

## EXECUTIVE DIRECTOR OF RESOURCES

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	28 January 2021		
TITLE:	INTERNAL AUDIT QUARTERLY UPDATE REPORT		
LEAD COUNCILLOR:	COUNCILLOR EMBERSON	PORTFOLIO:	CORPORATE AND CONSUMER SERVICES
SERVICE:	AUDIT & INVESTIGATIONS	WARDS:	N/A
LEAD OFFICER:	PAUL HARRINGTON	TEL:	9372695
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### 1. PURPOSE OF REPORT

- 1.1 This report summarises internal audit activity in respect of internal audit and investigations for the period 1 October to the 31 December 2020.
- 1.2 The following documents are appended:

Appendix 1 - Internal Audit & Investigations Update Report  
Appendix 2 - Purchase Cards Internal Audit Report  
Appendix 3 - Community Infrastructure Levy (15% Local Schemes) Internal Audit Report  
Appendix 4 - Records Management Internal Audit Report

### 2. RECOMMENDATIONS

- 2.1 The Audit & Governance Committee is requested to consider the report

### 3. SUMMARY

#### 3.1 Substantial Assurance Opinion Reviews

- 3.1.1 No reviews were assigned a substantial assurance opinion.

#### 3.2 Reasonable Assurance Opinion Reviews

- 3.2.1 Whilst our audit of Licensing found governance and business processes to be working well, we did note that based on 2019/2020 performance it is unlikely that all licensed premises will be checked over a three-year period. We identified some areas that needed further improvement, but as these were considered to have a low or medium impact should those risks be realised a reasonable audit opinion could still be given.

3.2.2 An audit of **Council Car Parks** concluded that there were satisfactory controls in place for monitoring income collection (including electronic card payments). We would like to see regular, timely and a full reconciliation of income posted in Oracle Fusion

### 3.3 Limited Assurance Opinion Reviews

3.3.1 Our audit of **Purchase Cards** found adherence to policies and procedures were to be poor. We found controls not to have been followed, for example the cards were being shared or used by someone other than the card holder and purchase cards were not being returned when the card holder had left employment but continuing to be used by the service. These are basic controls which protect the Council and its employees against misuse and fraud.

3.3.2 A review of compliance of **Records Management** flagged several areas of concern that need appropriate consideration, decisions and implementation, to ensure that the Council is adequately responding to and addressing the risks in this area. The fundamental issue is a lack of an up-to-date, agreed records management and document retention policy, which clearly details roles and responsibilities, and incorporates the areas highlighted in ICO guidelines.

3.3.3 Following concerns raised by Members about the timely delivery of certain **Community Infrastructure Levy (CIL) - 15% Local Schemes**, the Deputy Director of Planning, Transport & Regulatory Services requested an audit of a sample of projects. The audit found an absence of a complete control framework being in place to facilitate the timely use of 15% Local CIL money, and as a result schemes were not being delivered on a timely basis. Broadly no single reason or obstacle was identified for the poor delivery of schemes, rather it is the conclusion that there was a combination of system weaknesses and factors that meant they were not achieved.

3.3.4 statutory requirements of the Transparency Code in all instances.

### 3.4 No Assurance Opinion Reviews

3.4.1 N/A

## 4. CONTRIBUTION TO STRATEGIC AIMS

4.1 The Internal Audit Team aims to assist in the achievement of the strategic aims of the Council set out in the Corporate Plan by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In particular audit work is likely to contribute to the priority of remaining financially sustainable to deliver our service priorities.

**5. COMMUNITY ENGAGEMENT AND INFORMATION**

5.1 N/A

**6. LEGAL IMPLICATIONS**

6.1 Legislation dictates the objectives and purpose of the internal audit service the requirement for an internal audit function is either explicit or implied in the relevant local government legislation.

6.2 Section 151 of the Local Government act 1972 requires every local authority to “make arrangements for the proper administration of its financial affairs” and to ensure that one of the officers has responsibility for the administration of those affairs.

6.3 In England, more specific requirements are detailed in the Accounts and Audit Regulations in that authorities must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices”.

**7. FINANCIAL IMPLICATIONS**

7.1 N/A

**8. BACKGROUND PAPERS**

8.1 N/A

## APPENDIX 1

# Internal Audit & Investigations Quarterly Update Report

## APPENDIX 1

### 1.0 OVERVIEW

#### 1.1 Purpose & Scope of Report

1.1.1 This report provides the Audit & Governance Committee with an update on those audits completed and finalised in quarter 3 of the 2020/2021 financial year.

#### 1.2 Assurance Framework

1.2.1 Each Internal Audit report provides a clear audit assurance opinion. The opinion provides an objective assessment of the current and expected level of control over the subject audited. It is a statement of the audit view based on the work undertaken in relation to the terms of reference agreed at the start of the audit; it is not a statement of fact. The audit assurance opinion framework is as follows:

Opinion	Explanation
No	"Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited."
Limited	"Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited."
Reasonable	"There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited."
Substantial	"A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited."

1.2.2 The assurance opinion is based upon the initial risk factor allocated to the subject under review and the number and type of recommendations we make. It is management's responsibility to ensure that effective controls operate within their service areas. Follow up work is undertaken on audits providing **limited** or 'no' assurance to ensure that agreed recommendations have been implemented in a timely manner.

## APPENDIX 1

2.0 HIGH LEVEL SUMMARY OF AUDIT FINDINGS					
		Recs			Assurance
2.1	Purchase Cards	0	12	3	Limited

- 2.1.1 Purchase Cards operate in a similar way to credit cards and are used by selected staff to purchase supplies and services on behalf of the Council. The risks associated with using a purchase card should be relatively low and having purchase cards available for use as an alternative method of payment for certain types of transaction has proved convenient and cost effective. However, adherence to the visa purchasing card policies and procedures were found to be poor. Whilst this is not a criticism of the Finance staff who chase returns and do their very best to maintain some form of oversight, the business process is cumbersome and resource intensive. It's effectively a paper-based system replicated over email. The general conclusion from our audit was that processes would benefit from digitisation, which is possibly something the Bank could offer and to this end we recommended that procurement cards are added to the finance transformation workstream for review.
- 2.1.2 There are 61 purchasing cards in use, with the financial value of usage approximately £230k in the 2019/2020 financial year. Whilst the overall value and number of transactions processed appears to be declining from a monthly average value of £27.5k in 2018 to a current monthly average spend of £13.9k, the average transaction spent has increased from £94.87 to £102.03. Although this doesn't seem excessive, over a 4-year period 25% of individual transactions were found to be over £500 in value.
- 2.1.3 Purchase Cards are most suitable for high volume, low value transactions (e.g. less than £500) where the goods or services can be easily defined. The main benefit is that they reduce the traditional activities associated with the ordering process, in particular the number of invoices that need to be matched to the purchase order. However, testing identified expenditure through a purchase card, which should have been paid via a purchase order or through payroll, such as travel and subsistence.
- 2.1.4 In some instances, we found controls not to have been followed, for example the cards were being shared or used by someone other than the card holder and we found two instances where purchase cards were not returned to Finance when the card holder had left employment, but were continuing to be used by the service. These are basic controls which protect the Council and its employees against misuse and fraud.
- 2.1.5 As well as reviewing the work flow processes, we recommended a review and update of procedures. As well as the individual card holder business case, expenditure categories and card value limits for all cards.

## APPENDIX 1

- 2.1.6 Although we are satisfied there are supporting controls in place which assist with the chasing of missing receipts and invoices from the card holder and budget holder, monitoring and reporting controls need to be introduced to detect and prevent late returns from happening in the first place, as on occasions receipts can take months to collect.
- 2.1.7 Corporate monitoring and reporting controls need to be introduced to ensure expenditure on the visa purchasing card is appropriate and is conducted in accordance with the Council's procurement policies and procedures, as it was evident that in some instances cards have been used to circumvent purchase orders and travel and subsistence through payroll.
- 2.1.8 Although there are satisfactory audit trails in place between the transactions recorded on Fusion and the supporting records held by Finance, reconciliation controls need to be introduced to ensure the claim totals, Fusion total and the bank statement are reconciled for the period.
- 2.1.9 The full report is attached at appendix 2

	Recs			Assurance
2.2	Records Management	2	3	Limited

- 2.2.1 Under the Data Protection Act 2018 and the General Data Protection Regulation (GDPR), personal information cannot be retained for longer than is necessary for the purposes that it is required. A Data Retention Policy should also be in place to detail how long information should be retained for and how to safely and securely dispose of information.
- 2.2.2 The purpose of the audit was to determine whether teams understood and were complying with the Council's document retention and disposal policies.
- 2.2.3 The audit flagged several areas of concern that need appropriate consideration, decisions and implementation, to ensure that the Council is adequately responding to and addressing the risks in this area. The fundamental issue is a lack of an up-to-date, agreed records management and document retention policy, which clearly details roles and responsibilities, and incorporates the areas highlighted in ICO guidelines. This will help ensure that the Council is meeting relevant statutory and legal requirements. Once agreed, there needs to be a means for the policy to be rolled out and widely understood across the Council, to ensure common understanding and consistency. Appropriate training and support is also required to support the policy and ensure that it is fully embedded.
- 2.2.4 There also needs to be clear links between Information Governance, Modern Records and individuals across the Council responsible for records management on a day-to-day basis, in addition to a centralised register of all records held.

## APPENDIX 1

2.2.5 Risks relating to records need to be clearly documented and Data Protection Impact Assessments updated to reflect changes in ways of working. Services also need to be aware of and action their responsibility to review records at the end of the retention period and either retain or dispose, as appropriate.

2.2.6 The full internal audit report is attached in appendix 4.

		Recs			Assurance
2.3	Car Parks (Off Street)	0	3	0	Reasonable

2.3.1 The purpose of this audit was to review the operational controls and processes with regards to income collection (including electronic card payments).

2.3.2 The tariff setting approval process is well documented and transparent. A description of the objectives that have driven the tariff setting process are recorded within the Car Park Tariff Review reports, that are presented annually to the Traffic Management Sub-Committee and it was possible to see that this had been the case across multiple years. However, we did recommend that working papers or analysis that support proposals, are in future retained to support tariff setting proposals.

2.3.3 The Finance Business Partner has demonstrated that the Council is able to adequately report and account for the use of transport related income for the support of transport related activity.

2.3.4 We found reconciliations to be incomplete in that they do not include a regular, timely and full reconciliation of income posted in Oracle Fusion. Income collected via car parks (off street) is paid to RBC electronically whether it is in the form of cash collected by the security provider and transferred electronically or income collected via season tickets, Credit Call, Simple Pay or credit cards. It was noted in reviewing the reconciliation documents that they did not record the income received and recorded within Oracle.

2.3.5 The reconciliation document as it is constituted shows the detection of variances between the reports generated by machines collecting income within car parks to the reports provided by the security company that has been contracted to make collections from machines on behalf of the Council. It is further noted that the documents do not show the timeliness of its completion nor the identification of the preparer and reviewer of the document.

2.3.6 We do acknowledge that Finance have commenced work on a reconciliations template that could be utilised for reconciliations with respect to car parks (off street) income. Internal Audit would encourage the Service manager to work with Finance colleagues in the development of the reconciliation process in order to ensure that the approach implemented is consistent and rigorous.

