



Internal Audit Report
Chief Executive's Services
Report Number – 09/009
Employees' Expenses
January 2010

Final Report

Chief Executive's Service
Perth & Kinross Council
2 High Street
Perth PH1 5PH

Internal Audit Report

Background and Introduction

This audit was carried out as part of the approved audit plan for 2009/2010.

Council employees can claim reimbursement of eligible travel expenses and subsistence allowances in line with Council policy and guidance. Employees complete a claim form, either manually or on line, and submit this, along with relevant receipts to their line manager for approval. Line managers verify the accuracy of the claim and the supporting documentation prior to passing for payment. Travel and subsistence expense claims are processed through the Council's payroll system. The introduction of the Council's Integrated Human Resources and Payroll System (Resource Link) will include changes as to how travel and subsistence allowances claims are made.

Changes to travel and subsistence allowances were made for staff covered by the Single Status Agreement in 2007. Staff not covered by the Single Status Agreement, such as Teachers, are paid allowances determined by national and local agreements. Her Majesty's Revenues & Customs (HMRC) requires the Council to verify that VAT has been paid for fuel consumed on work-related journeys by verifying that valid VAT receipts are provided for such journeys in order to claim back the VAT. This increases the burden on staff and managers to verify that claims are appropriately supported.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of Exchequer Payroll and Human Resources (HR) staff during this audit.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A 'control objective' is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective: To ensure the Council's travel and subsistence policy is up to date and based on the relevant agreements.

Auditor's Comments: There is no clearly defined, comprehensive and up to date Council travel and subsistence policy document. The travel and subsistence procedures held on the Council's intranet site are out of date.

A separate travel and subsistence guide for Managers and employees is dated January 2004 and is also out of date. The Guide is based on historic national and local agreements and has not been updated to reflect the changes arising as a result of the Single Status agreement. The Guide states a number of incorrect subsistence rates and incorrect mileage criteria and rates. The Guide does not

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detail the Council's requirement that VAT fuel receipts must be produced in support of mileage claims.

The lack of an up to date travel and subsistence policy and associated guidance for staff can lead to misinterpretation and inaccuracies.

Strength of Internal Controls:

Moderate

Control Objective: To ensure that employees' travel and subsistence expenses are accurate, genuine and paid efficiently, economically and on time.

Auditor's Comments: Employees' travel and subsistence expenses are paid efficiently, economically and on time, however the majority of claim forms examined revealed that they had not been fully completed or contained minor errors. The errors were not significant and did not result in inaccurate, invalid or late payments being made due to the supplementary central controls in place. It is of concern that such a high proportion of errors were found in documentation which had been checked and approved by the relevant Service prior to submission to Payroll for payment.

Strength of Internal Controls:

Moderate

Control Objective: To ensure that travel and subsistence payments made to employees comply with Her Majesty's Revenue and Customs (HMRC) regulations

Auditor's Comments: It is a Council, rather than HMRC, requirement that VAT receipts support travel and subsistence claims. There were instances where such receipts were not held and also where the claims forms were not fully complete with regard to 'surplus' VAT.

There is no mechanism for the Council to demonstrate compliance with its own requirement that mileage claims are supported by valid VAT fuel receipts which do not pre-date expenses claims by more than 2 months.

HMRC were not informed of the payments in excess of their advisory rates made by the Council to lease car holders. Mileage rates made in excess of HMRC guidance may be liable to tax and national insurance contributions. The failure of the Council to deduct such costs could result in the HMRC imposing a penalty on the Council.

Strength of Internal Controls:

Moderate

Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Feedback

Internal Audit welcomes feedback from management, in connection with this audit or with the Internal Audit service in general.

Distribution

This report has been distributed to:

B Malone, Chief Executive;

J Irons, Depute Chief Executive;

H Mackenzie, Head of Human Resources;

J Symon, Head of Finance;

K Ridley, Personnel Manager;

E Sturgeon, Chief Exchequer Officer;

S Scott, Senior Exchequer Manager (Systems and Payroll);

P Dickson, Complaints & Governance Officer;

M Kay, Senior Committee Officer;

External Auditor.

