions taken and detailed revaluations. The changes will then be made on the balances of assets' GBV and NBV accordingly based on the revaluation reports received.

We can confirm that all assets involved in the five yearly revaluation programme have been revalued within the past five years, and all revised GBVs correspond to the revaluation report provided by external surveyors.

Discussion with other departments

The Finance Manager decides which assets to value by those where there is significant known change and/or those which are topical. This is not discussed with the Commercial Property function. Commercial Property should have the latest valuation of Council assets to inform their decision making and better support their ability to optimise financial value from their transactions as they can leverage the latest valuation figures to form part of their agreements to sell/buy assets.

Section 151 Officer approval

We have reviewed the revaluation reports completed by the external valuer and we are satisfied that the firm meet the relevant qualifications and their valuation method and assumptions appear reasonable. However, we have noted that the valuation report is not required to be authorised by the Section 151 Officer of the Council. The valuer's report is currently discussed with, and addressed to, the Finance Manager.

Per the 2016 Statement of Professional Practice issued by the Chartered Institute of Public Finance Accountants (CIPFA), the Section 151 Officer should be responsible for ensuring the income and expenditure of the organisation is properly and regularly monitored in line with budgeting setting and reporting requirements. Therefore the Section 151 Officer should be the individual addressed when the external valuer's report is issued and good practice would involve their explicit authorisation on the conclusions of the external valuer's report either by email or counter signing the external valuer's report.

<i>Risks / Implications</i>		
The valuation report is not properly authorised and monitored in line with the Council's budget setting		
<i>Finding rating</i>	<i>Action Plan</i>	<i>Responsible person / title</i>
Low	Commercial Property should provide input into the assets to be revalued by the external valuer each year.	Tony Skeggs – Finance Manager
	External valuer reports should be addressed to the Section 151 Officer and authorisation of the conclusions in the report should be made either by email or counter signing the external valuer's report.	Target date May 2017
	See Recommended Process on page 5.	

6. Insufficient evidence for asset cost/GBV – Operating effectiveness

<i>Finding</i>		
<p>Evidence should be maintained to verify the accuracy of the Gross Book Value (GBV) of assets held on the balance sheet. This is typically in the form of invoices, auction letters or formal valuations or solicitor correspondence.</p> <p>In our sample testing, we identified one heritage asset, the Ronnie Barker Statue (£70,000), for which no evidence of cost or valuation could be obtained. We understand the statue was made in 2009.</p>		
<i>Risks / Implications</i>		
<p>Inaccurate balances are included in the fixed asset register and subsequent accounting transactions are inaccurate and/or incomplete.</p>		
<i>Finding rating</i>	<i>Action Plan</i>	<i>Responsible person / title</i>
Low	As part of the implementation of the new asset register, a cleansing process will be undertaken to remove assets no longer in use.	Tony Skeggs – Finance Manager
	For those maintained on the register, a process will be developed to ensure evidence is held to verify the cost of assets and this will be easy to locate.	Target date September 2017

Appendix 1. Finding ratings and basis of classification

Report classifications

The overall report classification is determined by allocating points to each of the individual findings included in the report.

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Overall report classification		Points
●	Critical risk	40 points and over
●	High risk	16– 39 points
●	Medium risk	7– 15 points
●	Low risk	6 points or less

Individual finding ratings

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact [quantify if possible = materiality]; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact [quantify if possible]; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact [quantify if possible]; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance; or • Minor monetary or financial statement impact [quantify if possible]; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix 2. Terms of Reference

The Key risks and audit objectives agreed in the Terms of Reference are set out below. Each finding in the report is linked to a key risk from the Terms of Reference.

Sub-process	Risks	Objectives
Policies and procedures	Fixed asset balances are inaccurate, incomplete and transactions not recorded timely Expenditure is inappropriately treated as capital.	<ul style="list-style-type: none"> • Policies and procedures are clear, understood and followed to ensure the objectives of activity are met • Policies are sufficient to give clear guidance on key capitalisation principles and given the activities of the Council
Access	Data may be amended or deleted without appropriate approval	<ul style="list-style-type: none"> • Access to the system is controlled to manage unauthorised manipulation of data
Reconciliations	Fixed assets are inaccurate and incomplete	<ul style="list-style-type: none"> • Reconciliations are performed to ensure data held is accurate and complete
Recording	Inaccurate and/or incomplete net book values of additions, disposals and amendments to fixed asset records (including the application of depreciation)	<ul style="list-style-type: none"> • Data held on the system is correctly input and calculated to ensure it is valid, accurate and complete • Fixed asset additions are recorded and correctly treated as capital • Assets are removed from the register when disposed and any gains/losses correctly calculated
Depreciation	Inaccurate NBV and depreciation charges.	<ul style="list-style-type: none"> • Depreciation is calculated accurately and in accordance with policy
Verifying existence	Assets do not exist. Misappropriation of assets.	<ul style="list-style-type: none"> • Existence of assets held is confirmed to validate the assets held and their location/condition
Reconciliations	Reconciliations between other interface systems are inadequate to verify the accuracy and completeness of data held on Tech1	<ul style="list-style-type: none"> • Reconciliations are performed to ensure data held is accurate and complete
Valuations	Inaccurate financial records and inappropriate property valuations	<ul style="list-style-type: none"> • Valuations are performed by suitably qualified organisations/individuals and are conducted on a regular basis to ensure coverage of assets held • External valuations of properties and heritage assets agree with data held on the system

Appendix 3. Asset Lists Comparison

IT Assets

We have obtained the current list of assets from the IT Manager and compared it with the central Fixed Asset Register. As set out in Finding 1 of this report there is no process where the IT assets on the Council's fixed asset register are checked with the IT Manager to ensure the asset list is accurate. The below comparison details significant differences which raises the following concerns:

- There could be significant changes to the IT asset register which are not reflected in the Council's fixed asset register
- There is limited ability to match asset register held by IT to the fixed asset register due to it not being updated for a significant period of time
- There are some assets which have been capitalised on the fixed asset register which do not meet the de minimus set out the Council's Accounting Policy of £10,000 i.e. I Mac at £1,424.00.

It should be clarified that the concerns raised do not have a financial impact on the Council's Financial Statements because the NBV of assets held are already fully depreciated and if any values are held currently they would be considered immaterial.