## APPENDIX 1

		Recs			Assurance
2.4	Licensing	0	3	9	Reasonable
2.4.1	Licensing generated around £750k of gross income during 2019-20 from licensing fees, with both premises and private hire being the biggest areas of income. There are 3358 licences recorded on FLARE, the Council's system for managing licences, made up of 1219 driver licenses, 1245 premises licenses and 894 vehicle licenses.				
2.4.2	Generally, governance and business processes are appropriate and, in most cases, working well. However, we identified some areas that needed further improvement, but as these were considered to have a low or medium impact should those risks be realised a reasonable audit opinion could still be given.				
2.4.3	The Council has fulfilled its legal responsibility in having a considered and ratified Licensing Policy Statement in place, having previously undergone a public consultation. The effective period is clearly detailed as October 2018 until October 2023.				
2.4.4	Fees and charges were found to have been agreed annually, but whilst legislation allows for some discretion to apply exemptions and reductions, there was nothing explaining the reductions that have been applied.				
2.4.5	A comprehensive Criminal Convictions Policy is also in operation and evidence of application was found during the audit review.				
2.4.6	Generally, supporting documentation was found to be well evidenced for premises, driver and vehicle applications, as it was for the processing and recording of enforcement action. The FLARE system is the licence register and is utilised to manage and evidence the application and enforcement processes, although it is cumbersome to obtain information from it, as the user must access several search screens relating to the same licence / licence holder.				
2.4.7	It is the service's intention to inspect all licenced premises over a three-year cyclical basis. However, with only 17% of premises checked during 2019-20, this is unlikely to be achieved. 64% of the premise licences sampled were non-compliant, 23% of vehicles inspected had issues recorded and 12% of public hire drivers received penalty points.				
2.4.8	The importance of licensing enforcement action should not be disregarded; indeed, the results may indicate more resource may be required for the Council to have confidence that it is compliant with the four licensing objectives.				
2.4.9	There was a lack of cohesion in the monitoring and the evidencing of hearings and appeals. The spreadsheet used for the monitoring and the evidencing of hearings				

## APPENDIX 1

was found to be incomplete and missing key dates, although the information could be located in documents and information found in individual folders on the shared drive and some within the FLARE system. We recommended that this element be reviewed to establish a more cohesive approach.

2.5	CIL - 15% Local Schemes	Recs			Assurance
		1	4	2	Limited

- 2.5.1 The Community Infrastructure Levy (CIL) is a levy that local authorities can choose to charge on new developments in their area. The money received from the levy can be used to support and manage the impacts of development by funding infrastructure that the Council, local community and neighbourhoods want - for example road improvement schemes, open space improvements or new schools. Reading Borough Council's Community Infrastructure Levy Charging Schedule came into effect on 1 April 2015.<sup>1</sup> The CIL protocol setting out how CIL receipts are to be used was approved at the July 2018 Policy Committee and in November 2018 Policy Committee agreed the formal allocation of 15% Local CIL to a number of projects following a public consultation.
- 2.5.2 This audit was not originally scheduled as part of the 2020/21 Audit Plan but was specifically requested by the Deputy Director of Planning, Transport & Regulatory Services following concerns raised by Members about the timely delivery of certain 15% Local CIL projects.
- 2.5.3 It is important that there is visible and timely use of 15% Local CIL money as this demonstrates accurate and prudent use of developer levy income for the express benefit of the local community and neighbourhoods. The audit revealed an incomplete control framework and that as a result schemes were not being delivered on a timely basis. Broadly no single reason or obstacle was identified for the poor delivery of schemes, rather it is the conclusion that there was a combination of system weaknesses and factors that meant they were not achieved.
- 2.5.4 In response to concerns raised by Members, action has been latterly taken by management to introduce a range of different measures to address these weaknesses, and these in conjunction with the supplementary controls recommended in this report, should help to tighten controls and improve the effective delivery of 15% Local CIL schemes in future.
- 2.5.5 There are a number of procedures on the main website relating to the Community Infrastructure Levy, although only one refers to the use of the 15% element for use on local schemes. Some of these procedures date from 2015 and whilst obviously a technical assessment of these could not be made, they could benefit

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<sup>1</sup> [RBC CIL advice to applicants](#)

## APPENDIX 1

from being reviewed more regularly in future and updated as necessary, including reference to the 15% aspect.

- 2.5.6 The audit revealed variable levels of awareness of the roles and responsibilities of staff in delivering 15% funded schemes. This is likely to be due in part to a similar lack of documented procedures setting these out, which is important because there should be total transparency and accountability over the timely use of developers' contributions generally and of the 15% schemes more specifically. In particular there should be transparency over the progress of 15% local schemes and moreover that officers should be accountable for the delivery of these within agreed timescales.
- 2.5.7 Despite the shortcomings referred to above, action has been taken to address some of these and various measures have been recently introduced by the Executive Director of DEGNS. Chief amongst these has been the introduction of both a Member focused and an officer working group. The value and benefit of both has been seen in the governance over, and full delivery of, some of the overdue schemes, addressing some of the obstacles blocking progress, as well as generating some momentum towards progressing others. One of the main reasons for this has been the contribution of both the Infrastructure Monitoring Officer and the Assistant Director of Environmental & Commercial Services in particular, together with the contribution of others, including the Assistant Director of Legal & Democratic Services. However more work needs to be done in developing awareness and the contribution of assigned officers as well services that provide support functions, chiefly Legal and Finance.
- 2.5.8 Given the stagnant status of some of the schemes, considerable officer (and Member) time has been necessary to achieve this improvement in delivery and so the challenge will be to ensure this becomes accepted and standard practice for officers, so that there will be no repetition, especially once the degree of recent intervention is inevitably scaled back. To this end, it is crucial that all parties are aware of and deliver against their assigned roles and responsibilities. In the event of any reasonable problems arising that hinder the delivery of schemes, then this must be raised to the appropriate relevant senior manager(s). Any failure to do so should be considered as part of the Council's performance management process.
- 2.5.9 The internal audit report is attached in appendix 3

## APPENDIX 1

### Audit reviews scheduled for 2020/2021

Audit Title	Timing				Start Date	Draft Report	Final Report	Res			Assurance
	Q1	Q2	Q3	Q4				P1	P2	P3	
Contract Management	X				Jan-20	Feb-20	Oct-20	0	4	0	Limited
Car Parks (off street)	X				May-20	Dec-20	Jan-21	0	3	0	Reasonable
Investment Properties	X				Jun-20						
Intercompany accounting	X				Mar-20	Jun-20	Jul-20	2	3	1	Limited
LTF - Blue Badge Scheme - (Grant Certification)	X				Mar-20	May-20	May-20	0	0	0	Substantial
Rent Guarantee Scheme	X				May-20	Jun-20	Aug-20	0	5	1	Reasonable
Staff Vehicle Documentation (Grey Fleet)	X				May-20	Aug-20	Oct-20	4	6	1	Limited
New Directions (ESFA funded adult education budget)	X				May-20	Aug-20	Aug-20	0	5	1	Reasonable
Records Management & Document Retention Policy	X				Jul-20	Dec-20	Jan-21	2	3	3	Limited
Transparency Code Compliance	X				Jun-20	Aug-20	Oct-20	0	4	1	Limited
Additional Payments		X			Sep-20	Dec-20		0	5	1	Reasonable
ADEPT's Live Lab trials Capital Funding		X			Sep-20	Sep-20	Sep-20	0	0	0	Substantial
Local Transport Plan Capital Settlement (Grant Certification)		X			Sep-20	Sep-20	Sep-20	0	0	0	Substantial
Bus Subsidy Grant		X			Aug-20	Sep-20	Sep-20	0	0	0	Substantial
Licensing		X			Jun-20	Sep-20	Dec-20	0	3	9	Reasonable
Stores Contract		X			May-20	Jul-20	Aug-20	0	4	1	Reasonable
Feeder system interface and reconciliation*		X			Jan-21						
Budgetary Control		X			Sep-20						
MOSAIC payment controls (Finance Module)		X			Nov-20						
PCN**			X		Nov-20	Dec-20	Jan-21	1	3	2	Limited
CIL 15% local projects**			X		Oct-20	Nov-20	Dec-20	1	4	2	Limited

# APPENDIX 1

Audit Title	Timing				Start Date	Draft Report	Final Report	Res			Assurance
	Q1	Q2	Q3	Q4				P1	P2	P3	
Housing Revenue Account			X								
Accounts Payable*			X		Feb-21						
Purchasing cards			X		Aug-20	Oct-20		0	12	3	Limited
Collection Fund			X								
Payroll (inc HR/Itrent processes)			X		Nov-20						
Adults Short Stay Placements & Respite Care			X		Oct-20	} These audits have been deferred to 2021/2022 due to COVID-19 and associated workloads of service					
Out of area contracts (placements)			X								
Contract Management (Adults)				X	Dec-20						
Sundry Debtors				X							
General Ledger				X	Jan-21						
Corporate Governance Review				X	Jan-21						

\* Delayed or possibly delayed due to Finance Transformation project

\*\* Added to plan following specific request

**3.0 INVESTIGATIONS (APRIL - DECEMBER 2020)**

**3.1 Small Business Grant Fund - Spotlight Checks**

- 3.1.1 In a response to the COVID-19 pandemic, under the Small Business Grant Fund (SBGF), all businesses in England in receipt of either Small Business Rates Relief (SBRR) or Rural Rates Relief (RRR) in the business rates system were eligible for a payment of £10,000 in line with the eligibility criteria. Where the Council has reason to believe that the information that they hold about the ratepayer is inaccurate, they may withhold or recover the grant and take reasonable steps to identify the correct ratepayer.
- 3.1.2 The investigations team used government fraud prevention tools, which interface with other departments and agencies so that data can be validated to substantiate claims or facts.
- 3.1.3 Three cases are currently being investigated as a potential fraud and are being scheduled for interviews under caution. One claimant has repaid the grant monies in full. In all instances the full £10,000 grant was paid.

**3.2 Grant Funding Schemes Assurance work**

- 3.2.1 The Department for Business, Energy and Industrial Strategy has produced a fraud risk assessment, setting out the inherent risks for each of the business grants currently being delivered, the Small Business Grant Fund (SBGF), the Retail, Hospitality and Leisure Grant Fund (RHLGF) and the Local Authority Discretionary Grants Fund (LADGF).
- 3.2.2 The investigations team began sample checks in Nov 2020, to provide post-payment assurance on risk of error and/or fraud and over payment. To date 277 cases have been reviewed, with two cases subject to further investigation. Two false claims were investigated and both files have been sent to our criminal lawyers to advise on potential fraud charges.
- 3.2.3 One further claim was investigated, which turned out to be simply a scam. The claim appeared to originate from a genuine Company requesting grant relief, however following checks it was established that it was in fact bogus and from someone impersonating the Company. No grant monies were paid.
- 3.2.4 To date the 2285 separate grants have been awarded at a value of £28,494,300.

## APPENDIX 1

### 3.3 Council Tax Support Investigations

3.3.1 The investigations team have a record total of £18,346 from Council Tax investigations completed where a discount was removed from the current account.

### 3.4 Single Person Discount

4.3.1 Combined Council tax savings for 2020/2021 stands at £25,000. Work on SPD data matching has been commissioned to start in January 2021.

### 3.5 Housing Tenancy Investigations

3.5.1 Since 1st April 2020 officers have commenced investigation into a number of referrals of tenancy fraud. There are 26 cases still ongoing. And a further 3 cases are listed with the County courts awaiting hearing. Six properties have been returned to stock to date. Five of these cases were tenancy related investigations and one was under the Right to Buy (RTB) scheme. In addition to the notional savings, the RTB case secured a 12-month rental income equivalent to £6,103.00 plus a RTB discount of £ 84,200.

3.5.2 The notional saving is £558,000, adopting the notional savings multiplier used by the Cabinet Office in its National Fraud Initiative report.

### 3.6 Social Care Fraud & Investigations

5.6.2 There is one ongoing direct payment investigation which commenced in August, linked to potential money laundering offences.

5.6.3 We have worked with the financial recovery team to recover income owned to the Council. We were able to trace funds to a bank account held by an individual who owes the Council in excess of £34,000. The file is with the legal recovery team to apply for these funds to be released to cover this debt.

5.6.4 The team have also been working with Brighter Future for Children on two complex investigations. Both are now with BFfC and await legal updates.

