

To: Jackie Cansick, Constitutional Services Manager [CSM]
Jan Corr, Exchequer Manager

For Information: Nick Parry, Chief Executive
Scott Crudgington, Strategic Director (Resources)
Paul Froggatt, Borough Solicitor
Clare Fletcher, Head of Finance
Maureen Nicholson, Member Services Officer

Date Final Report Issued: 22nd August 2011

Executive Summary

1. Introduction

This report details the Internal Audit of the procedures and controls in place over the administration of Members' Allowances and has been undertaken in accordance with the 2010-11 Internal Audit Plan. A risk based audit methodology has been applied in undertaking audit testing.

2. Findings and Recommendations

Based on our audit findings, Internal Audit has assigned a **Substantial**¹ opinion to the systems and procedures which underpin the administration of Members' Allowances process.

On the basis of the Internal Audit work undertaken, five medium priority and three low priority recommendations have been made to improve the control environment and to minimise the risks to the non-achievement of service objectives. The recommendations relate to the following areas, Policies and Procedures, Member Allowance Claims and Payments, Member Expense Claims and Payments and Management Reporting.

The implementation status of recommendations made in the Strategic Director (Resources) report 'Review of Member Allowances payments and support' issued July 2009 was followed up.

The Mayoral activities and payments were not included in the scope of this audit.

The findings and recommendations are set out in the detailed report section. A Management Action Plan is attached as Appendix A, which has been agreed with the responsible officers prior to finalising this report.

¹ See Appendix B for Assurance Opinion and Priority Definitions

Detailed Report

Administration of Members' Allowances 2010-11

1 Audit Objective

- 1.1 The audit was designed to establish whether management have implemented adequate and effective controls over the administration of Members' Allowances.

2 Audit Approach and Methodology

- 2.1 The audit approach was developed with reference to the procedures in the Internal Audit Manual and by an assessment of risks and management controls operating within each area of the scope.
- 2.2 The following procedures were adopted:
- documentation of the system;
 - identification of risks within the system, and controls in existence to allow the control objectives to be achieved; and
 - evaluation and testing of controls within the system.
- 2.3 From these procedures where we have identified weaknesses in the system of control, we have produced specific proposals to improve the control environment and have drawn an overall conclusion on the design and operation of the system.

3 Audit Scope

- 3.1 Audit work was undertaken to cover the following areas:
- Policies and Procedures
 - Member Allowance Claims
 - Member Allowance Payments
 - Member Expense Claims
 - Member Expense Payments
 - Management Reporting
 - Follow-Up of the implementation status of recommendations made in the 'Review of Member Allowances payments and support' report, issued by the Strategic Director (Resources) in July 2009.
- 3.2 The Mayoral activities and payments were not included in the scope of this audit.

4 Audit Opinion

Based on our audit findings, Internal Audit has assigned a **Substantial**¹ opinion to the systems and procedures which underpin the administration of Members' Allowances process.

¹ See Appendix B for Assurance Opinion and Priority Definitions

5 Audit Findings and Recommendations

5.1 Background

- 5.1.1 As part of the Council's ongoing commitment to transparency a review of Members' Allowances and Payments was undertaken and in July 2009 a report was presented to the Standards Committee. The report, which considered the payment of allowances to Members with particular reference to travel and subsistence claims, and its conclusions were noted and approved by the Standards Committee.
- 5.1.2 Resulting from this report a Guide to the Members' Allowances Scheme and Other Assistance was produced and circulated to all Members, and a copy of the guide was placed on the website. Additionally, an electronic system for recording all payments to Members under the Allowances Scheme, together with details of events attended and related expenditure was developed in-house and went live in October 2009.
- 5.1.3 Our audit findings are reported on an exception basis.