List provided by IT Lead as at November 2016

Unit Description	Quantity estimate	Unit estimate	Current cost estimate
Monitors	694	£100.00	£69,400.00
50" LCD screens	10	£400.00	£4,000.00
Smartboard	1	£3,000.00	£3,000.00
Microsoft Hub	1	£7,000.00	£7,000.00
Thin Clients	339	£300.00	£101,700.00
Desktops	49	£400.00	£19,600.00
Laptops	48	£400.00	£19,200.00
Tablets	58	£400.00	£23,200.00
Chromebooks	13	£250.00	£3,250.00
Multi-Function Devices	13	£2,600.00	£33,800.00
Mobile phones	295	£100.00	£29,500.00
Total			£313,650.00

List held in LogoTech as at November 2016

Unit Description	GBV
Cisco Telephones	£92,693.00
Impact Printers	£14,241.00
Inkjet Printers	£21,855.00
Laser Printers	£74,699.00
Plotter Printer	£6,076.00
Comms Equipment	£176,963.00
Digital Cameras	£19,793.00
Laptops	£119,182.00
Miscellaneous	£31,009.00
Data Storage	£28,343.00
I Mac	£1,424.00
Monitor	£112,004.00
Total	£698,282.00

Fleet Assets

We have obtained the current list of assets from the Fleet Manager and compared it with the central Fixed Asset Register. As set out in Finding 1 of this report there is no process where the Fleet assets on the Council's fixed asset register are checked with the Fleet Manager to ensure the asset list is accurate. The below comparison details significant differences which raises the same concerns as on the previous page.

List provided by Fleet Manager as at November 2016

Registration	Fleet Number	Vehicle Type	Age
LL63UJR	R22	Food	3
LL63UJP	R24	Food	3
LL63UJS	R19	Food	2
OU58 JXL	R42	RCV/Food	8
VU58 KFZ	R7	RCV	8
VU07 HYW	R1	RCV	9
VU10 HYW	R17	RCV/Food	6
LN63 JJK	R41	Food	3
FU02 KJA	R25	Box Van	14
NX05 BWV	R36	Box Van	11
NX05 DXT	R31	Box Van	11
KP08 ZXX	R40	Transit Van	18
KN02 SJU	R29	Caged	14
P113 NVS	R21	SKIP	-
W417 AHG	R23	SKIP	-
		Fork lift truck	

List held in LogoTech as at November 2016

Description	GBV
Daewoo Box Tail L	£0.00
Ford Ranger	£0.00
Ford Connect L220	£0.00
Leyland/Teleho	£0.00
Ford Connect 220	£0.00
Ellite/Dennis/Terb *2	£0.00
Peugeot Painter L *2	£0.00
Leyland/Terberg	£25,474.00
Land Rover Defend	£19,999.00
Ford Transit 120	£0.00
Scania/Telehois	£0.00
Ellite/Dennis/Terb	£0.00
Vauxhall Astra	£0.00
Vauxhall Corsa	£0.00
Land Rover Defend	£0.00
Ford Connect L230	£0.00
Ford Transit mini	£0.00
Refuse Freightor *4	£60,229.00



Internal Audit Report 2016/17

Treasury Management

January 2017



Contents

1. Executive summary	2	This report has been prepared only for Aylesbury Vale District Council (the Council), in accordance with the agreed terms of reference. The findings
2. Background and Scope	4	should not be relied upon by any other organisation and the Business Assurance Manager of AVDC should be consulted before any content is
3. Detailed findings and action plan	5	shared.
Appendix 1. Finding ratings and basis of classification	12	
Appendix 2. Terms of Reference	14	
Appendix 3. Benchmarking Good Practice	15	

Distribution List

For action	Tony Skeggs – Finance Manager
	Andrew Small – Section 151 Officer
For information	Kate Mulhearn – Business Assurance Manager

1. Executive summary

Report classification*	Total number of findings				
	Critical	High	Medium	Low	
Medium risk (8 points)	Control design	-	-	1	1
	Operating effectiveness	-	-	1	1
	Total	-	-	2	2

*We only report by exception, which means that we only raise a finding / recommendation when we identify a potential weakness in the design or operating effectiveness of control that could put the objectives of the service at risk. The definition of finding ratings is set out in Appendix 1.

Summary of findings

The review raises two medium and two low risk findings around the control design and operating effectiveness of the Treasury Management function and overall has been classified as Medium risk.

We performed an exercise comparing current practice against best practice drawn from our knowledge of processes in other local authorities – see Appendix 3 for more information. Whilst there were no critical or high risks identified, we have raised findings regarding the breach of two Financial Regulations relating to treasury activity and inadequate reporting. We recommend that policies/procedures are developed to set out continuity arrangements. It was also identified that the Council does not document for each transaction how it achieved value for money.

Summary of findings

- The Council breached C.15 of the Financial Regulations by not issuing the Treasury Management Strategy on or before the start of the 2016-17 financial year; it was issued on 18 May 2016. The Council also breached C.17 by not issuing a Mid-Year Treasury Report by 30 September 2016; at the time of this report being issued there was no Mid-Year Report in issue (Finding 1 - Medium)

- Whilst value for money can be demonstrated in some regards by adherence to the Strategy, on an investment by investment basis, it could not be documented to specifically identify the considerations as to why an investment was made with a particular counter party. Therefore value for money is not documented sufficiently (Finding 2 - Medium).

Good practice noted

- The Council maintains a list of approved counterparties and does not enter transactions with unapproved counterparties
- All transactions tested in our sample underwent the appropriate review and approval by the Finance Manager
- The Council has recently joined a benchmarking group with five authorities based in Buckinghamshire and Hertfordshire to consider other treasury management approaches. This is a new process and the full outcome of the exercise is not known however early discussions suggest this is a useful tool to challenge the Council's investments/borrowings and approach to treasury management
- Finance have discussed possible implications of Brexit, although no actions have been taken as these are still yet to be known
- The Council receives weekly updates from Capita Asset Services on the credit status of counterparties, and daily updates, should there be any immediate changes.

Management comments

We accept the findings of this report. We recognise the delays in issuing the Strategy and Mid-Year Report; to rectify this we expect to issue the 2017-18 Strategy to Cabinet for approval ahead of 1 April 2017. We have moved to a new treasury system and will consider using the system to better demonstrate the achievement of value for money in treasury activities. Tony Skeggs, Finance Manager.

2. Background and Scope

Background

Good Treasury Management is a key element of the effective management of working capital, ensuring the organisation has cash available to meet its obligations while ensuring any surplus cash is managed within the Council's appetite for risk and return. The team is made up of the Finance Assistant, who carries out day-to-day treasury functions which are overseen and approved by the Finance Manager. The Council's transactions with counterparties in the financial year to 30 September, was made up of payments totalling £91m and receipts of £71.5m. There have been no borrowings.

The purpose of this audit is to confirm the existence and efficiency of key controls in place to mitigate the risks associated with treasury management (see Appendix 2). As well as performing the audit, we carried out a benchmarking activity looking at good practices drawn from other local authorities (see Appendix 3).

Scope

The scope covered the key risks set out in the Terms of Reference (see Appendix 2), including a review of the Treasury Management Strategy Statement, risk management and reporting requirements.

We reviewed a sample of ten investments to ensure there are appropriate procedures in place including review and approval by the Finance Manager and ensuring all Counterparties are within the credit limits set out in the Strategy. With regards to borrowings, the Council have not undertaken any since April 2014 however we still reviewed the processes through discussion.