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Authorisation

The Auditor for this assignment was D McCreddie. The supervising auditor was D Farquhar.

This report is authorised for issue:

Jackie Clark
Acting Chief Internal Auditor
Date: 15 January 2010

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Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Travel and Subsistence Policy	Medium
2	Travel and Subsistence Guidelines	Medium
3	On Line Travel Claim Form	Low
4	Verification of Authorised Signatories	Medium
5	Completeness of Claim Forms	Medium
6	VAT Receipts	Low
7	Lease Car Mileage	Medium
8	VAT Surplus Calculations	Medium

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Appendix 2: Action Plan

Action Point 1 - Travel and Subsistence Policy

While current travel & subsistence guidelines for staff acknowledge that “HR have a responsibility to have a clear policy and guidance for employees and managers on travel and subsistence”, there is no clearly defined, comprehensive and up to date Council policy document on the topic.

The Service advised that the “Single Status Travel and Subsistence Arrangements” dated 2007 is in effect the policy document for Single Status employees whilst the “Travel and Subsistence Allowances” document of June 2000 serves the purpose for non Single Status employees such as Teachers and Chief Officers. However, neither document fully explains the roles and responsibilities of those claiming, authorising and processing payments.

In addition, the Single Status Travel and Subsistence Arrangements document refers to a Policy document, dealing with employees who have incurred excess travel expenses as a result of a change to their normal place of employment, which does not exist.

Management Action Plan

The Travel and Subsistence Allowance document dated 2000 will be withdrawn and the 2007 Travel and Subsistence Single Status Arrangements document amended to become the Council’s clearly defined policy for all employees. The Policy will detail roles and responsibilities and state where all employees, such as Single Status staff or Teachers, can find guidance. The updated Policy will state that excess travel expenses incurred as a result of a change to employment are covered by individual terms and conditions and not by a separate policy. The revised policy will be submitted to the Corporate Management Group for approval and it will be reviewed thereafter as agreed by the Council’s Policy Planning Forum, but not less than every 3 years. The updated Policy will be issued to managers and employees.

Importance:	Medium
Responsible Officer(s):	L Brown, Human Resources
Lead Service:	Chief Executive’s
Date for Completion (Month / Year):	April 2010
Required Evidence of Completion:	Copy of new Policy and CMG approval.

Auditor’s Comments

Satisfactory

Action Point 2 - Travel and Subsistence Guidelines

The Council's "Travel and Subsistence Guide for Managers and Employees" was issued in January 2004 and is out of date, in that it contains incorrect travel criteria and rates for those employees who are now covered by the Single Status agreement. The Guide also details incorrect mileage rates for the users of lease cars and fleet cars and refers to some out of date forms. The correct travel criteria and mileage rates are provided in the Single Status Travel and Subsistence Arrangements document dated August 2007 for Single Status employees who use their own car on Council business.

The Guide does not detail the requirement that only VAT fuel receipts which pre-date the travel claim may be used to support claims, nor does it encourage the use of online travel forms, which automatically calculate certain fields, thereby reducing the potential for errors.

Management Action Plan

The Travel and Subsistence Guide for Managers and Employees will be reviewed and updated. It will specify the managers /employees covered by the Guide, the correct mileage and subsistence criteria and rates, the VAT fuel rules and the correct type of claim form to be used.

The revised guidelines will be communicated to managers and employees and encouragement will be given to using online claim forms where possible as their mandatory fields ensure a higher degree of accuracy in completion.

Importance:	Medium
Responsible Officer(s):	L Brown, Human Resources
Lead Service:	Chief Executive's
Date for Completion (Month / Year):	April 2010
Required Evidence of Completion:	Updated Travel and Subsistence Guide and associated communication to staff.

Auditor's Comments

Satisfactory

Action Point 3 - On Line Travel Claim Form

Staff not covered by the Single Status Agreement, such as Teachers, complete manual travel claim forms. Those employees covered by the Single Status Agreement have the option of completing a manual claim form, or they may opt to complete an on line version of the form which is then printed out before it is authorised and submitted for payment.