### 3.7 Disabled Persons Parking Badges (Blue Badges)

3.7.1 Since April 2020 work on civil enforcement was suspended. We currently have a total of 12 cases with Legal awaiting charging decisions. There are currently 5 cases awaiting further investigation and decision. In November 2020 two cases of Blue Badge fraud were heard by Reading Magistrates, both defendants pleaded guilty to the offences. A total notional saving of £675.00 was recorded on each case.

## APPENDIX 2

# Purchase Cards Internal Audit Report

## Internal Audit Report

### PURCHASE CARDS

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To: Jackie Yates, Executive Director Resources  
Peter Robinson, Interim Head of Finance  
Annette Trigg, Chief Accountant  
Jenny Bruce, Financial Systems Manager

From: Robert Dunford, Senior Auditor

Date: 17/12/20

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Limited  
Assurance

### EXECUTIVE SUMMARY

#### 1. BACKGROUND

- 1.1 Procedure rules have been produced by Corporate Finance, to ensure that all Purchase Card Users understand the rules and regulations governing the use of Purchase Cards. Purchase Cards operate in a similar way to credit cards and are used by selected staff to purchase supplies and services on behalf of the Council.
- 1.2 Purchase Cards are most suitable for high volume, low value transactions (e.g. less than £500) where the goods or services can be easily defined. In the case of many low value items, the cost of the purchase, requisitioning, obtaining quotes, issuing purchase orders and processing invoices outweighs the value of the items purchased. The main benefit of Purchase Cards is that they reduce the traditional activities associated with the ordering process, the number of invoices that need to be matched to the purchase order.
- 1.3 At the time of the audit there were 61 purchasing cards in use with just over £230,000 being spent in 2019/2020.

## APPENDIX 2

### 2. OBJECTIVES & SCOPE OF THE AUDIT

- 2.1 The main objective of the audit was to review the following key controls:
- i. Policies and procedures govern the procurement of goods and services, which both the budget holder and card holder acknowledge responsibility for.
  - ii. The allocation of purchasing cards is authorised by the appropriate budget holder and there are controls to limit expenditure and categories of spend are set prior to the card being issued.
  - iii. Monitoring of purchasing cards expenditure is undertaken and supporting receipts are retained.
  - iv. There is a full audit trail to support all expenditure
  - v. Card holders complete their returns accurately and promptly
  - vi. Purchasing cards are not used if there are corporate contract arrangements already in place
  - vii. Payments made using purchasing cards do not include payments that should be paid through payroll, most notably for travel and subsistence claims.
  - viii. There is corporate oversight of supplier spend for commercial purposes
- 2.2 This audit (and report) was undertaken in accordance with the Public Sector Internal Audit Standards ([PSIAS](#)).

### 3. CONCLUSIONS

## APPENDIX 2

- 3.1 The risks associated with using a purchase card should be relatively low and having purchase cards available for use as an alternative method of payment for certain types of transaction has proved convenient and cost effective. The most significant issues relating to purchasing cards is user compliance with the Council's procedures, but there is also a need to review business processes to ensure they are fit for purpose.
- 3.2 Adherence to the visa purchasing card policies and procedures is poor and whilst this is not a criticism of the Finance staff who chase returns and do their very best to maintain some form of oversight, the business process is cumbersome and resource intensive as this remains in principle a paper-based system. The general conclusion from the audit is that processes would benefit from digitisation, which is possibly something the Bank could offer and to this end it is advised that procurement cards are added to the finance transformation workstream.
- 3.3 Whilst the overall value and number of transactions processed appears to be declining from a monthly average value of £27,541.76 in 2018 to a current monthly average spend of £13,887, the average transaction spent has increased from £94.87 to £102.03. Although this doesn't seem excessive, over a 4-year period 25% of individual transactions were found to be over £500 in value.
- 3.4 Purchase Cards are most suitable for high volume, low value transactions (e.g. less than £500) where the goods or services can be easily defined. In the case of many low value items, the cost of the purchase, requisitioning, obtaining quotes, issuing purchase orders and processing invoices outweighs the value of the items purchased. The main benefit of Purchase Cards is that they reduce the traditional activities associated with the ordering process, in particular the number of invoices that need to be matched to the purchase order. However, testing identified expenditure which should have been paid via a purchase order or through payroll, such as travel and subsistence.
- 3.5 In some instances, we found controls not to have been followed, for example the cards were being shared or used by someone other than the card holder and purchase cards were not being returned when the card holder had left employment but continuing to be used by the service.
- 3.6 The visa purchasing card rules and governance framework should be reviewed annually to ensure these are fit for purpose in maintaining operational compliance should be published to ensure the most up to date version is

## APPENDIX 2

available. Although sub-routine procedures have been developed for those staff with emergency planning responsibilities, we need to ensure there is no procedural disparity where staff have dual service and emergency planning responsibilities.

- 3.7 The business case, expenditure categories and card value limits for all cards should be reviewed periodically together with the line reports to ensure the allocation, authorisations of cards are appropriate. Bank system reports should be used to confirm the completeness and accuracy of these requirements and as the basis for confirming the completeness of governance documentation in the event legal action is required. Comparable to the local purchase order system, this needs to consider structural and managerial changes together with the employment statuses of staff.
- 3.8 Although we are satisfied there are supporting controls in place which assist with the chasing of missing receipts and invoices from the card holder and budget holder, monitoring and reporting controls need to be introduced to detect and prevent this from happening in the first place.
- 3.9 Corporate monitoring and reporting controls need to be introduced to ensure expenditure on the visa purchasing card is appropriate and is conducted in accordance with the Councils procurement policies and procedures, as it was evident that cards have been used to circumnavigate purchase orders and travel and subsistence through payroll.
- 3.10 Although there are satisfactory audit trails in place between the transactions recorded on Fusion and their supporting records held by Finance, reconciliation controls need to be introduced to ensure the claim totals, Fusion total and the bank statement are reconciled for the period.
- 3.11 A total of 15 recommendations have been made in respect of this review, of which none are now considered high priority following discussions with both finance and audit management. We agree that the recommendation priorities should be kept under review, so these are implemented in context and unison with Finance's other deliverables.

Management Action Plan					
Ref	Recommendation	Rec	Management Response	Responsible Officer(s)	Target Date
<b>PROCEDURES</b>					
<i>RISK: Governance arrangements are insufficient to ensure sound financial management through occurrence of different practices of use.</i>					
1	<p>Although it is our opinion VPC Rules provide a good compliance framework, these should be reviewed periodically to ensure these are fit for purpose and published for generally information for all staff.</p> <p>We would advise the responsibilities for this could be placed under the joint jurisdiction of the AD for Contracts &amp; Procurement and the AD of Finance.</p>	Priority 3	<p>Agreed. The current procedures are in the process of being reviewed and the updated procedures and responsibilities will be shared with all card holders and their managers. This will be completed by Finance in consultation with Contracts and Procurement.</p>	<p>Exchequer Manager/ Chief Accountant in consultation with Procurement</p>	<p>31<sup>st</sup> March 2021</p>
2	<p>In conjunction with recommendation 1, the VPC Rules should be reviewed to ensure there are no contradictory instructions, and that clear guidance is provided concerning the use of the card for travel i.e. third party claims only, and staff travel should be prevented and recuperated via expenses system.</p>	Priority 3	<p>Agreed. There will be some exceptions for staff travel payments due to the cost e.g. air fares. Any travel costs charged to a card should be subject to prior approval from their budget manager. The list responsibilities included in the VPC documentation will include clear guidance regarding staff travel for card holders and managers authorising the returns.</p>	<p>Chief Accountant</p>	<p>31<sup>st</sup> March 2021</p>
3	<p>An exercise should be carried out to ensure all the appropriate agreements are held and that these are relevant to the current service i.e. an agreement is held for all new budget holders with existing VPC in the service.</p> <p>In conjunction with recommendation 4, a periodic exception report should be produced to monitor the completeness of these records.</p>	Priority 2	<p>Agreed. A review of all current card holders and the associated agreements held is currently in progress. As part of a planned update to remind card holders and their managers authorising the payments of their responsibilities, any missing agreements or agreements which need to be reviewed will also be sent out for authorisation.</p>	<p>Chief Accountant</p>	<p>26<sup>th</sup> February 2021</p>

APPENDIX 2

Management Action Plan					
Ref	Recommendation	Rec	Management Response	Responsible Officer(s)	Target Date
<b>BUSINESS CASE &amp; CONTROL OF CIRCULATION</b>					
<i>RISK:</i>					
4	<p>In conjunction with recommendation 3, an up to date list of officers should be maintained to validate both approval of the business case and authorisations of expenditure.</p> <p>We also recommend that a statement of satisfaction should be added to the authorisation template confirming that they are satisfied that all the necessary checks have been undertaken.</p>	Priority 2	<p>Agreed. The list of all card holders and the authorising managers will be reviewed on a six-monthly basis in addition to updating the list throughout the year as we are advised of changes.</p> <p>Agreed. The authorisation template changes to confirm the necessary checks have been undertaken will be added to the revised documents that are sent out with the update's guidance and procedures.</p>	Exchequer Manager / Chief Accountant	26 <sup>th</sup> February 2021
5	<p>In conjunction with recommendations 3 &amp; 4, there should be an annual/periodic revision of the business case and merchant categories for the cards in circulation to ensure these remain appropriate and relevant to service needs.</p> <p>Special consideration needs to be given to those cards which are used in interaction with the requirements from Emergency Planning.</p>	Priority 2	<p>Agreed. This recommendation will be covered by the review of all current card holders and the card categories they have/need. This will be completed in conjunction with budget managers approving the card transactions. Staff with Emergency Planning responsibilities will also be considered.</p> <p>The review of the business case and categories will be completed annually subject to other service priorities and staff availability.</p> <p>Due to the nature of this work and the requirement to work across departments this work will take time, this has been reflected in the target completion date.</p>	Exchequer Manager / Chief Accountant/ Department Budget Managers	31 <sup>st</sup> March 2021
6	<p>Bank confirmations on the set up of spend limits and expenditure categories should be placed on file to substantiate the applications of those authorised.</p>	Priority 2	<p>Agreed. The credit card system holds information regarding the spend limit and expenditure categories. An electronic copy of these details will be stored alongside the card holder's agreement document in electronic folders.</p>	Exchequer Manager	31 <sup>st</sup> March 2021

## APPENDIX 2

Management Action Plan					
Ref	Recommendation	Rec	Management Response	Responsible Officer(s)	Target Date
<b>MONITORING &amp; ACCOUNTING</b>					
<i>RISK: There are insufficient controls to highlight inappropriate use of the VPC which could expose the Council to the risk of financial loss.</i>					
7	Procedures should be established to highlight the cancelation requirements of VPC due to staff leaving or changing role. This should coincide with the usage monitoring controls to identify those cards which are not being used because the cardholder has left the employ of the Council.	Priority 2	Agreed. The review of procedures and responsibilities will highlight the cancelation requirements of VPC. Usage monitoring controls will be completed as part of the monthly process and any staff who have not used their card in the last six months will be contacted to ensure that they still need a card. The cardholder's manager will also be contacted to confirm the card is required.	Exchequer Manager	31 <sup>st</sup> March 2021
8	<p>Corporate monitoring systems should be established to highlight VPC Holder and Budget Holder areas of non-compliance. An exception report should be produced on a periodic basis for management for continuous improvement purposes. This should include highlighting for management attention: -</p> <ul style="list-style-type: none"> <li>• Claims which have not been authorised at all or in appropriately.</li> <li>• Expenditure which has occurred after the cardholder has left the employ of the Council.</li> <li>• Material expenditure which isn't supported by a VAT compliant receipt or invoice.</li> <li>• Material expenditure which exceeds the general-purpose value of £500 in accordance with the VPC policy.</li> <li>• Any extraordinary expenditure which could give rise to concern i.e. of public interest or HMRC taxation risks.</li> </ul>	Priority 2	<p>Agreed. A quarterly report will be provided to management to highlight any instances included in the categories listed in the recommendation and will include a note of action taken.</p> <p>The staff resource to support this work going forward needs to be considered to that all essential work and other priority work is not affected.</p>	Exchequer Manager/Chief Accountant	31 <sup>st</sup> March 2021