3. Detailed findings and action plan

1. Reporting requirements breached and ineffective – Operating effectiveness

Finding

The Treasury Management Strategy 2016 has been approved by Members and is in line with CIPFA guidance. The Strategy states that as a minimum, *‘the Full Council is required to receive and approve three main reports with regards to treasury activity. The Treasury Management Strategy, a Mid-Year Treasury Report and the Year-End Treasury Report’*. Furthermore the Council’s Financial Regulations have two requirements within it which relate to treasury activity namely:

- C.15: The Section 151 Officer is responsible for reporting to the Council a proposed treasury management strategy for the coming financial year at or before the start of each financial year
- C.17: The Section 151 Officer is responsible for reporting on the activities of the treasury management operation and on the exercise of his or her delegated treasury management powers. One such report will comprise an annual report on treasury management for presentation by 30 September of the succeeding financial year to the Council.

Mandatory Reporting

Set out above are the mandatory reporting requirements for the Council. As part of this review we report the following breaches:

- A Strategy was approved by Cabinet on 18 May 2016; this breaches C.15 of the Financial Regulations as it was not approved at or before the start of the financial year
- A Mid-Year Treasury Report was not issued by 30 September 2016 and had not been issued at the time of finalising this report in December 2016 which breaches C.17 of the Financial Regulations.

Through discussion it was confirmed that due to other pressures the Strategy was delayed in being issued and similarly with the Mid-Year Treasury Report. Prompt review by Cabinet of both these reports is important because they set out the approach the Council takes with the use of significant material funds and regular review allows opportunity to challenge the effectiveness of the Councils approach to meet its objectives and achieve value for money.

Good Practice Reporting

The Council reports on finance activity in the Quarterly Digest and as part of this review we obtained the latest report for the quarter ended 30 June 2016. This report goes to a wide distribution, including Members, but it is not a mandatory reporting requirement. We reviewed the coverage of treasury activity in the Quarterly Digest and noted the level of information provided and the commentary is not sufficient to adequately scrutinise treasury activity. It should be noted that in the Quarterly Digest there is a form for individuals to complete and give their feedback on information received however to date, no feedback has been received and therefore the information presented has not changed in format.

Risks / Implications

Members may not have sufficient oversight on the Council's treasury activity in accordance with the strategy's reporting requirements.

Finding rating

Action Plan

Medium	a) Ensure the Mid-Year and Annual Strategy treasury management reports are completed and presented to Council members in a timely manner as per the Financial Regulations	<i>Responsible person / title</i> Tony Skeggs – Finance Manager
	b) Develop a reporting schedule for the rest of the financial year and consider including this in the 2017/18 Treasury Management Strategy (See Appendix 3)	<i>Target date</i> April 2017
	c) Provide commentary in the Quarterly Digest to inform readers on the movement in funds and rates.	

2. Value for money assessments not documented – Control design

Finding

An important objective of treasury activity is to select the optimum rates of return (investments) or interest rates applied (borrowing) to deals undertaken. In the year to 30 September 2016 investment activity comprised payments totalling £91m and receipts of £71.5m.

The process to achieve value for money on investments is as follows:

- The Finance Manager or Finance Assistant will call one of the three Brokers the Council transact with
- Through these discussions it will be the best rate currently available for the funds the Council wish to invest will be identified. There can often be a limited choice of counterparties to invest with because a process of elimination is undertaken to discount those who do not meet criteria set out in the Council's Treasury Management Strategy i.e. they do not meet credit criteria or the maximum investment limits have been reached
- The Finance Manager or Finance Assistant will then select the most economically advantageous investment and place the deal. Subsequently the Broker will email the Council confirmation of the deal which confirms the name of the counter party, rate agreed and length of investment amongst other details.

The reason a particular counter party was chosen to invest with is not documented on either the Deal Document or the treasury system. Whilst we accept that a level of value for money assessment would have taken place, in that only those counter parties who are on the agreed counter party list are invested with, we cannot determine the extent the Council are optimising their investments.

Risks / Implications

Investments: The Council cannot demonstrate for each deal undertaken the process that confirms value for money was achieved. Given these are large funds of money there should be greater documentation to support these decisions.

Finding rating

Action Plan

Medium	a) The Council should implement either through Treasury Live, or another process, a way of documenting the reasons as to why a specific counter party was selected for testing. This information then needs to be recorded on a regular basis so it can be subject to review.	<i>Responsible person / title</i>
		Tony Skeggs – Finance Manager
		<i>Target date</i>
		February 2017

- b) A template form needs to be established to ensure approvals are documented and that all verbal confirmations are removed from the process.

3. Policies and procedures not sufficiently detailed – Control design

Finding

The Council has a 2016/17 Treasury Management Strategy Statement in place which is the guideline for the all treasury activity. The objective is to ensure cash flow is adequately planned for future need and investing surplus monies in low risk counterparties. The Council has recently updated the Financial Procedures which outline the key roles and responsibilities for the treasury management function.

The Council has been using Treasury Live from 1 December 2016, a system designed to reflect CIPFA's recommended best practice for day-to-day treasury activities. There are currently no procedure notes on the day to day use of Treasury Live.

There are only two people at the Council delegated with treasury responsibilities and no-one else at the Council has the appropriate skills and knowledge to carry out treasury functions. If these two individuals are unavailable and there is a significant economic situation which requires urgent withdrawal of funds, the Council may not be able to act quickly due to continuity procedures not being in place to provide the names and numbers of brokers to contact.

During our benchmarking exercise, we found that other local Councils have developed procedure notes and a Treasury Management Manual containing various policies and other considerations (see Appendix 3). As the Council has changed systems to Treasury Live from LogoTech, it is now even more important to ensure there are policies and manuals with regards to Treasury activity.

Processes for Borrowing

The Council has not undertaken any borrowings in the year and in fact, no borrowings have occurred since April 2014. Long term and short term borrowing occurs for capital project investments but since April 2014 the Council's reserves have been used to fund current Capital projects. The Council is currently in the process of finalising the tender for the redevelopment of Pembroke Road and intends to use further reserves in the first instance however, if these are insufficient a loan may be required.

The Council currently has a £0.5million overdraft facility to ensure all chaps/bacs payments are paid in a timely manner.

As borrowings may be required in future, we performed a high level review of the established processes and note the following controls are lacking from the established process:

- No documented procedure is in place for borrowing funds for capital projects
- There are currently no template forms or emails to confirm the amounts that are to be borrowed and there is currently no requirement for a physical

signature by the Finance Director to evidence approval of borrowing funds

- The Finance manager is able to borrow funds of up to and including £5million but there is no official documentation or authorised signatory listing outlining that this action was acceptable by the Council
- There is no specified time frame that management must monitor the interest rates before they proceed to borrow.

Risks / Implications

Inadequate policies and procedures are in place which weakens the framework to support accurate, complete and timely transactions.
 New staff may not be able to execute treasury activity to an acceptable standard in line with the Strategy.
 Borrowings may not be authorised and achieve value for money.