At the time of the audit there were two versions of the online form available on the Council's intranet site to take account of changed VAT rates. Accordingly, one was intended for expenses incurred prior to 1st January 2009 and the other for expenses incurred after that date.

Audit testing of 40 paid claims for Single Status employees from various Services highlighted 19 cases where the incorrect form was used. The incorrect form detailed an out of date VAT rate although corrective action had been taken by Payroll staff to ensure that the Council's Payroll records were correct and payments were accurate.

Audit testing of paid travel and expenses claims highlighted 5 cases where the authorised signatory had not printed their name or added their designation to the claim form. These 5 cases related to the online claim form which, unlike the manual form, does not contain a section for the authorised signatory to print their name and designation. The failure to include this information can make it difficult to verify the identity of the person authorising the claim.

Management Action Plan

- 1) The expenses claim form for claims prior to 1st January 2009 will be removed from the Council's intranet site. This will ensure staff access the correct form.
- 2) The Service will make the necessary arrangements to ensure that the on line travel and subsistence expense claim form is updated to include a section for the authorised signatory to add their name and designation.

Importance:	Low
Responsible Officer(s):	A Ramsay, Senior Payroll Officer
Lead Service:	Chief Executive's
Date for Completion (Month / Year):	Completed
Required Evidence of Completion:	n/a

Auditor's Comments

Satisfactory

Action Point 4 - Verification of Authorised Signatories

None of the Travel and Subsistence claim forms reviewed by the Auditor bore evidence to demonstrate that Exchequer Payroll staff had verified the authorisation signatures on the forms to the signature held in their authorised signatories folder.

The Auditor found that 6 of the 40 paid claim forms tested were “authorised” by signatories whose sample signatures are not in the authorised signatory folder. In addition, authorised signatures on 2 claim forms were unclear and consequently the Auditor was unable to verify them. The Service stated that while the checks are not evidenced, Exchequer Payroll staff would have routinely verified the authorised signatories either to the authorised signatory folder or to another means such as to a Service SharePoint signatory site.

Management Action Plan

Exchequer Payroll will issue guidance to their staff to ensure that authorised signatories on Travel and Subsistence claim forms are checked to the Exchequer Payroll Authorised Signatories’ Folder, which will be updated to include officers who are temporarily undertaking higher duties. Cases where signatures are verified by another means have the justification noted on the claim form.

Evidence will be obtained from the Services to support the claim forms which the Auditor was unable to verify.

Importance:	Medium
Responsible Officer(s):	A Ramsay, Senior Payroll Officer
Lead Service:	Chief Executive’s
Date for Completion (Month / Year):	January 2010
Required Evidence of Completion:	Copy of updated Exchequer Payroll checking procedure. Evidence to support claim forms

Auditor’s Comments

Satisfactory

Action Point 5 - Completeness of Claim Forms

Testing of 40 paid travel and subsistence expense claims highlighted 3 claims forms where, though relevant, the mileage brought forward from previous claims had not been entered. A further 8 forms did not detail the mileage figure carried forward to future claims. In addition 1 form omitted information regarding the employee's base which made it difficult to assess the reasonableness of the claim. The Council's payroll system, however, retains relevant information accurately.

The calculation of mileage claimed was incorrect in one claim. Eight other forms contained minor omissions or errors.

These errors on the claim forms did not result in incorrect payments being made, however it is of concern that a high proportion of errors were found in forms which had been approved and checked by the relevant Service prior to submission to Exchequer Payroll. The Senior Payroll Officer advised that the recently introduced On-line Travel and Subsistence Claim Forms and the introduction of the Integrated Human Resources and Payroll System (iHRP – ResourceLink) will include mandatory fields which will assist in ensuring claims are comprehensively completed and accurate.

Management Action Plan

- 1) Employees will be encouraged to use the online Travel and Subsistence expense claim form to ensure that relevant information is included in the claim.
- 2) Exchequer Payroll will remind Executive Directors of the need to ensure that Travel and Subsistence expense claims are accurately and fully completed.
- 3) Exchequer Payroll will review monitoring procedures for missing claim form data in conjunction with the roll out of iHRP (ResourceLink)

Importance:	Medium
Responsible Officer(s):	A Ramsay, Senior Payroll Officer
Lead Service:	Chief Executive's
Date for Completion (Month / Year):	1) March 2010 2) March 2010 3) April 2010
Required Evidence of Completion:	1) Copy of message encouraging staff to use online Travel Claim forms. 2) Copy of message to Executive Directors about need for accuracy. 3) Procedure for monitoring Travel Claims.