APPENDIX 2

Management Action Plan					
Ref	Recommendation	Rec	Management Response	Responsible Officer(s)	Target Date
<b>USAGE</b>					
<i>RISK: VPCs are being used in some instances to circum-navigate the established ordering controls to regulate and account for expenditure.</i>					
9	A reconciliation between the Fusion system total, the claim total and the Lloyds bank statement should be carried out on a regular basis. This reconciliation should be appropriately substantiated and certified.	Priority 2	<p>Agreed. A monthly reconciliation will be carried out by the Accountancy team which reconciles the Fusion system to the bank statement balance, and this will be certified by the Technical Accountant Lead or the Chief Accountant.</p> <p>The journals completed to allocate the transactions to service codes from the control account will also be checked and authorised by the Accountancy Team.</p>	Technical Accountant/ Chief Accountant	26 <sup>th</sup> February 2021
10	In conjunction with recommendation 8, the VPC should be monitored to ensure it is not being used to circum-navigate the local purchase order policy and procedures. Areas of concern should be raised with the card holder and budget holder.	Priority 2	It is the intention of Procurement & Contracts to commission an external tail-spend analysis across the Council, which would include Purchase Card spend data, to determine any possibility for better spend management controls, specifically (in conjunction with recommendation 10) to address where should or could otherwise be routed through a corporate contract or more cost-effective arrangement. This is dependent on funding for the analysis work.	AD of Procurement & Contracts	31 <sup>st</sup> March 2021
11	<p>In conjunction with recommendation 8, the VPC expenditure categories and respective providers should be monitored to ensure purchases are not being made outside an existing corporate contract, or to ascertaining if there would be a benefit to developing a contract.</p> <p>Prevention controls should be applied to re-enforce the protocols of use in the VPC Rules. Appropriate consideration should be given to the different uses by the general services and those purchased for emergency planning.</p>	Priority 2	It is the intention of Procurement & Contracts to commission an external tail-spend analysis across the Council, which would include Purchase Card spend data, to determine whether spend should or could otherwise be routed through a corporate contract or more cost-effective arrangement. Such analysis and work will be shared with Finance to determine if refinement of Purchase Card controls and/or policy is required. This is dependent on funding for the analysis work.	AD of Procurement & Contracts	31 <sup>st</sup> March 2021

## APPENDIX 2

Ref	Recommendation	Rec	Management Response	Responsible Officer(s)	Target Date
<b>AUDIT TRAILS TO SUPPORTING DOCUMENTS &amp; AUTHORISATIONS</b>					
<i>RISK:</i>					
12	Receipts and invoices should be obtained and attached for all purchases as proof of purchase to substantiate the charge on the bank statement and to support the correct recovery of VAT.	Priority 2	Agreed. All card holders and authorising budget managers will be reminded of the importance of ensuring that all transactions are supported with appropriate evidence. This will be included in the guidance sent out to remind card holders and managers of their responsibilities and the deadlines.	Exchequer Manager/Chief Accountant	31 <sup>st</sup> March 2021
13	Because of the failure to ensure all emails are retained, we strongly recommend that the claim form is physically certified by the VPC card holder and VPC approver.  In conjunction with recommendation 5, the VPC Administrator should ensure the claim is certified by the correct officer.	Priority 2	Agreed regarding certification of documents being retained. As part of reviewing the VPC process we intend to change the current process so that all documents and authorisation is submitted via the Firm step system which includes all documentation for the claim and workflow for the authorisation of claims. This will avoid the need for a physical certification of the documents and a copy of the workflow authorisation will be retained with the card transaction documentation.  Agreed the VPC administrator will check that the claims have been appropriately certified.	Exchequer Manager)	31 <sup>st</sup> March 2021
14	The Council should review the operational platform for managing and accounting for VPC expenditure e.g. an integrated management system that manages the authorisations, records and payments in conjunction with existing/future accounts payable and contract requirements.	Priority 2	Agreed. Consideration will be given to this recommendation as part of the implementation of a new finance system, however it is important to note that this area may be a lower priority when considering finance systems functionality compared with other essential system requirements.  The process changes and agreed actions included in this report will result in improved processes and will reduce the financial risks for this area of expenditure.	Chief Accountant	December 2021
15	Whilst supporting a person's identification rights, for clarity purposes where possible we recommend the VPC holders name on the card and the payroll should be the same.	Priority 3	Agreed. In the set-up documentation we will request that the card is set up as the same name as on the payroll record. We will also seek legal advice regarding the name of the card holder should there be any instances where legal action is required.	Exchequer Manager	31 <sup>st</sup> March 2021

## APPENDIX 2

### 4. FINDINGS

#### 4.1 PROCEDURES

- 4.1.1 Procedure Rules for the Visa Purchase Card (VPC) have not been reviewed since 2015, and it should be noted that unless requested the rules are not issued to card holders. Neither are they published for general reference i.e. for new and temporary managers with VPC responsibilities (See Rec 1).
- 4.1.2 Although the VPC Rule 13.9 prohibits the reimbursement of staff travel and expenses in accordance with the Council's Expense policy and procedure in order to comply with HMRC requirements<sup>2</sup>, the rule is undermined by permitting senior managers to overrule this, which has led to confusion and the potential HMRC taxation penalties. The travel and subsistence merchant category should only be used to pay third parties (See Rec 2).
- 4.1.3 Sub-routine procedures have been produced by Emergency Planning for those staff with existing VPC responsibilities who help with the immediate acquisition of goods and services during times of emergency with the suspension/removal of the expenditure restrictions imposed by the general rules.
- 4.1.4 VPC users are required to formally certify their compliance with both these rules and Lloyds terms and conditions of use. A sample examination of 5 VPC holders records found that although a signed copy of the card holders' agreement is held, a copy of the budget holder's agreement could only be found for 3 out of 5 cards. We note that the confirmation of responsibilities is only obtained for the instigating manager and are not refreshed for incoming or change of management (See Rec 3).

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#### 4.2 BUSINESS CASE & CONTROL OF CIRCULATION

- 4.2.1 Although Finance do not hold a list of approved budget holders to clarify the proper authorisations of new cards, they are required to hold a scanned copy of the business case which has been authorised by the Head of Service (Assistant Director). As part of the certification procedure, the application form requires the approver to print their name and position, prior to the validation and authorisation of the Head of Finance (Chief Accountant).

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<sup>2</sup> HMRC Requirements: Expenses & Benefits - Travel & Subsistence. "As an employer paying your employees' travel costs, you have certain tax, National Insurance and reporting obligations. This includes costs for: providing travel, reimbursing travel, accommodation (if your employee needs to stay away overnight), meals and other 'subsistence' while travelling. Public Transport: As an employer covering your employees' public transport costs, you have certain tax, National Insurance and reporting obligations. Public transport costs include: season tickets provided for employees season ticket costs reimbursed to employees: loans made to employees to buy season tickets: contributions to subsidised or free public bus transport."

## APPENDIX 2

- 4.2.2 We note, the approval form still excludes any statement confirming all approving parties approve the application, and that the necessary checks have been carried and that they agree a VPC is appropriate (See Rec 4).
- 4.2.3 Applicants are required to substantiate the business case in order to obtain a VPC alongside the necessary merchant categories and expenditure limits as part of approval process. We are satisfied that the application form requires the positive activation of automatically barred merchant categories. We note:
- a) There is no annual revision of the business case or the merchant categories for the cards in circulation. Finance do not hold a record of the end date of each card as this is administered by Lloyds (See Rec 5).
  - b) Revisions to merchant categories and expenditure limits are progressed via email which are held on file by Finance, but we were unable to find confirmations from the bank confirming these had been applied (See Rec 6).
- 4.2.4 The procedures and systems for ensuring the timely cancellation and recovery of VPC held by staff leaving the Council's employment need to be strengthened (See Rec 7). We found: -
- a) The Lloyds bank statement records the use of two cards by departments<sup>3</sup> after the named person had left the employment of the Council contrary to VPC Rule 2.2.1<sup>4</sup>. These cards have since been cancelled and we are satisfied that the expenditure was appropriate to the service and had been authorised by the Budget Holder.
  - b) Even though the payroll system records the respective leaver date for those staff members working their notice period, Finance remain reliant upon the Budget Holder to notify them the VPC requires cancelling. Testing identified a further two<sup>5</sup> VPCs that had remained active after the named users had left the employment of the Council. We are satisfied that these cards had not been used after the staff had left and have since been cancelled on the system.
  - c) We found two incidents where the name on the card were different to those people due to a change in name and the use name by which they wished to be known (See Rec 15).
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<sup>3</sup> Legal Services & Town Hall

<sup>4</sup> VPC Rule 2.2.1 "d) Ensuring the card is only used by the named card holder. On no account should the card be used by other persons other than named card holder and details should not be shared, lent or disclosed to parties other than those with whom you are conducting a transaction with."

<sup>5</sup> Sheltered Housing & Registrar's Office

## APPENDIX 2

### 4.3 MONITORING & ACCOUNTING

- 4.3.1 Although the VPC Rules provide satisfactory provision to monitor usage at corporate and budget holder level, in practice this is only carried out by the budget holder when VPC submissions are submitted for authorisation (See Rec 8): -
- a) VPC Rule 6.1.3 stipulates “the Principal Budget Holder is responsible for enforcing the VPC procedures and monitoring the cardholder’s expenditure and use of their VPC”.
  - b) The Accounts Payable and VPC Administrator are corporately responsible for the monthly monitoring VPC usage under VPC Rules 7.1.2 and 13.15. The VPC Administrator confirmed that other than confirming the accuracy of the claim against the supporting documentations, there is no proactive corporate monitoring<sup>6</sup> (see 4.4.2). As an example, the Accounts Payable Manager highlighted VAT compliance remains an on-going risk that is difficult to quantify.
- 4.3.2 No reconciliation is carried out between the VPC claims and the journals processed on Fusion against the Lloyds bank statement report to confirm the completeness of records. We noted there is a £1,600.80 credit variance between the total sum of payments of £872,048.50 and the sum of VPC transactions totalling £870,447.70 for the period 16/7/2017 to 16/6/20, which requires investigation as to the reason (See Rec 9).
- 

### 4.4 USAGE

- 4.4.1 There are strong indicators that the VPC is being used to circumnavigate the use of a local purchase orders. A 4-year trend analysis (table 1) shows the usage of the VPC has declined, however we would highlight that although 98% of expenditure transactions are below the VPC expected usage value of £500<sup>7</sup>, we noted 9%<sup>8</sup> of transactions account for 25%<sup>9</sup> of the total sum, which is due to several exceptionally high valued payments, the highest being £8,373.00 (See Rec 10).

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<sup>6</sup> The VPC Administrator highlighted the Council is dependent upon the limited monitoring reports produced by Lloyds.

<sup>7</sup> VPC Rule 3.1- “Purchase Cards are most suitable for high volume, low value transactions (e.g. less than £500) where the goods or services can be easily defined. In the case of many low value items, the cost of the purchase, requisitioning, obtaining quotes, issuing purchase orders and processing invoices outweighs the value of the items purchased. The main benefit of Purchase Cards is that they reduce the traditional activities associated with the ordering process, in particular the number of invoices that need to be matched to the purchase order.”