Finding rating

Action Plan

Low	1. The Council should formulate a Treasury Manual/Procedure document with the key processes of Treasury Live, set out key roles and responsibilities, segregation of duties and risk management considerations. This should include the procedures to be followed in the absence of the two individuals with delegated responsibility and this should be distributed to all those in the Finance Team (See Appendix 3). 2. For borrowing, prior to any future loans: a) Procedures to borrow funds from the Bank should be documented b) A Template Form needs to be established to ensure approvals are documented and that all verbal confirmations are removed from the process c) Evidence needs to be kept to document how value for money was achieved on the borrowing undertaken; this could be recorded on the Template Form	<i>Responsible person / title</i>
		Tony Skeggs – Finance Manager
		<i>Target date</i>
		1. February 2017 2. Earlier of June 2017 or any future borrowings

4. Member training not sufficient – Operating effectiveness

Finding

Members are charged with approving the Treasury Management Strategy and assessing reports they receive on treasury activity from the Council. This area can be highly technical. To support Members in their duty to effectively scrutinise the information presented and understand the risks to which the Council is exposed other local authorities often provide an annual training session to Members.

The Finance Manager advised that there have been discussions regarding training with Capita Asset Services, who support the Council in managing its treasury activities. However due to the cost implications of the training and an on-going consideration over whether training would be effective, no training has been organised.

Risks / Implications

Without sufficient training to support Members there is a risk they are not equipped adequately to scrutinise the treasury activities of the Council.

Finding rating

Action Plan

Low	<ul style="list-style-type: none"> a) The Council should pursue arrangements Capita Asset Services regarding the provision of training to Members. If Capita Asset Services are not instructed to offer the training then the Council need to put in place alternative arrangements to ensure Members are adequately trained b) An annual assessment of the training needs for Members regarding treasury activity should be made. 	<i>Responsible person / title</i>
		Tony Skeggs
		<i>Target date</i>
		April 2017

Appendix 1. Finding ratings and basis of classification

Report classifications

The overall report classification is determined by allocating points to each of the individual findings included in the report.

Findings rating	Points
Critical	40 points per finding
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Medium	3 points per finding
Low	1 point per finding

Overall report classification		Points
●	Critical risk	40 points and over
●	High risk	16– 39 points
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●	Low risk	6 points or less

Individual finding ratings

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact [quantify if possible = materiality]; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact [quantify if possible]; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact [quantify if possible]; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance; or • Minor monetary or financial statement impact [quantify if possible]; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix 2. Terms of Reference

Sub-process	Risks	Objectives
Policies and procedures	Inadequate policies and procedures are in place which weakens the framework to support accurate, complete and timely transactions	<ul style="list-style-type: none"> • Policies and procedures are clear, understood and followed to ensure the objectives of activity are met
Risk Management	Inappropriate risk management consideration and arrangements for the treasury function	<ul style="list-style-type: none"> • Risk management arrangements are appropriate and embedded in the strategy
Borrowings	Investment transactions are entered into without appropriate authorisation, increasing the risk of fraudulent activity. Borrowing transactions are entered into with unauthorised counterparties	<ul style="list-style-type: none"> • Conducted in a structured way and in line with the council's Capital Programme / Minimum Revenue Provision calculations. Decision over when to borrow and at what interest rate conducted in a way that is transparent and demonstrates affordability
Investments	Investment transactions are entered into without appropriate authorisation, increasing the risk of fraudulent activity. Investment transactions are entered into with unauthorised counterparties, increasing the counterparty credit risk	<ul style="list-style-type: none"> • Transactions are authorised by senior financier and are only entered with an approved list of counterparties which meet the requirements set out in the strategy
Reporting	Treasury activity is not monitored and reported to members in accordance with proper practice	<ul style="list-style-type: none"> • TM mid-year reports are prepared and presented to the Board. • The Council monitor TM activity in the Quarterly Digest
Risks of Brexit	Insufficient actions have been taken to manage the risks associated with Brexit	<ul style="list-style-type: none"> • Consideration and understanding of known Brexit risks to Treasury Management. Actions taken once risks identified.
Treasury Live	Insufficient steps taken to manage the switch to Treasury Live and insufficient reconciliation of data between current and new system	<ul style="list-style-type: none"> • Accurate transfer of transactions to Treasury Live from LogoTech.

Appendix 3. Benchmarking Good Practice

As part of our benchmarking activity, we reviewed Treasury Management procedures at other authorities and have drawn on these areas of best practice relating to Finding 3.

Treasury Management Manual

- The Council has a Strategy which outlines the objectives for the Treasury Management function but lacks a Treasury Management manual which can be referred to for procedural notes, performance monitoring and reporting requirements
- The Council should consider implementing a treasury management manual or procedure notes on the overall processes for the new system, Treasury Live.
- The manual should describe practices and procedures which define the way the Council carries out treasury management activities.
- A set of instructions for one other member in Finance to contact brokers in the event both members of treasury are not available and urgent withdrawal is required
- The Financial Procedures and 2016/17 Treasury Management Strategy can be the starting point to draw information from and expand on the below items:
 - (a) General Statement on treasury risk management
 - (b) Performance Measurement – a methodology on how the Council intends to evaluate the impact of treasury management decisions. Possibly include the action from finding 5 – ‘Compliance Reviews’
 - (c) Delegated powers for decision making – looking at the roles and responsibilities of the Finance Manager and Assistant, procedures on documenting evidence of treasury management decisions and reference to the limits set out in the Strategy
 - (d) Reporting Requirements and Management Information Arrangements – awareness of the reporting requirements with Members and appropriate Committee, a schedule of performance reports and the time frames they should be prepared, as well as budget monitoring and compliance reviews and the timeliness of these reviews
 - (e) Cash and Cash Flow Management – responsibilities of the Finance Assistant, cash flow and investment arrangements and timeframes, preparation and submission of cash flow statements and updates
 - (f) Training and Qualifications – details of approved training courses and skills required for day-to-day Treasury Management activities
 - (g) Detailed Flow chart/Walkthrough of the procedures for all functions of Treasury Live.

Compliance Reviews

- Good practices drawn from local authorities are for the Treasury Management team to regularly meet and formally document minutes of actions taken. We recommend this is implemented so that there is sufficient oversight on the Council’s treasury activity, ensuring the Council is compliant with and working in line with strategy objectives, allows management to add value and improve the treasury function should they come across practices that work well in other sectors.
- The items that should be discussed and reported are: Previous Meeting Minutes and Actions Arising, Counterparty change update, Monthly review of investment indicators including significant economic news, and movements in Equity prices, Key actions on investments and borrowing from the month and planned for the month ahead, Actions from this meeting, as well as any other updates the Council deem appropriate to report on.
- Meetings should be recorded and actions assigned to staff where appropriate.

A common practice is to have a local treasury management risk register; this is currently not in place at the Council. We would expect the Compliance Reviews to consider these risks and for these to be presented to Members for discussion at least annually. We have set out below an example register.