Auditor's Comments

Satisfactory

Action Point 6 - VAT Receipts

HMRC require that, where organisations reclaim VAT, mileage claims are accompanied by original VAT fuel receipts. In addition the HR Managers' Factsheet of April 2006 states that these receipts cannot pre-date claims by more than 2 months. The separate Travel and Subsistence Guide states that original VAT receipts must support all travel and subsistence claims.

Audit testing of 40 travel and subsistence claims highlighted the following 7 errors:

4 fuel claims with no VAT fuel receipt or the fuel receipt was older than 2 months;

1 receipt included the VAT element of snacks purchased along with fuel in the VAT calculation; and

2 subsistence expense claims where it was not possible to obtain a VAT receipt and therefore no VAT receipt was attached.

Whilst there is a risk that a penalty may be imposed if the Council breaches HMRC guidance, the Service stated that, in its opinion, the risk of HMRC penalties is very low, based on advice received from its tax advisers.

Management Action Plan

Exchequer Payroll will liaise with HR to update the Council's Travel and Subsistence guidance to ensure that Managers are aware of their requirement to ensure that mileage claims are accompanied by appropriate VAT receipts which do not pre-date claims by more than 2 months.

Importance:	Medium
Responsible Officer(s):	A Ramsay, Senior Payroll Officer
Lead Service:	Chief Executive's
Date for Completion (Month / Year):	February 2010
Required Evidence of Completion:	Revised Travel and Subsistence guidance.

Auditor's Comments

Satisfactory

Action Point 7 - Lease Car Mileage

HMRC were not informed of the payments in excess of their advisory rates made by the Council to lease car holders. Mileage rates made in excess of HMRC guidance may be liable to Income Tax and National Insurance Contributions and the failure of the Council to deduct such costs could result in the HMRC imposing a penalty on the Council.

The Service advised that there are currently 25 lease vehicles, 24 which are affected by these changes to the mileage rates and the value of the amounts involved would be below £50 in value.

Management Action Plan

The benefit in kind, where applicable for the tax year ended April 2009 and April 2010, will be reported to HMRC.

Importance:	Low
Responsible Officer(s):	A Ramsay, Senior Payroll Officer
Lead Service:	Chief Executive's
Date for Completion (Month / Year):	March 2010
Required Evidence of Completion:	The relevant report to HMRC

Auditor's Comments

Satisfactory

Action Point 8 - VAT Surplus Calculations

Mileage claims include the calculation of a 'surplus' VAT fuel figure, this figure being any 'surplus' VAT not fully used against previous claims and carried forward for use against future claims.

There is no mechanism for the Council to demonstrate compliance with its own requirement that mileage claims are supported by valid VAT fuel receipts which do not pre-date expenses claims by more than 2 months.

Audit testing of 40 paid travel and subsistence expense claims highlighted 9 errors linked to the VAT section of the claim form which could result in VAT being reclaimed without adequate supporting documentation. This included 5 cases where the VAT 'surplus' section was incomplete or blank.

Management Action Plan

The requirement to ensure that VAT receipts do not pre-date claims by more than 2 months will be highlighted to the iHRP Project Team for inclusion in the development of the project with a view to amending the Travel and Claim form to highlight that VAT fuel receipts cannot predate claims by more than 2 months.

In addition, all employees will be encouraged to use the online Travel and Subsistence expense claim form which includes mandatory fields to ensure the accuracy of any surplus VAT calculation.

Importance:	Medium
Responsible Officer(s):	A Ramsay, Senior Payroll Officer
Lead Service:	Chief Executive's
Date for Completion (Month / Year):	February 2010
Required Evidence of Completion:	1) Copy of submission to iHRP team regarding pre date of VAT receipts. 2) Copy of revised Travel and Subsistence guidance.

Auditor's Comments

Satisfactory