<sup>8</sup> Transactions above £500: 56 (<£1,000) +162 (<£500) =218/9,107 transactions x 100 =2.39%

<sup>9</sup> Transaction value £113,768.29 (<£1,000) + £108,760.74 (<£500) =£222,529.08/£870,447.70 x 100 =25.5%

## APPENDIX 2

Calendar Year	Total Spent (Statement)	Average Spent Per Month	No. of Transactions	Average Transaction Value
2017	£ 160,702.35	£ 17,855.82	1,694	£94.87
2018	£ 330,501.13	£ 27,541.76	3,428	£96.41
2019	£ 254,255.72	£ 21,187.98	2,760	£92.12
2020	£ 124,988.50	£ 13,887.61	1,225	£102.03
Total:	£ 870,447.70	£ 18,134.33	9,107	£95.58

- 56 transactions totalling £113,768.29 that exceed £1,000 (average value £2,031.57). This range of expenditure accounts for 13% of the sum for the 4-year period
- 162 transactions totalling £108,760.74 between £500 and £1,000 (average value £671.36). This range of expenditure accounts for 12% of the sum for the 4-year period.
- 3,717 transactions totalling £51,281.68 (average value £13.80) were below the £30<sup>10</sup> purchase order consideration threshold. This range of expenditure accounts for only 6% of the sum for the 4-year period, which raises the concern that 94% of VPC expenditure should have been raised via purchase order.

4.4.2 There is no monitoring or analysis of expenditure categories or types of expenditure to ensure the VPC is being appropriately controlled and used; covering appropriateness to service needs, commercial, contractual and payment methodologies. For example, although groceries and goods purchased from supermarkets account for 26% of merchant category expenditure, our analysis found there are several purchase areas which should have been made through either a purchase order or expenses. The reasons for which should be investigated and where appropriate mitigated by Contracts & Procurement. Please note that transaction types were evaluated over a 4-year period and are summarised as follows (See Recs 8, 10 & 11): -

- a) Hotels: There were 281 transactions totalling £82,294.21. A sample examination found these had been purchased by a wide range services which may include staff involved with Emergency Planning. Emergency Planning explained that it is planned to develop contracts with the hotels they use. An examination of the total cost found Travelodge accounted for 37% of transactions which had been commissioned by Housing Needs, Rents, Homes for Reading, Resources and Internal Audit. Sample locality checks of two out-of-borough hotels found that both had been purchased by Housing Needs.

<sup>10</sup> VPC Rule 4.1 - "You should use your Visa Purchase Card when the value of the order is below £30."

## APPENDIX 2

- b) Flights & Holidays: There were 25 transactions totalling £12,372.03, 8 of which totalling £7,149.56 relate to holidays. An examination of the holiday purchases found these had been purchased by either the Joint Legal Team, Deputies Office, Events & Engagement Team or Children's Services (pre BFFC). A sample test of 4 holiday purchases found 3 had been purchased by Children's Services and 1 had been purchased by the Deputies Office to assist a client, for which we confirm the Council was reimbursed for.
  - c) Food: There were 27 transactions totalling £2,219.82 £2,206.37 and included both eat in and takeaway eateries. Our analysis found a wide range of reasons from corporate entertainment (55% of cost) to minor ad hoc purchases of coffee by staff.
  - d) Travel: There were 236 transactions totalling £9,731.09. Sample enquiries found 73% of costs related to GWR train tickets purchased by staff for business travel, which should have been reimbursed via the payroll in accordance with the Council's expenses policy. A further 17% were incurred with Reading Buses.
  - e) Digital Marketing: There were 326 transactions totalling £52,2353.97. These costs were incurred with Arts & Leisure, Revenues & Benefits and Corporate ICT with Facebook, Google Ads and Mailchimp reportedly due to the providers own invoicing restrictions.
  - f) Government Agencies: 18 payments totalling £18,557.00 were made by a previous Revenue & Benefits Manager during 2017 and 2018 to the HM Courts & Tribunal Service, but this has now ceased. It should be noted the HMCT accounted for the highest payments on the VPC, the highest being £8,373.00 made on the 4/6/2018. The VPC was also used by Children's Services to make high valued payments to Ofsted Internet and the UK Boarder Agency during the same period.
  - g) Local Convenience Store: 185 transactions during the 4-year period totalling £18,295.96 had been spent at a local convenience store by Housing to top up newly installed gas meters.
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### 4.5 AUDIT TRAILS TO SUPPORTING DOCUMENTS & AUTHORISATIONS

## APPENDIX 2

- 4.5.1 We found there are good audit trail protocols in place between the records of VPC payments of Fusion and their supporting documentations. VPC expenditure is identified on Fusion through the referencing the journal name and description, and the VPC card holders name and date of the transaction is recorded on the 'line description' field on Fusion as reference to Finance's corresponding server file which holds copies of the bank statement, signed claim form, receipts/invoices and emails. As a common observation, we noted:
- - a. There are regular emails held on the server file informing VPC holders that their bank statements are not available.
  - b. Although the supplier details for the VPC transaction cannot be recorded in the "supplier" field on Fusion, as a work around this information is added to the 'line description' in order the supplier can be identified.
  - c. Although not quantified, we note the copies of the bank statement, the claim form and supporting receipts and invoices are not always held on file (See Rec 12).
  - d. There are method inconsistencies in the way claim forms are authorised i.e. some claim forms are physically certified by the VPC holder and the budget holder prior to forwarding by email, whilst others are simply forwarded by email uncertified by the VPC approver (See Rec 13).
- 4.5.2 There is no feedback to senior management on the number of claims that have been returned or queried due to lack of supporting documentations or authorisation. We acknowledge the high-volume transactions makes this currently difficult, but we would highlight managerial support to improve card holder behaviour would be more beneficial than rejection as both the VPC Administrator and approvers review is retrospective. This is of increased concern especially because of the high number of valued payments which would otherwise be paid via a local purchase order (See Rec 8).
- 4.5.3 Sample testing confirmed the substantiation of the authorisations and legitimacy of VPC expenditure is poor. Supporting documentations are not stored under a single repository which is due to the legacy filing system for the period and the fact that some documents are retained by the Deputies Office to support their financial records. Although not quantified, we noted regular email reminders from the VPC administrator requesting receipts and invoices are held on file (See Rec 14).
- 4.5.4 A summary of our findings are as follows: -

## APPENDIX 2

### Sample selected on basis of public interest and/or HMRC benefit in kind risk

- a) Sample locality checks of two hotels found that both had been purchased by Housing Needs during 2018/19. Although we were able to find the supporting documentation for the Hillingdon Prince claim in April 2018, we were unable to find the supporting documentation for the Jury Inn Manchester payment incurred in November 2018. We are satisfied that the April claim had been appropriately authorised and the costs related to a Housing Needs client.
- b) A sample test of 4 holiday payments found the supporting documentation for the Deputies Office had been retained by them to support the financial transaction for their client whom they had assisted. Of the 3 other holidays, supporting documents could only be found for 1 holiday, which had been authorised by the children's Service Solution Panel in July 2018. The remaining 2 payments were also instigated by Children's Services during 2017 and 2018.
- c) We were unable to find any supporting documentations for either the restaurant or coffee shop purchases test sampled.

### Sample selected on basis of high value

- a) ICT equipment totalling £2,495.00 was purchased outside of Northgate contract on the 9/4/2020 by Transport. Although the purchase was supported by an invoice the claim had been self-authorised.
- b) PPE equipment totalling £2,415.11 was purchased by the Chief Auditor on behalf of the Emergency Operations Centre on the 8/4/2020. Although the claim was not physically authorised, satisfactorily a copy of the approval email from the Assistant Director for HR and Organisational Development is held on file. We noted that although a copy of the provider's order is held on file, a copy of the invoice is not held on file.
- c) 1,000 litre water containers totalling £2,334.00 were purchased by the Safer Community Unit on the 26/5/2020. A copy of the invoice and authorised claim is satisfactorily held on file.
- d) 4 property meter recharge cards with EDF and Scottish & Southern Energy totalling £80.00 were purchased from Niki Stores by Housing Property Services on the 26/6/20. Although the claim was not physically authorised, a copy of the email was approval email from the Projects Team Leader together with copies of the receipt for each property. Although immaterial, no receipt was provided for the additional £1 paid and claimed on the VPC.

## APPENDIX 2

- e) 10 GWR payments totalling £541.00 for were submitted on a monthly claim by the Joint Legal Team for October 2019. We are satisfied the receipts are held to support the claim and that an approved copy of the claim is held but these payments should have been claimed via the payroll.

## APPENDIX 3

# Internal Audit Report - 15% CIL schemes

## Internal Audit Report - 15% local CIL schemes

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To: Frances Martin, Executive Director, DEGNS  
Giorgio Framaliccio, Deputy Director, DEGNS  
Andy Edwards, Assistant Director of Environmental & Commercial Services



From: Kevin Parker, Principal Auditor

Limited Assurance

Date: 7 December 2020

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### EXECUTIVE SUMMARY

#### 1. BACKGROUND

- 1.1 The Community Infrastructure Levy is a levy that local authorities can choose to charge on new developments in their area. The money received from the levy can be used to support and manage the impacts of development by funding infrastructure that the Council, local community and neighbourhoods want - for example road improvement schemes, open space improvements or new schools. Reading Borough Council's Community Infrastructure Levy (CIL) Charging Schedule came into effect on 1 April 2015.<sup>11</sup> The CIL protocol setting out how CIL receipts are to be used was approved at the July 2018 Policy Committee and in November 2018 Policy Committee agreed the formal allocation of 15% Local CIL to a number of projects following a public consultation.
- 1.2 This audit was not originally scheduled as part of the 2020/21 Audit Plan but was specifically requested by the Deputy Director of Planning, Transport & Regulatory Services following concerns raised by Members about the timely delivery of certain 15% Local CIL schemes.

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<sup>11</sup> [RBC CIL advice to applicants](#)

## APPENDIX 3

### 2. OBJECTIVES & SCOPE OF THE AUDIT

- 2.1 The audit primarily focussed on those projects listed in the Policy Committee Report of 26 November 2018 to determine why these projects weren't delivered. In order to inform this exercise, the audit evaluated the systems, records and controls in place and to verify:
- RBC's CIL scheme is up to date, in line with best practice and is visible via the website
  - Roles and responsibilities for the delivery, monitoring, management and reporting of CIL funded schemes are clearly documented, understood and adhered to
  - That there is a robust process in place for the recording and reconciliation of obligations and expenditure
  - That there is an appropriate and coherent governance structure in place to monitor the delivery of CIL funded schemes
  - Where there is slippage in the delivery of a CIL funded scheme, then the reasons for this are identified, appropriately justified, reported and agreed.
- 2.2 This audit did not review how CIL contributions are calculated or collected.
- 2.3 This audit (and report) was undertaken in accordance with the Public Sector Internal Audit Standards ([PSIAS](#)).

### 3. CONCLUSIONS

- 3.1 It is important that there is visible and timely use of 15% Local CIL money as this demonstrates accurate and prudent use of developer levy income for the express benefit of the local community and neighbourhoods. In respect of Reading Borough Council (RBC) it is plain that there was an absence of a complete control framework being in place to facilitate this, and as a result schemes were not being delivered on a timely basis. Broadly no single reason or obstacle was identified for the poor delivery of schemes, rather it is the conclusion that there was a combination of system weaknesses and factors that meant they were not achieved.
- 3.2 In response to concerns raised by Members, action has been latterly taken by management to introduce a range of different measures to address these weaknesses, and these in conjunction with the supplementary controls recommended in this report, should help to tighten controls and improve the effective delivery of 15% Local CIL schemes in future. It is important that all responsible officers fully understand their responsibilities to help achieve this.