ID	Risk title	Opportunity/ Threat	Risk Description	Risk Cause	Consequence	Date raised	Risk Mitigation
1	Loss of capital investment due to a counterparty collapsing	T	The Council loses its principal investment or an investment becomes impaired.	Counterparty collapses or hits a financial crisis rendering it unable to repay investments.	The Council may lose money or repayment of funds could be significantly delayed which could have an adverse impact on operational funding levels	5-Aug-15	Reducing risk by limiting the use of high risk counterparties. Imposing a maximum investment value on approved counterparties in order to spread and reduce risk. Controls and procedures are in place to ensure investment and durations limits with approved counterparties are not exceeded. Counterparties are also monitored and reviewed on a weekly basis at least, or more regularly if considered necessary to do so.
2	Property fund investments lose value	T	The value of the Council's units held in property fund investments decreases.	Changes in market conditions and demand for properties	Capital depreciation will decrease the overall value of the investment.	5-Aug-15	The Council receives monthly valuations from the property fund managers detailing the indicative redemption value of the individual units. These are reported to the Head of Finance on a monthly basis. The Council has the option to sell its units if there is a concern that the fund value is likely to decrease for a prolonged period.
3	Decline in interest rates	T	Interest rates continue to remain at an all time low with very little movement.	No change to base rate and associated market investment rates. Lower risk counterparties tend not to offer as competitive a rate as the higher risk ones.	The Council may not achieve its target level of interest.	5-Aug-15	In the current economic climate where rates tend to be static, arranging investments over a longer period of time where possible will allow the Council to capitalise on a higher rate of return without there being an opportunity cost. The Council continually monitors base rate and rates being achieved against budget to ensure it has secured the best value possible in a difficult economic climate.

We have drawn on good practices from other Strategies and analysed the coverage of treasury activity in the examples below.

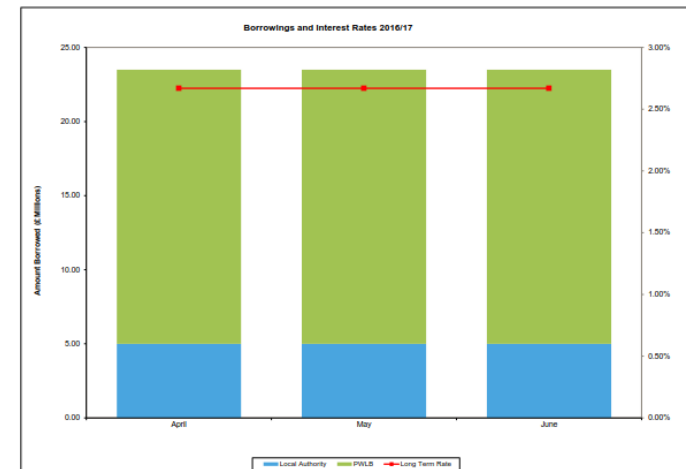
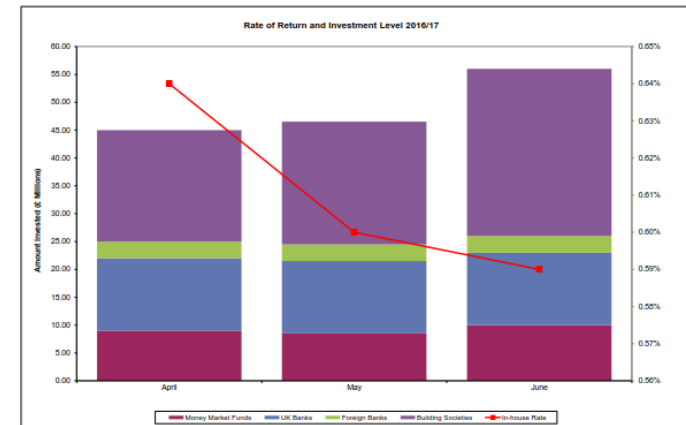
We reviewed treasury coverage in the Quarterly Digest and found it to be difficult to understand. Consideration should be made to the inclusion of a brief narrative to explain the movement in funds for both investments and borrowings (Finding 1).

14. Reporting on the Treasury Outturn

The Director of Corporate Services will report on Treasury Management activity/performance as follows:

Report to/Coverage	Frequency:
Council	
Treasury Management Strategy/Annual Investment Strategy/MRP Policy	Annually before start of the year
Treasury Management Strategy/Annual Investment Strategy/MRP Policy – mid year report	Annually mid year
Treasury Outturn report	Annually after year end and by 30 September
Cabinet	
Receives each of the above reports in advance of Council and makes recommendations as appropriate	In advance of year/mid-year/after year end and by 30 September
Receives confirmation that Treasury transactions have complied with Strategy	Every cycle
Audit and Standards Committee	
Receives each of the above reports in advance of Cabinet (where publication timetable permits) and makes observations as appropriate	In advance of year/mid-year/after year end and by 30 September
Reviews details of Treasury transactions against Strategy and makes observations to Cabinet	Every cycle

The Council should outline all reporting requirements in a similar table and include this within the strategy. This sets out the reporting requirements for the year and is a useful tool for reference to ensure the Council are compliant with section C.15 of the financial procedures which state - *The Section 151 Officer is responsible for reporting to the Council a proposed treasury management strategy for the coming financial year at or before the start of each financial year, which was breached this financial year.*





Internal Audit Report 2016/17

Payroll

January 2017



Contents

1. Executive summary	2	This report has been prepared only for Aylesbury Vale District Council (the Council), in accordance with the agreed terms of reference. The findings should not be relied upon by any other organisation and the Business Assurance Manager of AVDC should be consulted before any content is shared.
2. Background and Scope	5	
3. Detailed findings and action plan	6	
Appendix 1. Finding ratings and basis of classification	12	
Appendix 2. Terms of Reference	14	
Appendix 3. Good Practice Expenses and Checklists	15	
Appendix 4. Follow-up of Previous Recommendations	17	

Distribution List

For action	Christina Ball – Income Manager and Temporary Payroll Lead
	Andrew Small – Section 151 Officer
For information	Kate Mulhearn – Business Assurance Manager

1. Executive summary

Report classification*	Total number of findings				
	Critical	High	Medium	Low	
Low risk (6 points)	Control design	-	-	1	1
	Operating effectiveness	-	-	-	2
	Total	-	-	1	3

*We only report by exception, which means that we only raise a finding / recommendation when we identify a potential weakness in the design or operating effectiveness of control that could put the objectives of the service at risk. The definition of finding ratings is set out in Appendix 1.

Summary of findings

This report is classified as Low Risk. We have issued one medium and three low risk findings.

The medium risk relates to the Council's inability to produce reports from the Payroll system (iTrent) to monitor changes to pay rates/hours/grade. This is an expected key control to periodically check for unauthorised changes.

It should be noted that against the key objective of payroll i.e. payments made are in line with Council establishment lists and are accurate/complete through to payslips, we have not identified any issues – we have noted Good Practices below.

Expense claims is an area many local authorities suffer a lack of compliance with policy and procedures. We noted inconsistencies in the submission and retention of receipts and insufficient narrative held regarding the nature and purpose of the expenses. From review of new starter and leaver forms we found there were instances where leaver checklists are not fully completed in line with Council policy and forms were completed post and prior to the start and leaving dates respectively.