5.2 Policies and Procedures

- 5.2.1 There were no documented procedures for Members' Services Officers to operate the member's allowances scheme to mitigate the risk of long term absence, support the training of staff, and be part of the facilitation towards business continuity. Immediate action was taken during the period of audit and a draft document was produced.
- 5.2.2 It is recommended that the draft Member Services procedures for the Members' Services Officers operation and administration of Members' Allowances be finalised and approved. The procedures should be indexed and the front page should include:
- the date it was last reviewed and approved by the service manager,
 - the date of the next full review; and
 - a version control number.

When finalised and approved, the Members Allowances procedures manual should be made available to all relevant officers via the Member Services shared computer drive.

5.3 Member Allowance Claims & Payments

- 5.3.1 The Constitutional Services Manager [CSM] issues an e-mail instruction to Exchequer detailing the appointments and changes to Members payroll and the amounts to be paid. At present the CSM can request and authorise the set up of a member for payment and instruct Exchequer without a second officer involved. Therefore, there is a risk of a 'ghost' member being set up.
- 5.3.2 It is recommended that independent authorisation or evidence is provided to Exchequer to support new entries or amendments to the Members payroll. In addition, Exchequer will need to introduce a control to ensure that they have independent authorisation or evidence

before processing a change to Members payroll.

5.4 Member Expense Claims & Payments

5.4.1 The 2009 Review of Member Allowances, Payments and Support report recommended that a booking for a conference or course is not made until appropriate approval has been obtained. The subsequently issued Guide to the Members' Allowances Scheme and Other Assistance states 'Requests for Members to attend any outside conference or course is forwarded to the Leader for approval. Members are required to complete a request form. If approved, the Member is notified and attendance is to be booked and arranged by the Members' Services Section so that any related expenditure may be accounted for centrally.'

5.4.2 Internal Audit sample tested conference and training events attended by Members and identified the following issues:

- For three out of the five events tested, there was no documented authorisation from the Leader, although the Member Services Officer stated a verbal authorisation by the Leader was given.
- Member conferences and training events that are free to attend are not subject to formal authorisation.
- There is no formal process in place to provide a second signature as an independent check of the Leader's attendance at conferences or training events in accordance with the sign off process for other Members.

5.4.3 It is recommended that all authorisations given for attendance at conferences and training events are documented in writing or by email as requested by the Leader.

5.4.4 It is recommended that consideration be given to introducing an authorisation process to approve Member events that are free to attend if it incurs associated travel and subsistence expenses.

5.4.5 It is recommended that a formal process to provide a second signature as an independent check of the Leader's attendance at conferences or training events. is introduced in accordance with the sign off process for other Members.

5.4.6 The 2009 Review of Member Allowances, Payments and Support report recommended 'that a full audit trail be kept'. For rail travel, a rail warrant is normally issued to the Member.

5.4.7 Internal Audit sample checked the travel expenses relating to five events attended by Members and identified the following issue:

In one instance, the rail travel was paid by credit card however the Members Allowances IT system incorrectly showed the payment method to be by rail warrant.

5.4.8 It is recommended that Member Services consider introducing periodic spot checks to ensure that the Members' Allowances IT system is maintained accurately.

5.4.9 When a taxi is used, a receipt should be obtained and attached to the

Members claim as evidence of the service received and paid for. Two Members' monthly travel claims were tested. The claim for one member was satisfactorily supported by receipts. However, the second had receipts for taxi fares held in support of claim for attendance to a meeting on a different date. There was no evidence of the Member Services Officer carrying out checks to ensure the validity of receipts provided in support of claims. Member Services investigated the travel claim that audit testing had identified as having unmatched receipts and confirmed the Member had incorrectly stated the meeting date as being held in June when it was actually held in July. In addition, Member Services confirmed that the return journey taxi receipt had been incorrectly dated by the Taxi Driver for the day after the meeting had taken place.

- 5.4.10 It is recommended that the Member Services Officer evidences the validity checks for supporting receipts attached to all claims. It is suggested that a statement be added under the certifying officer's signature stating that the dates and amounts on the claim form have been matched to the attached receipts.