## APPENDIX 3

- 3.3 There are a number of procedures on the main website relating to the Community Infrastructure Levy, although only one refers to the use of 15% element for use on local schemes. Some of these procedures date from 2015 and whilst obviously a technical assessment of these could not be made, they could benefit from being reviewed more regularly in future and updated as necessary, including reference to the 15% aspect.
- 3.4 Through discussion with managers assigned to delivering the 15% CIL schemes, it was evident there was an uneven awareness of the roles and responsibilities among staff, especially in terms of delivering 15% funded schemes. This is likely to be due in part to a similar lack of documented procedures setting these out, which is important because there should be total transparency and accountability over the timely use of developers' contributions generally and of the 15% schemes more specifically. In particular there should be transparency over the progress of 15% local schemes and moreover that officers should be accountable for the delivery of these within agreed timescales.
- 3.5 However, while the uneven awareness about the roles and responsibilities is in part attributable to a lack of documented procedures, the Deputy Director of DEGNS has advised that there was a clear ask for responsible officers to take ownership of projects shortly after the Policy Committee's decision to award funding to certain projects in November 2018. Some of those projects were implemented without documented procedures being in place, while others have not been advanced despite regular requests to deliver. The Deputy Director has commented that officers responsible for those areas could have sought clarity, engaged with Planning colleagues and Members on their projects and so a degree of personal responsibility needs to be accepted.
- 3.6 Despite the shortcomings referred to above, action has been taken to address some of these and various measures have been recently introduced by the Executive Director of DEGNS. Chief amongst these has been the introduction of both a Member focused and an officer working group. The value and benefit of both has been seen in the governance over, and full delivery of, some of the overdue schemes, addressing some of the obstacles blocking progress, as well as generating some momentum towards progressing others. Chief amongst these has been the contribution of both the Infrastructure Monitoring Officer and the Assistant Director of Environmental & Commercial Services in particular, together with the contribution of others, including the Assistant Director of Legal & Democratic Services. However more work needs to be done in developing awareness and the contribution of assigned officers as well services that provide support functions, chiefly Legal and Finance.

## APPENDIX 3

- 3.7 Given the stagnant status of some of the schemes, considerable officer (and Member) time has been necessary to achieve this improvement in delivery and so the challenge will be to ensure this becomes accepted and standard practice for officers, so that there will be no repetition, especially once the degree of recent intervention is inevitably scaled back. To this end, it is crucial that all parties are aware of and deliver against their assigned roles and responsibilities. In the event of any reasonable problems arising that hinder the delivery of schemes, then this must be raised to the appropriate relevant senior manager(s). Any failure to do so should be considered as part of the Council's performance management process.
- 3.8 A total of 7 recommendations have been made in respect of this review, of which one is considered high priority. The recommendations and corresponding management action plan are set out below.

APPENDIX 3

Management Action Plan					
Ref	Recommendation	Rec	Management Response	Responsible Officer(s)	Target Date
<b>POLICIES &amp; PROCEDURES</b>					
a) <i>RISK: unless policies and procedures are periodically reviewed and be up to date, there is a risk that these may not reflect local or national standards</i>					
b) <i>RISK: if RBC staff involved in the implementation and delivery of 15% Local CIL schemes do</i>					
1	It is recommended that policies and procedures governing CIL, including the 15% aspect, are periodically reviewed and updated to ensure these reflect both the latest local and legislative requirements and that these are updated on the website.	Priority 2	Agreed.	Planning Policy Manager / CIL Officer	End of March 2021
2	<p>The discrete roles and responsibilities of Planning staff and other staff responsible for the delivery of 15% Local CIL schemes need to be reviewed, understood and adopted by all parties. It is recommended that these are reviewed, documented, approved and then adopted. These should include reference to the work of other services used in the delivery of such schemes, i.e. Legal Services. In particular these should concisely address and include responsibility for:</p> <ul style="list-style-type: none"> <li>• roles and activities of the different services and officers involved</li> <li>• the early capture and recording of the purpose and cost of schemes</li> <li>• the coordination and monitoring of schemes</li> <li>• the timely delivery and reporting of schemes.</li> </ul> <p>These guidelines should also define the role(s) of each project officer in respect of their responsibilities for 15% CIL schemes and their commitment to work with and to respond to other officers' enquiries as necessary.</p> <p>Once documented, these roles and responsibilities should be agreed and authorised as appropriate by the CIL Working Group(s) and then copied to 15% CIL scheme managers</p>	Priority 1	Agreed that a formal process as described would have provided governance and oversight to the projects. Noted that some of the projects have been implemented without the need for detailed governance and that it is disappointing that in some areas responsible officers did not feel that they had sufficient clarity over the task to bring forward the project in a timely way.	<p>Planning Policy Manager / CIL Officer/ Support from relevant project management team.</p> <p>To be agreed and authorised as appropriate by the CIL Working Group</p>	End of March 2021

### APPENDIX 3

Management Action Plan					
Ref	Recommendation	Rec	Management Response	Responsible Officer(s)	Target Date
<b>GOVERNANCE</b>					
<i>RISK: Without clear terms of reference there is a risk the focus and purpose(s) of the distinct 15% CIL review forums could be confused and so not achieved, as intended.</i>					
3	It is recommended that simple, clear terms of reference are established for both the Officer and Member 15% Working groups and that these are periodically reviewed and updated, if necessary. In particular the terms should specify the purpose and frequency of meetings and composition of membership.	Priority 3	Agreed	AD of Environmental & Commercial Services / Deputy Director of Planning, Transport & Regulatory Services	March 2021
4	In order to ensure that the required outcomes are clearly defined at the earliest stage possible, it is recommended that a simple Project Initiation Document (PID) is completed and agreed for each 15% CIL scheme and a copy held by the Infrastructure Monitoring Officer. This should include the following suggested details and inform the regular monitoring by the respective officer / Member working groups: a) The purpose for each scheme or project and a brief narrative or overview b) Details of the Member approval process c) Details of assigned responsible officer(s) and their roles d) Budget and scope of the scheme (details of what is to be achieved) e) Any potential risks or obstacles f) Start / finish target dates g) Any reporting milestones.	Priority 2	Agreed	CIL Officer	PID to be used for remaining outstanding projects (complete by end of Feb 2021) and for new projects.

### APPENDIX 3

Management Action Plan					
Ref	Recommendation	Rec	Management Response	Responsible Officer(s)	Target Date
<b>GOVERNANCE</b>					
<i>RISK: Without clear terms of reference there is a risk the focus and purpose(s) of the distinct 15% CIL review forums could be confused and so not achieved, as intended.</i>					
5	It is recommended that a record of notification of each assigned officer is retained and that additionally it is recommended that the Service Manager of the assigned responsible officer (see recommendation 4c above) is also notified so that they can / should monitor delivery of the scheme(s).	Priority 3	Agreed	CIL Officer	to be used for remaining outstanding projects (complete by end of Feb 2021) and for new projects.
<b>ACCOUNTING AND ACCOUNTABILITY OF 15% CIL INCOME AND EXPENDITURE AND PROJECT ACTIVITY</b>					
<i>RISK: Without adequate financial reporting access or information, it is difficult to properly, accurately and regularly monitor and account for all 15% CIL project income and expenditure and scheme progress</i>					
<i>RISK: Weak financial control(s) could lead an increased potential for theft or fraud to happen, possible censure or qualification of financial statements and / or reputational issues</i>					
6	Issues around accurate financial reporting and the Infrastructure Monitoring Officer having the necessary reporting or access to Oracle Fusion need to be resolved, in order to be able to provide required financial accountability and reporting of 15% local area CIL funded schemes. It is recommended this is followed up with the support of the Assistant Director of Environmental & Commercial Services.	Priority 2	Agreed	Assistant Director of Environmental & Commercial Services	31.3.2021
7	It is explicitly recommended that in the Infrastructure Monitoring Officer experiences either poor or no assistance from the managers of the 15% CIL schemes that this should be reported to the Planning Manager and /or Deputy Director of Planning, Transport & Regulatory Services for their intervention, support and follow up.	Priority 2	Agreed. To be referred to in the roles and responsibilities referred to under action 2	Planning Policy Manager / CIL Officer/ Support from relevant project management team.	31.12.20

## APPENDIX 3

### 4. FINDINGS

#### 4.1 RBC'S CIL SCHEME IS UP TO DATE, IN LINE WITH BEST PRACTICE AND IS VISIBLE VIA THE WEBSITE

4.1.1 There are various documents and policies relating to the CIL and S106 schemes on the Council's website under the Planning page.<sup>12</sup> In particular under the Help with planning area, there is specific reference to the Community Infrastructure Levy Charging Schedule, as well as a detailed procedure to applicants and RBC's current CIL rate summary together with the 'CIL Regulation 123 List'. The latter however is the only one to refer to the 15% element.

4.1.2 Given the technical and legislative nature of much of this documentation, it was not possible to assess whether the content and / or detail was necessarily up to date in terms of being reflective of legislative requirements, but as a general comment it was clearly set out and straightforward to locate.

4.1.3 Notwithstanding the above, it was noted that on the Planning page of the RBC website that:

- a) the CIL Charging Schedule is dated January 2015; and
  - b) The CIL Guidance for Applicants and Developers is dated February 2015.
- (REC. 1)

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#### 4.2 ROLES AND RESPONSIBILITIES FOR THE DELIVERY, MONITORING, MANAGEMENT AND REPORTING OF CIL FUNDED SCHEMES ARE CLEARLY DOCUMENTED, UNDERSTOOD AND ADHERED TO

4.2.1 The principal weakness identified around the use and delivery of the 15% local area CIL funded schemes is around roles and responsibilities. Through interviews with managers and staff responsible for delivering CIL funded projects, it was apparent that there is no consistency in their understanding of the roles and responsibilities of the different parties involved, and in particular around the planning and delivery of schemes. This main reason for this is the absence of a documented framework that sets out these discrete roles and responsibilities.

4.2.2 Managers specifically commented that as well as not being fully clear (or having received any instruction or training) about roles and responsibilities in respect of this, they were uncertain about balancing and prioritising of these 15% local area CIL schemes against delivery of their core work requirements or functions. (REC 2)

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<sup>12</sup> <https://www.reading.gov.uk/planning/help-with-planning/>

## APPENDIX 3

- 4.2.3 One of the main concerns identified by CIL scheme delivery managers, was a frustration about not having an early input at the initial decision and allocation determination stage(s). In particular, to contribute suggestions as to timings and also as to whether potential schemes could be run in parallel or adjacent to planned mainstream work(s), as this could have potential savings advantages and / or reduction in disruptions of service to users or the public. (REC. 2 & 4)
- 4.2.4 In the case of one of the largest of the 15% CIL schemes, the assigned project managers had limited detailed knowledge or understanding of the required outcomes, because they had recently taken over responsibility for its delivery with minimal apparent briefing. This is important as it is understood that its delivery involves an application for planning permission, as well as close working partnership with the NHS as well as a community partner. (REC. 4)
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### 4.3 THERE IS A ROBUST PROCESS IN PLACE FOR THE RECORDING AND RECONCILIATION OF OBLIGATIONS AND EXPENDITURE

- 4.3.1 The Infrastructure Monitoring Officer provides a key control function in the day to day record keeping administration and accountability over 15% CIL schemes (as well as for S106 income and expenditure). To this end the Infrastructure Monitoring Officer maintains a key spreadsheet that documents progress and financial activity of schemes.
- 4.3.2 To be able to maintain control and accountability the Infrastructure Monitoring Officer has sometimes been frustrated about the engagement of other officers to respond to his requests for updates and information, in order that full and complete records can be maintained. (REC. 2 & 7)
- 4.3.3 Another obstacle to the Infrastructure Monitoring Officer being able to provide a complete, up to date and consolidated record of activity, has been a problem in getting consistent financial information from or access to Oracle Fusion codes that would allow him to account for and identify all related income and expenditure. This was previously also the situation for S106 schemes, although access to the specific range of codes was eventually enabled. In respect of the 15% CIL schemes however, this is not the case and has been an ongoing matter that it is known to have been raised with various financial managers in the past, yet still remains unresolved. (REC. 6)
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### 4.4 THERE IS AN APPROPRIATE AND COHERENT GOVERNANCE STRUCTURE IN PLACE TO MONITOR THE DELIVERY OF CIL FUNDED SCHEMES

## APPENDIX 3

4.4.1 The issue about roles and responsibilities is addressed in more detail in section 4.2 above, but one of the main practical obstacles hindering the efficient delivery of these schemes was identified as being an absence of a simple terms of reference or standard Project Initiation Document (PID) or equivalent, that sets out some specific details and parameter(s) for each 15% Local CIL scheme. This would have the benefit of establishing a consistent yet simple framework of governance. This could simply set out:

- a) The purpose for each scheme or project and a brief narrative or overview
- b) Details of the Member approval process
- c) Details of assigned responsible officer(s), their roles and confirmation of their participation
- d) Budget and scope of the scheme (details of what is to be achieved)
- e) Any potential risks or obstacles
- f) Start / finish target dates
- g) Any required reporting milestones. (REC. 4)

4.4.2 Since the Member Strategic Briefing in the summer, the Executive Director for Economic Growth & Neighbourhood Services had appointed the Assistant Director of Environmental & Commercial Services to head up a CIL Working Group to review the status of the 15% Local CIL schemes and it is evident (and positively acknowledged by contributors to this audit) that this measure has introduced energy, impetus and control to the overall management, governance and delivery of schemes.