Key Findings

- The current iTrent system functionality does not allow a report to be run for changes to hour and grade made within the year. There is therefore no control to systematically monitor and review changes to individuals contracts i.e. change in grade, change in hours or change in status (part time/full time). We were not able to test the change in hour/grade (Medium - Finding 1).
- Insufficient detail to support expense claims, including low level narrative and inconsistencies in the receipting procedures (Low - Finding 2)
- New Starter and Leaver forms are not completed in full, with instances where management have not signed off checklists (Low - Finding 3)
- The Council need to formally adopt a Corporate 'Pay Rate Structure' for Casual Workers. Managers should not set their own hourly rates outside of this structure (Low – Finding 4).

Good practice noted

- Payroll reconciles the general ledger to iTrent as recommended in the prior year Internal Audit report - see Appendix 4
- iTrent updates are managed by the HR Advisor. These are booked in with a test update scheduled with a week prior to the live update to provide assurance on the continuity of payroll functions. Arrangements are in place for the next update to take place on 26 January 2017, with a test update scheduled for 19 January 2017
- Initial and final pay calculations are accurate with appropriate documents to support calculations
- Tax and National Insurance deductions are accurately calculated in line with government standards, from our sample of parameters tested.

Management comments

The findings of this report are accepted and the following responses are provided. It should be noted that some recommendations require HR involvement and we will work with them to ensure the recommendations are implemented.

Finding 1 – We will be contacting the software provider to clarify whether this report can be run or purchased. If this is not possible we will work with internal audit to liaise with other local authorities who use the same software to identify how this information can be reported.

Finding 2 – With current staffing changes occurring we need to identify the relevant HR contact to take forward the process of updating the Policy. Alongside this we will issue an email to staff to remind them of the expectations regarding narrative on expenses.

Finding 3 – We will continue to communicate the expectations to complete checklists fully and will work to clarify where responsibilities are with payroll and where they are with HR through the use of checkboxes. It should be noted that on 28 November 2016 the Sector Lead (Business Support) emailed Managers Group to remind them of the completion of checklists in a timely manner. A similar method will be used to remind staff of checklist expectations.

Finding 4 – The Corporate Pay Rate Structure is being finalised currently to update changes regarding casual workers. This is nearing approval and will require HR involvement to meet finalisation date set out in this report.

2. Background and Scope

Background

Aylesbury Vale District Council (the Council) uses iTrent as the payroll software. iTrent is a platform, developed by MidlandHR, that delivers Human Resources Management and Payroll Services. The payroll team is led by the Income Manager and supported by three payroll staff that process new starters, leavers and variations to employee grade and hour. Contracts are managed by the HR team who pass the appropriate information onto the payroll team for processing to ensure correct payments are made as per the employees' contract. It is essential that there is a robust process for ensuring that only valid staff are paid at the correct rates for services provided and that complete and accurate statutory and other deductions are made. In addition, it is important that payroll records are held securely and there are no disruptions to the regular making of salary payments.

The purpose of this audit is to review and assess the design and effectiveness of controls in relation to payroll activity, including expenses, and to provide assurance over the accuracy, completeness and timeliness of transactions undertaken.

Scope

The scope covered the key risks set out in the Terms of Reference (see Appendix 2), including a review of access to systems, expense claims and Tax and National Insurance parameters set up on iTrent.

We reviewed the Council's procedures around starters and leavers through testing a total sample of 12. Our testing in this area and others included:

- Starter forms are completed prior to the start date, appropriate management approval and accurate initial payslip calculation
- Leavers' final payslip calculated accurately, leaver forms completed prior to the last day and checklists completed and signed off by line managers
- Parameters were correctly entered onto the system
- Testing a sample of 10 expenses to ensure these were accurately recorded and paid in line with supporting documentation.

This does not represent a comprehensive list of tests conducted.

3. Detailed findings and action plan

1. Change in Hour/Grade – Control Design

<i>Finding</i>		
<p>The current iTrent system functionality does not allow a report to be run for changes to hour and grade made within the year. There is therefore no control to systematically monitor and review changes to individuals contracts i.e. change in grade, change in hours or change in status (part time/full time).</p> <p>From our experience with other local authorities who use iTrent we are aware that this functionality is available however AVDC's system is not set up to allow this reporting currently. The Council are now working with the system provider and liaising with consultants to modify the system to allow this reporting functionality.</p>		
<i>Risks / Implications</i>		
<p>Inappropriate / unauthorised changes may be made to pay rates, hour, grade.</p>		
<i>Finding rating</i>	<i>Action Plan</i>	
Medium	Payroll should consider the types of reports that should be run which can aid the financial reporting/management oversight and ensure these functionalities are built into iTrent.	<i>Responsible person / title</i>
		Christina Ball – Income and Temporary Payroll Lead
	Period review of changes to standing data should be performed to ensure all changes are valid and authorised.	<i>Target date</i> March 2017
		<i>Responsible person / title</i>

2. Expense Claims Narrative and Retention – Operating effectiveness

Finding

The Council reimburses its employees for all reasonable and necessary expenses, such as mileage and work related purchases. For the financial year 2016-17 to the end of October 2016 mileage claims totalled £15,846 and fares and subsistence totalled £8,365.

The Travel and Subsistence Policy is available on the intranet to all members of staff. Employees reclaim their expenses via the Employee Self Service function on iTrent. Claimants must include the date, the value and the description of the expense. Once submitted, the expense claim will be automatically routed to their manager, who is pre-determined based on delegations setup in the system. Payroll will only receive the expense claim after the relevant manager has authorised it for payment. As per the Policy, 'all expenses must be supported by receipts'.

We sample tested ten expenses from 1 April 2016 to 30 September 2016 and found:

Insufficient narrative on iTrent: We would expect all expense claims to contain sufficient detail and supporting evidence which would enable timely and accurate authorisation by the manager. All ten expenses were approved in a timely manner ranging between same day to four days from the date the claim was submitted. However, we found eight expense claims held insufficient narrative to describe what the expense claim was for. For example, one mileage claim had 'mileage' in the narrative box; we would expect this to have more detail i.e. 'Meeting with Energy Provider to discuss renewal of contract' (See Appendix 3 for good practice on expense claims narrative).

Inconsistent process retaining receipts: The Travel and Subsistence Policy instructs claimants to support their expense claims with receipts. From discussion with payroll, managers and claimants, we noted different approaches to 'supporting claims with receipts'; this control is inconsistently exercised throughout the Council. The current process varies, with some claimants sending scanned images to the approver, some presenting the original copies and others retaining copies with managers physically seeing the receipts and then approving the expense on iTrent. Good practice in other organisations involves a system where the upload of a receipt is the only way the claim can be submitted. Whilst we understand iTrent cannot facilitate this function, the Council should bear this in mind. In the meantime, we advise receipts are stored locally i.e. saved to a 'department expense' folder/drive on the Council network. We understand most local authorities, including the Council, do not reclaim the VAT for mileage claims so would not expect presentation and retention of 'Fuel Receipts' on the drive/ folder as long as sufficient narrative accompanies the claim on iTrent.