5.5 Management Reporting

- 5.5.1 Each Member is sent a report from the Members' Allowances IT System detailing their individual allowance and expense payments. Members are requested to confirm the accuracy of the payments they have received prior to a quarterly summary report of payments made to Members being published on the Council's website. If a Member has a query, it is dealt with by Member Services and normally confirmed verbally as being resolved, with no documented evidence being retained.

- 5.5.2 It is recommended that responses by Member Services to queries raised by Members on their individual allowance and payment reports are formally documented as resolved.

5.6 Follow up of the 'Review of Member Allowances payments and support' report

- 5.6.1 In July 2009 the Strategic Director (Resources) issued a report titled 'Review of Member Allowances payments and support' which had 22 recommendations. In July 2010, a 12 month action follow up report was presented to the Audit Committee by the Constitutional Services Manager, stating that the 22 recommendations had been addressed and action taken.

- 5.6.2 Internal Audit has followed up the progress made in implementing the recommendations and report that 18 out of 22 recommendations have been fully implemented. Two recommendations have been partially implemented. These were originally worded at a high level i.e. 'a full audit trail be kept' and the new recommendations made within this report, see recommendations no. 4 [5.4.4], 6 [5.4.8] and 7 [5.4.10], have taken into account the original recommendations and aim to clarify the controls that were introduced. The remaining two recommendations are not due for implementation, as the recommendations are for the Mayor's and Deputy Mayor's Allowance

to be included in the next Independent Remuneration Panel (IRP) review which has not yet been set; these are included in the management action plan as recommendations 9 and 10 for future follow up purposes.

Acknowledgement

We would like to take this opportunity to thank the management and staff of the Members' Services for their assistance during the audit.

| MANAGEMENT ACTION PLAN | | | | | | |
|--|------------------|---|-----------------|---|----------------------------|----------------------------|
| Administration of Members' Allowances 2010-11 | | | | | | |
| Rec. No. | Para. No. | Recommendation | Priority | Responsible Officer | Management Response | Implementation date |
| 1 | 5.2.2 | <p>It is recommended that the draft Member Services procedures for the Members' Services Officers operation and administration of Members' Allowances be finalised and approved. The procedures should be indexed and the front page should include:</p> <ul style="list-style-type: none"> • the date it was last reviewed and approved by the service manager, • the date of the next full review; and • a version control number. <p>When finalised and approved, the Members Allowances procedures manual should be made available to all relevant officers via the Member Services shared computer drive.</p> | L | Constitutional Services Manager | Agreed | 30/11/11 |
| 2 | 5.3.2 | <p>It is recommended that independent authorisation or evidence is provided to Exchequer to support new entries or amendments to the Members payroll. In addition, Exchequer will need to introduce a control to ensure that they have independent authorisation or evidence before processing a change to Members payroll.</p> | M | Constitutional Services Manager and Exchequer Manager | Agreed | 31/10/11 |

MANAGEMENT ACTION PLAN
Administration of Members' Allowances 2010-11

| Rec. No. | Para. No. | Recommendation | Priority | Responsible Officer | Management Response | Implementation date |
|-----------------|------------------|---|-----------------|---------------------------------|---|----------------------------|
| 3 | 5.4.3 | It is recommended that all authorisations given for attendance at conferences and training events are documented in writing or by email, as requested by the Leader. | L | Constitutional Services Manager | Agreed | 30/11/11 |
| 4 | 5.4.4 | It is recommended that consideration be given to introducing an authorisation process to approve Member events that are free to attend if it incurs associated travel and subsistence expenses. | M | Constitutional Services Manager | Agreed | 31/10/11 |
| 5 | 5.4.5 | It is recommended that a formal process to provide a second signature as an independent check of the Leader's attendance at conferences or training events is introduced in accordance with the sign off process for other Members. | M | Constitutional Services Manager | Agreed | 31/10/11 |
| 6 | 5.4.8 | It is recommended that Member Services consider introducing periodic spot checks to ensure that the Members' Allowances IT system is maintained accurately. | M | Constitutional Services Manager | Agreed as the system is checked each quarter when the figures for the website are produced. | 31/10/11 |