4.4.3 The CIL officer working group is made up from the following and currently meets each week:

- the Assistant Director of Environmental & Commercial Services
- the Infrastructure Monitoring Officer
- the Area Planning Team Leader
- the Regulatory Services Manager
- 15% Local CIL scheme project managers

4.4.4 In addition to the CIL Working Group there is a Member CIL 15% Working Group that has met every 4 - 6 weeks and that includes:

- the Executive Director (DEGNS)

## APPENDIX 3

- the Deputy Director of Planning, Transport & Regulatory Services
- the Assistant Director of Environmental & Commercial Services
- Councillors
- the Infrastructure Monitoring Officer
- the Area Planning Team Leader
- 15% Local CIL project officers, as required.

4.4.5 Agendas and minutes for both forums are documented and have been seen as part of this review. These appear sufficiently detailed and produced on a timely basis by the Executive Assistant. As far as can be ascertained there are no specific terms of reference for these forms. (REC. 3)

4.4.6 The format of the meetings is specifically focused on schemes as recorded on a control or master spreadsheet as well as being the forums at which future CIL 15% allocations are discussed.

4.4.7 Certain managers spoken to as part of this review reported that there have been occasions where there has been an issue with the availability and timeliness of legal advice from the assigned officer with Legal Services' team. This issue was followed up with the Assistant Director of Legal & Democratic Services as part of this review, and who commented that this had not previously been brought to his attention, but that when it was an additional temporary resource was provided together and since then a long(er) term replacement has been arranged. (REC. 7)

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### 4.5 WHERE THERE IS SLIPPAGE IN THE DELIVERY OF A CIL FUNDED SCHEME, THEN THE REASONS FOR THIS ARE IDENTIFIED, APPROPRIATELY JUSTIFIED, REPORTED AND AGREED

4.5.1 The Infrastructure Monitoring Officer advised that as well as experiencing issues about accessing financial information, there have also been occasions

## APPENDIX 3

when certain 15% CIL schemes project managers have been slow in providing information or updates on the progress or status of 15% CIL schemes, although this has improved with the stewardship of the two CIL working groups. (REC. 7)

- 4.5.2 Staff and managers assigned to the delivery of the 15% schemes have commented that these initiatives have helped to reinvigorate progress on these schemes, identifying any blockages and then working to resolve these so that schemes can progress and be delivered. It is evident from review of documentation that this has helped to progress schemes and drive through changes. In particular the Group(s) have helped to identify areas / aspects contributing to delays and to directly intervene, where appropriate.
- 4.5.3 One of the issues identified through meeting the staff and managers responsible for delivering CIL 15% projects, was that some were not fully aligned or aware of the original scope, timescales or required outcomes as they were not engaged in the original process, indeed some commented that had they been they could have given proactive advice about the likely cost(s) and timing of schemes, as well as seeking a steer about the prioritisation of the tasks, when considering mainstream and planned works. (REC. 5)
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## APPENDIX 4

# Internal Audit Report - Records Management & Document Retention

## Final Internal Audit Report

### RECORDS MANAGEMENT AND DOCUMENT RETENTION POLICY

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To: Michael Graham - Assistant Director of Legal and Democratic Services  
Nayana George - Information Governance and Compliance Manager  
Ricky Gill - Information Governance Officer  
Donna Pentelow - Assistant Director of Culture  
Jackie Yates - Executive Director of Resources



From: Kirsty Hancock

Limited Assurance

Date: 15th January 2021

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#### EXECUTIVE SUMMARY

#### 4. BACKGROUND

- 1.1 Under the Data Protection Act 2018 and GDPR, personal information cannot be retained for longer than is necessary for the purposes that it is required. A Data Retention Policy should also be in place to detail how long information should be retained for and how to safely and securely dispose of information.
- 1.2 The Council's Records Management Policy dates back to 2009 and is available on the Council's previous intranet (IRIS). There is a draft Information and Records Management Policy that has yet to be formally approved and implemented.
- 1.3 Due to the current situation in relation to coronavirus, audit testing has been restricted and, where undertaken, was conducted remotely, mainly via interviews with a selection of managers. As a result, some of the information supplied or reported to us has not been physically verified.

## APPENDIX 4

### 5. OBJECTIVES & SCOPE OF THE AUDIT

2.1 The purpose of the audit was to determine whether teams understood and were complying with the Council's document retention and disposal policies.

The review encompassed the following areas:

- Ensuring that there was a Records Management and Document Retention Policy in place
- Ensuring that there was appropriate records management support
- Ensuring that Information Asset Registers were in place
- Ensuring that there was appropriate records tracking / filing
- Ensuring that individual Directorate and Team Retention Schedules were in place
- Ensuring that document retention was in line with retention schedules and policy
- Ensuring that there was appropriate information sharing protocol
- Ensuring that there was adequate training and advice

2.2 Archiving was not specifically covered as part of the audit.

2.3 This audit (and report) was undertaken in accordance with the Public Sector Internal Audit Standards ([PSIAS](#)).

### 6. CONCLUSIONS

6.1 The audit has flagged a number of areas of concern that need appropriate consideration, decisions and implementation, to ensure that the Council is adequately responding to and addressing the various potential and significant risks in this area. Failure to address these could have financial and reputational implications for the Council.

6.2 The fundamental issue is a lack of an up-to-date, agreed records management and document retention policy, which clearly details roles and responsibilities, and incorporates the areas highlighted in ICO guidelines. This will help ensure that the Council is meeting relevant statutory and legal requirements.

6.3 Once agreed, there needs to be a means for the policy to be rolled out and widely understood across the Council, to ensure common understanding and consistency.

## APPENDIX 4

- 6.4 Appropriate training and support is also required to support the policy and ensure that it is fully embedded.
- 6.5 There also need to be clear links between Information Governance, Modern Records and individuals across the Council responsible for records management on a day-to-day basis, in addition to a centralised register of all records held.
- 6.6 Risks relating to records need to be clearly documented and Data Protection Impact Assessments updated to reflect changes in ways of working.
- 6.7 Services need to be aware of and action their responsibility to review records at the end of the retention period and either retain or dispose, as appropriate.
- 6.8 A total of eight recommendations have been made in respect of this review, of which two are considered high priority. The recommendations and corresponding management action plan are attached at Appendix 1.

APPENDIX 4

Management Action Plan					
Ref	Recommendation	Rec	Management Response	Responsible Officer(s)	Target Date
<b>RECORDS MANAGEMENT AND DOCUMENT RETENTION POLICY</b>					
<i>RISK:</i> Inconsistent understanding of roles and responsibilities and lack of consistency of approach across the organisation leaving the Council potentially exposed to legal and reputational challenge and / or censure					
1	<p>The revised policy needs to be reviewed in conjunction with ICO guidelines (to ensure all areas are covered or reference made to relevant associated policies and legislation). It also needs to clearly define roles and responsibilities, include Council systems and records for obsolete teams, link to the Council's corporate plan, and take an integrated approach to records, regardless of their format.</p> <p>The policy then needs to be formally approved, made available to all staff and included as part of induction for new starters, with regular reviews conducted to ensure compliance.</p> <p>The policy also needs to be fully supported by senior management, with regular updates on progress against the policy provided to them.</p> <p>Where responsibility is delegated to teams and services, there needs to be appropriate local policies/guidelines in place.</p>	Priority 1	<p>This is agreed. A review of the Records Management Policy reveals that it needs further details as identified and that it needs to be formally agreed and steps taken to operationalise it. Some of this work overlaps with existing workstreams under the Smarter Working Project (unstructured electronic data) and Information Governance Board (other data).</p> <p>Immediate actions have been identified:</p> <p>(A) - Ricky Gill to engage Mark Stephens - determine position of Document Retention Policy.</p> <p>(B) Chris Marr /Ricky Gill - use ROPA documents as core feeds into overall policy.</p> <p>(C) Update of Policy - based on summation of ROPA docs, alignment of Information Asset Owners, and regular reviews of individual service areas.</p> <p>(D) Policy not limited to Smarter Working - other localised systems (and data contained) need to be factored in also.</p> <p>(E) Discuss with Donna Pentelow the role of Records Management in Information Governance Board.</p>	<p>Michael Graham, Assistant Director of Legal and Democratic Services</p>	<p>End March 2021</p>

APPENDIX 4

Ref	Recommendation	Rec	Management Response	Responsible Officer(s)	Target Date
RECORDS MANAGEMENT SUPPORT					
<i>RISK: There is a lack of consistent application and implementation of records management and document retention</i>					
2	<p>There needs to be clearly defined links between the Information Governance team, Modern Records and individuals responsible for records management and document retention across the Council. All staff need to be aware of this and consideration also given to documenting this role in relevant job descriptions.</p> <p>Consideration needs to be given to reviewing and rationalising records management risks at corporate and directorate level, distinguishing between strategic risks (reflected at corporate level) and operational risks (reflected at service/team level).</p>	Priority 2	<p>This is agreed.</p> <p>Immediate actions have been identified:</p> <ul style="list-style-type: none"> <li>A) Initially - extend IG Board to Modern Records - (A) Nayana George</li> <li>B) IG Policy Alignment with Modern Records (to ensure following same approach) necessary</li> <li>C) Chris Welfare - check ISO - to identify any information lifecycle best practices we can use to apply to the policy generally and discuss with Modern Records.</li> <li>D) Determine consistent data classifications between IG and Modern Records</li> <li>E) Develop an Information Governance Strategy/Mandate - requesting input to improved local information management/strategy. (template and example) - Raise in IG Board - development of a business-level information management strategy - with a view to empowering local teams to 'own' their proposed improvements and identify local risks.</li> <li>F) Re-engineer cross-authority IG network to share best practices, issues and knowledge support. (Mike Graham to initiate early 2021, follow up with Ricky Gill)</li> <li>G) Engage HR regarding the inclusion of IG responsibilities in job descriptions.</li> </ul>	<p>Michael Graham, Assistant Director of Legal and Democratic Services</p>	<p>End Sept 2021</p>

APPENDIX 4

Ref	Recommendation	Re	Management Response	Responsible Officer(s)	Target Date
<b>INFORMATION ASSETS REGISTER</b>					
<i>RISK: Lack of clarity and oversight over all records, including that appropriate action is taken when the end of retention periods are reached</i>					
3	<p>There should be a centralised register, detailing records held across the Council, their format, location and responsible officer.</p> <p>Consideration also needs to be given to clearly documenting and addressing risks associated to records.</p> <p>Data Protection Impact Assessments (DPIAs) need to be reviewed and updated as necessary to reflect any changes to processes. Where processes have changed (as a result of coronavirus or for other reasons), any associated risks need to be identified and addressed (for example issuing guidance to, and ensuring adherence of, panel members now meeting remotely, on the need for timely, secure destruction of personal sensitive information).</p> <p>Risks relating to records remaining useable need to be identified and appropriate controls put in place.</p>	Priority 1	<p>This is Agreed.</p> <p>The creation of an Information Asset Register is part of IGAP project.</p> <p>ROPA collation will identify retention for all directorates/business level - which will feed into Smarter Working Information Architecture - outlining classification, retention, and post-retention activities.</p> <p>Status report for CMT based on progress towards improved Records management compliance, and risks (as best understood, based on current understanding/documentation) for further granularity. Based from interpretation of current status (RAG) - (A) - Ricky Gill to create.</p> <p>DPIA's relate to new initiatives - undertake collation of DPIA index - summarising all current DPIA's</p> <p>For other risks - an approach to be developed following review of ROPA and Information Asset Registers - this will be under auspices of IGB</p>	Michael Graham, Assistant Director of Legal and Democratic Services	End Sept 2021
4	<p>Consideration to be given to including particular reference that electronic records are regularly backed up and specifically identifying critical records for teams to be able to function in Business Continuity Plans (BCPs).</p>	Priority 3	<p>Agreed - Business Continuity - Restore of data from offsite backups is likely to be slower than services anticipate - could be revisited as result of new Service Provider. There is learning from Pandemic response which we need to pick up and bring into revised business continuity plans to make sure service level information is collated into a corporate management approach which feeds back into business continuity documents.</p>	Michael Graham, Assistant Director of Legal and Democratic Services	End Dec 2021