Risks / Implications

Fraudulent expense claims may be submitted and concealed through generalised terms such as 'fares, dinner, and petrol mileage'.

<i>Finding rating</i>	<i>Action Plan</i>	
Low	<ul style="list-style-type: none"> HR to update the Travel and Subsistence policy to represent the new procedures for retaining receipts 	<i>Responsible person / title</i>
	<ul style="list-style-type: none"> The Council should remind all staff submitting expenses to include sufficient detail for the reviewer to assess whether the expense claim is appropriate or not. 	Christina Ball – Income and Temporary Payroll Lead
	<ul style="list-style-type: none"> If there are plans to move to a new Payroll system, the Council should consider implementing a system which allows the upload of receipts to support expense claims. 	<i>Target date</i> March 2017

3. Starter Forms and Leaver Checklists – Operating effectiveness

Finding

Starter forms are completed for new staff joining the Council. Leaver forms are completed prior to the last working day for the member of staff. Both starter and leaver forms must be signed off by the relevant Line Manager and payslips should be calculated appropriately with relevant documents on file supporting the calculations. Leaver Checklists forms accompany the leaver forms and are completed by Payroll and Line Managers to ensure removal rights are processed where appropriate.

A sample of 5 starters and 7 leavers, from 1 April 2016 to 30 September 2016 were selected to ensure forms have been processed in a timely and accurate manner and that payslips had been calculated accurately. All starter forms reviewed were completed appropriately by Payroll and signed off by the relevant Line Manager and HR. All pay rates had been calculated appropriately and there are no issues to raise in this respect. The general finding with new starter and leaver forms is they are not always fully completed.

The details of our results are as follows:

Starter forms

- 3/5 'number of days worked' box was unticked
- 1/5 starter forms was completed post the start date.

Leaver forms and checklists

- 6/7 People and Payroll Checklists were incomplete (See Appendix 3)
- 4/7 Manager Checklists were not signed off (See Appendix 3)
- 1/7 leaver forms did not have an accompanying Manager Checklist; this could not be located.
- 1 leaver form was completed after the staff members last day

Risks / Implications

Incorrect calculation of pay.

Leavers may still have access to Council activity and assets.

<i>Finding rating</i>	<i>Action Plan</i>	
Low	<ul style="list-style-type: none"> • Staff should be reminded that all starter and leaver forms should be completed in a timely manner. All leaver forms should be completed in full, including Payroll and Manager Checklists. • HR should consider the effectiveness of the Checklist with the possibility of including tick boxes next to each requirement on the leaver checklist. See Appendix 3 • Consideration should be given to the automation of the starter/leaver process on the Service Desk Portal. 	<i>Responsible person / title</i> Christina Ball – Income and Temporary Payroll Lead
		<i>Target date</i>
		February 2017

4. Corporate Pay Rate Structure – Control Design – Prior Year Finding

Finding

A finding from the previous Internal Audit report on Payroll regarding ‘Corporate Pay Rate Structure’ has been re-raised in this review as an outstanding action. See Appendix 4 for the follow-up schedule.

The guidance to managers on employing casual workers (November 2011) says that, “Pay rates are determined according to the role and the appropriate rate of pay in the market”. However, the guidance does not have a structure to those hourly rates. Therefore managers appear to have set their own rates, which they deem appropriate to the nature of the role. The previous reviews analysis of the 135 casual worker records show that there are approximately 50 different salary scales and grade notations applied to casual posts, which equate to 50+ different hourly pay rates.

These pay rates are not regulated or reviewed annually in the same way as the standard ‘SG’ grades that are applied to employees. There is a reliance on the managers to adhere to the national living allowance and other legislation when authorising the hours worked. Casual workers submit timesheets that have to be approved by the Manager, so the Payroll Section do not see these and therefore cannot monitor what these staff are being paid to know whether it is acceptable. A pay rate structure for casual workers is currently in the process of being drafted. The Payroll department are currently in the process of confirming the pay rates and adopting within the pay rate structure. The structure is expected to be ratified and in place by March 2017.

Risks / Implications

The controls around casual workers are limited and need strengthening to ensure the Council adhere to their objectives and treat all those that work for the Council fairly and consistently.

Finding rating

Action Plan

Low

To formally adopt a Corporate ‘Pay Rate Structure’ for Casual Workers. Managers should not set their own hourly rates outside of this structure.

Responsible person / title

Christina Ball – Income and Temporary Payroll Lead

Target date

March 2017

Appendix 1. Finding ratings and basis of classification

Report classifications

The overall report classification is determined by allocating points to each of the individual findings included in the report.

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Overall report classification		Points
●	Critical risk	40 points and over
●	High risk	16– 39 points
●	Medium risk	7– 15 points
●	Low risk	6 points or less

Individual finding ratings

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact [quantify if possible = materiality]; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact [quantify if possible]; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact [quantify if possible]; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance; or • Minor monetary or financial statement impact [quantify if possible]; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix 2. Terms of Reference

The Key risks agreed in the Terms of Reference are set out below. Each finding in the report is linked to a key risk from the Terms of Reference.

Sub-process	Risks	Objectives
Policies and Procedures	Payroll standing data are inaccurate, incomplete and transactions are not recorded timely	<ul style="list-style-type: none"> • Policies and procedure are clear, understood and followed to ensure the objectives of payroll activity are met
Access	Data may be amended or deleted without appropriate approval	<ul style="list-style-type: none"> • Access to systems is controlled to manage unauthorised manipulation of data
Reconciliation	Payroll standing data is inaccurate and incomplete	<ul style="list-style-type: none"> • Reconciliation performed to ensure data held is accurate and complete
System upgrades	Mandatory upgrades do not occur in a timely manner	<ul style="list-style-type: none"> • Upgrades including standing data occur in a timely manner and reflect changes to parameters
Starters, Leavers, Variations	Inappropriate processing of starters and leavers. Payroll data inaccurately calculated	<ul style="list-style-type: none"> • Starters and leavers are processed accurately. Initial and final payroll transactions are calculated correctly. Variations to contracts undergo the correct approval process
Transition of internal staff	Inaccurate payroll data and incorrect payments made to staff change from temporary to permanent positions	<ul style="list-style-type: none"> • Appropriate procedures for the correct transition of temporary to permanent staff
Expense claims	Fraudulent expense claims are submitted	<ul style="list-style-type: none"> • Appropriate evidence to support expense claims and/or approval procedures are unclear and not followed
Parameters	Incorrect parameters placed into iTrent, impacting the classification and value payroll costs	<ul style="list-style-type: none"> • Payroll costs and payslips are calculated accurately and in line with government parameters.

Appendix 3. Good Practice - Expenses

All expense claims should contain sufficient level of detail to help the reviewer to assess it. This appendix details an example expense claim and the expected level of detail alongside best practice when preparing and approving expense claims.