MANAGEMENT ACTION PLAN
Administration of Members' Allowances 2010-11

| Rec. No. | Para. No. | Recommendation | Priority | Responsible Officer | Management Response | Implementation date |
|---|------------------|--|-----------------|---------------------------------|---|----------------------------|
| 7 | 5.4.10 | It is recommended that the Member Services Officer evidences the validity checks for supporting receipts attached to all claims. It is suggested that a statement be added under the certifying officer's signature stating that the dates and amounts on the claim form have been matched to the attached receipts. | M | Constitutional Services Manager | Agreed | 31/10/11 |
| 8 | 5.5.2 | It is recommended that responses by Member Services to queries raised by Members on their individual allowance and payment reports are formally documented as resolved. | L | Constitutional Services Manager | Agreed | 30/11/11 |
| Recommendations not yet due from 2009 report 'Review of Member Allowances, Payments and Support' | | | | | | |
| 9 | 5.6.2 | Mayor's Allowances – That the allowance element for the Mayor be included in the next Independent Remuneration Panel (IRP) review. | | Constitutional Services Manager | Not due: The next Independent Remuneration Panel (IRP) review will be due 2011. | 2011-12 |
| 10 | 5.6.2 | Deputy Mayor's Allowance – That the Deputy Mayor's allowance be included in the next Independent Remuneration Panel review. | | Constitutional Services Manager | Not due: The next Independent Remuneration Panel (IRP) review will be due 2011. | 2011-12 |

Assurance Opinion and Priority Definitions

In order to assist management in using our reports we categorise our **Assurance opinions** according to our assessment of the controls in place and the level of compliance with these controls.

| Assurance Opinion | Definition |
|--------------------|--|
| Full | <p>Evaluation opinion: there is a sound system of control designed to achieve the system objectives; and Testing opinion: the controls are being consistently applied.</p> <p>Full Assurance will be attributed to a system where no recommendations are made or where in the auditor's judgement the recommendations relate to actions that are considered desirable and which should result in enhanced control or better value for money.</p> |
| Substantial | <p>Evaluation opinion: basically a sound system but there are weaknesses which put some of the control objectives at risk, and/or; Testing opinion: there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.</p> <p>Substantial Assurance will be attributed to a system where in the auditor's judgement the recommendations relate to actions that are considered necessary to avoid exposure to significant risks.</p> |
| Moderate | <p>Evaluation opinion: basically a sound system of control but there are some more significant/serious weaknesses which put system objectives at risk, and/or; Testing opinion: the level of non-compliance with some controls may put certain system objectives at risk.</p> <p>Moderate Assurance will be attributed to a system where in the auditor's judgement the recommendations relate to actions that are considered necessary to avoid exposure to more significant risks.</p> |
| Limited | <p>Evaluation opinion: weaknesses in the system of controls are such as to put the system objectives at risk, and/or; Testing opinion: the level of non-compliance puts the system objectives at risk.</p> <p>Limited Assurance will be attributed to a system where in the auditor's judgement the recommendations relate to actions that are considered imperative to ensure that the Council is not exposed to high risks.</p> |
| No | <p>Evaluation opinion: control is generally weak leaving the system open to significant error or abuse, and/or; Testing opinion: significant non-compliance with basic controls leaves the system open to error or abuse.</p> <p>No Assurance will be attributed to a system where in the auditors' judgement they can place no reliance on the controls and procedures in operation either because they do not exist or because they are weak leaving the system open to abuse or error.</p> |

Priority Categories

We categorise our **recommendations** according to their level of priority and we consider the level of risk associated with the weaknesses identified.

- High** Recommendations relate to major issues that have a significant impact on achieving service objectives and are to be implemented immediately or within one month where practical.
- Medium** Recommendations relate to issues that are expected to impact on achieving service objectives and are to be implemented within two months where practical.
- Low** Recommendations relate to issues that have a lesser impact on achieving service objective and are to be implemented within six months where practical.