PURCHASE EXPENSE CLAIM			
Date	Description	Receipt	Amount (£)
10/10/2016	Activity Equipment for Youth Group Activity	Y	25.50
13/10/2016	Bus Fares for Youth Group Members for Youth Group Activity at AVDC	Y	15.00

MILEAGE EXPENSE CLAIM						
Date	Starting Point	End Point	Distance	Return Journey?	Description	Amount (£0.45 per mile)
10/10/2016	AVDC, HP19 8FF	XXX, AB1 2CD	20 Miles	N	Meeting with Energy Provider to discuss renewal of contract	9.00
13/10/2016	AVDC, HP19 8FF	XXX, EF3 4GH	10 Miles	Y	Meeting with local housing team member to discuss team performance	4.50

General expense claim best practice

All descriptions should give sufficient detail for the reviewer to judge whether the expense incurred is reasonable and appropriate

Ensure all purchase expense claims have the relevant receipts attached in an agreed location

All expense claims must be submitted within the deadline (in this case, 3 months from the purchase)

Mileage specific expense claim best practice

Detail of the starting and end point of the journey should include postcode

Employee should note down whether the journey is a return or not

Appendix 3. Good Practice - Checklists

This appendix details an example leaver form, the accompanying checklist and the expected practice.

HR must complete this checklist as part of the leaver process. Our testing found 5/7 checklists were incomplete. Should some of these boxes not apply to the leaver, payroll should write 'n/a' next to the box. HR should re-visit any leaver forms for actions to be taken in the near future, i.e. in this example 'Updated E-Learning - Will do on 11/9/16.'

Please note that final payment will be made on 25th of each month

People & Payroll Use	To be re-paid	
Removal and Resettlement	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Mortgage Subsidy	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Career Grade / Post Entry Training Fees to be re-paid	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Child Care Vouchers to be stopped (JH)	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Updated E-Learning (BW) - <i>Will do on 11/9/16.</i>	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Leavers Questionnaire sent (PD)	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Car / Motor Vehicle / Bicycle Loan outstanding	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Non-disclosure of Information Form received in P&PS	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Login details removed from any systems (i.e. Matrix/iTrent)	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Check details removed from Emergency Plan (PD) - <i>Will do 11/9/16.</i>	Yes <input type="checkbox"/>	No <input type="checkbox"/>
If reason for leaving is Retirement check how many years service	_____	

Checked by: _____ Date: _____

31/8/16 - Updated i-Trent & Border PD.

Leavers form - May 2015

*KM- SEP 16
AR Sep 16.*

Line Managers are required to complete this leaver checklist for all leavers. We found 1/7 checklists were not signed off by the line manager. HR and Payroll should consider utilising tick boxes next to each of these checkpoints to give greater assurance that each point has been checked.

Leavers Checklist

Once the letter of resignation has been received and you have completed Section 1 below - Don't forget to consider the issues in Section 2 and address if relevant.

The purpose of the checklists is to assist managers to ensure all procedures appropriate to the departure of a member of staff are complied with. This applies to both permanent and fixed term staff as well as casual workers.

Employee Name: _____ Section: _____

Section 1

- Complete the 'Notification of Termination of Employment' form and send the original to the HR Enquiries / Payroll Enquiries
- Agree outstanding leave to be paid or deducted
- Complete the online IT leaver form (on Mavis)

Section 2

- Check with People & Payroll whether there are any outstanding loans or allowances to be recovered (e.g. car loans, relocation &/or mortgage subsidy payments, sponsorship or training loans)
- Agree arrangements for recovery (car loan to be repaid in full)
- If employee has regular contact with Members, ensure Members are updated before the employee leaves
- Check whether any external courses or meetings have been arranged for employee & consider a replacement to attend
- Change security codes (e.g. alarm systems, safe combinations)
- Ensure that all recoverable items (e.g. Parking Permit, Locker Key, Proximity Card, Mobile Phone, Company Credit Card, Travel Card, removable media, portable technology, etc) are returned
- Ensure Protective Equipment (e.g. hats, jackets, personal alarms) are returned
- Documents, Data and Information (ensure the form is completed and signed)
- Ensure that the Enterprise Scheme Access Card is returned to Alan Asbury

Signed by Manager: _____ Date: _____

Please sign and send to People & Payroll Services

Leaver form - May 2015

Appendix 4. Follow-up of Previous Recommendations

As part of this review, we followed up on the two recommendations raised in the previous Payroll assurance report.

#	Finding	Agreed Action	Original Target date	Action Taken	Complete?
1	<p>The guidance to managers on employing casual workers (November 2011) says that, “Pay rates are determined according to the role and the appropriate rate of pay in the market”. But the guidance doesn’t have a structure to those hourly rates. Therefore managers appear to have set their own, which they deem appropriate to the nature of the role.</p> <p>Our analysis of the 135 casual worker records show that there are approximately 50 different salary scales and grade notations applied to casual posts, which equate to 50+ different hourly pay rates.</p> <p>These pay rates are not regulated or reviewed annually in the same way as the standard ‘SG’ grades that are applied to employees. There is a reliance on the managers to adhere to the national living allowance and other legislation when authorising the hours worked. Casual workers submit timesheets that have to be approved by the Manager, so the Payroll Section do not see these and therefore cannot monitor what these staff are being paid to know whether it is acceptable.</p>	<p>To formally adopt a Corporate ‘Pay Rate Structure’ for Casual Workers. Managers should not set their own hourly rates outside of this structure.</p> <p>The guidance for managers should be updated to include the rates that apply to the demands and nature of the work undertaken. The managers can then apply the appropriate hourly rate.</p> <p>These rates should be subject to at least an annual review alongside the formal salary rates, or more frequently as law dictates i.e. minimum wage changes.</p>	June 2016	A pay rate structure for casual workers is currently in the process of being drafted. The Payroll department are currently in the process of confirming the pay rates and adopting within the pay rate structure. The structure will be ratified and in place by March 2017	N

#	Finding	Agreed Action	Original Target date	Action Taken	Complete?
2	<p>The process is updating the General Ledger (cost centres) within the finance system is managed by the Finance Section. The payroll file is passed to the Finance Section after the production of the payroll (around 25th of each month). Each element of the payroll cost is pre-coded and through the upload process, the individual cost centres in the finance system (T1) are updated via a bulk journal entry</p> <p>There is no reconciliation performed, subsequent to the upload, between the payroll file (iTrent) and the general ledger cost centres (T1), to verify that all the relevant cost centres hold the correct data.</p>	<p>To carry out and document a monthly reconciliation of the payroll costs from iTrent to the General Ledger cost centres.</p> <p>Variances should be investigated and resolved in a timely way.</p> <p>The reconciliation should be reviewed, checked and verified by a senior officer shortly after its production, as validation that both systems balance.</p>	April 2016	<p>We reviewed a sample of three reconciliations from July, August and September 2016 and noted separation of duties between the reviewer and approver, and completed in a timely manner. There is appropriate supporting documentation to support the amounts included within the reconciliations and reconciling differences were appropriately investigated and reviewed.</p>	Y