## APPENDIX 4

Ref	Recommendation	Re	Management Response	Responsible Officer(s)	Target Date
<b>RECORDS REFERENCING, INDEXING AND FILING</b>					
<i>RISK: Records are unable to be located when required</i>					
5	<p>There should be a clear understanding regarding roles and responsibilities in relation to old and closed records and action required at the end of retention periods, including for those held in the Modern Records Office and Mosaic.</p> <p>Where possible, retention periods for records should be set on document management systems so that records are automatically destroyed once the end of this period is reached.</p>	Priority 2	<p>This is agreed.</p> <p>Modern Records:</p> <ul style="list-style-type: none"> <li>A) Initially - extend IG Boards to Modern Records - (A) Nayana George</li> <li>B) IG Policy Alignment with Modern Records (to ensure following same approach) necessary</li> </ul> <p>Mosaic</p> <ul style="list-style-type: none"> <li>A) ROPA being developed by Wendy Everett</li> <li>B) Determine status/remediation activities required on document retention/labelling</li> </ul>	Nayana George, Data Protection Officer	End June 2021
<b>DIRECTORATE AND TEAM RETENTION SCHEDULES</b>					
<i>RISK: Records are retained indefinitely, contrary to various legislation and best practice, and hence subject to disclosure for Freedom of Information/Subject Access Requests even when disposal deadlines have passed</i>					
6	<p>Retention schedules need to have clear version control / detail when they were last updated. They also need to be updated to reflect the current structures within the Council and either be specific enough to cover teams or teams have their own schedules.</p> <p>There needs to be a clear process in place, with clearly defined roles and responsibilities, for retaining and disposing of records in line with retention schedules and ensuring timeframes in schedules are adhered to.</p>	Priority 3	<p>Agreed.</p> <p>Needs to be reflected in Records Management Policy. ROPA and retention activities fulfilled.</p>	Nayana George, Data Protection Officer	End March 2021

### Management Action Plan

## APPENDIX 4

Ref	Recommendation	Re	Management Response	Responsible Officer(s)	Target Date
<b>INFORMATION SHARING</b>					
<i>RISK: Information shared is used inappropriately, causing damage to the Council's reputation and potential financial loss</i>					
7	The revised records management policy needs to include reference to information sharing protocols and/or reference to the relevant documentation and where this is addressed.	Priority 2	<p>Agreed.</p> <p>ROPA docs summarises what is being shared and should be associated Data Sharing Agreements/Privacy Notices.</p> <p>Subsequent Records Management policy will reinforce approach for longevity.</p>	Nayana George, Data Protection Officer	End June 2021
<b>TRAINING AND ADVICE</b>					
<i>RISK: Staff are unaware of appropriate action to take in relation to records management and document retention or from whom to seek advice</i>					
8	Awareness of appropriate training and refresher training needs to be fully embedded across the Council, with all staff, temporary and agency workers being required to undertake it. It also needs to be included within the new starters' induction checklist.	Priority 3	<p>Agreed</p> <p>ROPA training will be precursor to scheduling annual reviews of ROPA/local remediation activities. (Ricky Gill to progress).</p> <p>Review of relevant documents/policies to ensure easy signposting for IA owners to access.</p>	Nayana George, Data Protection Officer	End Sept 2021

## 4. FINDINGS

### 4.4 RECORDS MANAGEMENT AND DOCUMENT RETENTION POLICY

- 4.4.1 A records management policy is essential as it determines how an organisation creates, retains and manages its information and records.
  - 4.4.2 The policy currently in place (approved by the now defunct Document Management Board) dated from 2005. There was a revised version, which had yet to be approved, dated from 2017. It was noted that the current version did not include consideration of data held on various service-specific systems such as Mosaic or treatment of records for obsolete teams/departments. Neither policy covered all areas specified by the Information Commissioners Office (ICO) (Rec 1), for example identifying risks associated with records management as part of the risk management process, the need for regular review of records security against the policy, the need for access controls and business continuity plans.
  - 4.4.3 Both policies contained details of roles and responsibilities, including those of heads of service and staff in the current version. However, more detail was required in terms of high-level responsibility of the Modern Records and Information Governance teams and the Board and updating was necessary to reflect current roles and practices relating to records management across the Council (Rec 1).
  - 4.4.4 The policy was not available on the new intranet (however, it was available on Iris, the old intranet), although there was a dedicated records management section that referred to the policy. In addition, the new starters' workplace induction checklist did not explicitly include the records management policy. Discussion with a sample of managers across the Council identified that many thought this policy was the retention schedule (Rec 1).
  - 4.4.5 It was also identified from discussions with a sample of managers that in two thirds of cases (8/12), no review of adherence to the records management and document retention policy was conducted, with the remaining third (4/12) having conducted a review (Rec 1).
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## APPENDIX 4

### 4.5 RECORDS MANAGEMENT SUPPORT

- 4.5.1 Records management support is required to help interpret the records management and document retention policy, assist with queries and help ensure consistency of treatment of records and documents across the Council.
- 4.5.2 There was a disconnect between the Modern Records, Information Governance (and Legal and Committee Services) teams. Discussion with a sample of managers from across the Council identified that in approximately a third of cases (9/13), they had no links with the Modern Records/Information Governance team (as appropriate) (Rec 2). A recent restructure had led to the appointment of an Information Governance and Compliance Manager, which should help to address this.
- 4.5.3 There is an Information Governance Board, whose remit included this area. The Board has a commitment statement as well as terms of reference detailing their strategic objectives. Their aim is to set and monitor information governance standards across the Council, including establishing an appropriate tone at the top, promoting awareness, coordinating information governance policies and ensuring a consistent approach across the Council.
- 4.5.4 A Smarter Working Group has also been established, whose remit includes moving Council information held on various legacy applications and storage devices to Office 365 applications such as SharePoint and One Drive. This will help to address various policy requirements, including ensuring consistency and structure to how data is managed.
- 4.5.5 Managers sampled were clear as to who was responsible in their team for records management, although a review of directly related roles job descriptions identified that this was not necessarily defined within them (approximately one third of those sampled (4/14) did not have it included) (Rec 2).
- 4.5.6 A review of risk registers identified that the corporate risk register detailed the risk of information not being handled in accordance with relevant legislation and local policies. Records and information management was also included in the Directorate of Adult Care and Health Services and the Directorate of Resources risk registers, although this was again at a more strategic level, in line with what was included on the corporate level (Rec 2).
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## APPENDIX 4

### 4.6 INFORMATION ASSET REGISTER.

- 4.6.1 An Information Asset Register helps to ensure that all documents and records across the organisation are identified, together with their locations and owners.
  - 4.6.2 It was identified that there was no centralised register detailing records held across the Council, although four out of thirteen areas sampled identified that they either had a Record of Processing Activity (ROPA) or Data Protection Impact Assessment (DPIA) in place, which detailed some of this information (Rec 3). There were plans in place to compile ROPAs for each service.
  - 4.6.3 In the majority of cases sampled (9/11), managers were able to identify risks relating to their records, mainly focused around access control, although these were not necessarily documented (Rec 3). Also, where relevant, managers ensured that records remained useable (for example by checking records after transfer to a new system) using a test system and saving documents in standard formats. However, there were two instances where control issues were identified, namely documents being saved on staff members' personal drives that subsequently became inaccessible once staff members left the employment of the Council and also microfiche documents, where there was no reader to view them within the service (although another service did possess the necessary equipment) (Rec 3).
  - 4.6.4 There was one instance identified where a process had changed as a result of coronavirus, with panels that were previously held in person, now being held remotely instead. This meant that control over document destruction had changed as associated panel documentation was unable to be collected in at the end of the session, leading to panel members being responsible for destroying these in an appropriate manner (Rec 3). It was also noted that the DPIA had not been updated to reflect the change in process (Rec 3).
  - 4.6.5 The majority (80%) of teams sampled had Business Continuity Plans (BCPs) in place, with about half identifying the need for regular back up of information and critical records required for their service to function (Rec 4).
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### 4.7 RECORDS REFERENCING, INDEXING AND FILING

## APPENDIX 4

- 4.7.1 All managers approached and who responded indicated that there was a clear system in place for referencing, indexing and saving documents within their services, which helped to ensure consistency. In many instances, this was aided by various document management systems, which imposed various parameters on documents to ensure consistent naming and filing conventions. In addition, they also identified that records were stored securely, access to them was restricted and an audit trail of access was available. It should be noted that this was not physically verified by Audit.
- 4.7.2 Records on Ohms, the Council's housing management system, were in one of three formats - associated to a unique PIN, associated to a unique property reference number (UPRN) or associated to a unique account number. Letter templates were autosaved on accounts with autogenerated references, with ad hoc letters saved on information@work (i@w).
- 4.7.3 Individuals on Mosaic, the Council's social care system, were allocated a unique reference number, automatically generated by the system, with relevant documents attached. Access to Mosaic was restricted by username and password, only issued after relevant training had been completed and an application form completed by the user and authorised by their manager.
- 4.7.4 Records held on Academy, the Council's revenues, benefits and debt management system, were consistently referenced, titled and indexed due to system parameters in place. Access was limited by username and passwords which were only provided on completion of an approved user set up form and declaration of interests. There was an audit trail of all processes carried out in the system.
- 4.7.5 Access to Ohms was also restricted by unique usernames and passwords, with different levels of access rights and various audit trails. Access was requested by a user's manager and was regularly reviewed, with access locked and then accounts autodeleted if the password was not reset within 90 days.
- 4.7.6 Records held on information@work, the Council's document management system, were security rated on a scale, together with users. Users could only access documents up to the same security rating as they already possessed.
- 4.7.7 Records held on iShare, the Council's mapping system, were accessible to all users. Whilst there was the option to set up profiles to restrict access, this had not been taken up to date as the system did not hold any sensitive information.
- 4.7.8 In approximately half of the cases sampled, old records were archived/disposed of as appropriate. However, it was noted that it was unclear if a retention period was set on all Mosaic records, and all information on Ohms was retained

## APPENDIX 4

indefinitely, as there was no option to delete information held on the system (Rec 5). However, the replacement system for Ohms should address this issue.

- 4.7.9 Similarly, records held on In-Tend, the Council's electronic procurement system, could not be deleted and therefore were also held indefinitely. However, annual deletion of records held on Academy, where the end of the retention period had been reached, occurred. Information held on iShare was generally held indefinitely as teams needed to refer to it; however, records would be deleted if requested by the relevant service. This default retention of documents indefinitely has implications in terms of meeting statutory and legal requirements, the need to disclose information if requested under subject access requests, as well as the amount of storage required and the associated cost.
- 4.7.10 From discussions with a range of services, it was apparent there was a disconnect in understanding between services and Modern Records as to what should happen when the end of retention period was reached. Services should be contacted to confirm next action - whereas services often assumed that once the end of the period was reached, records were automatically destroyed. It was also noted that records held at Modern Records without a retention period detailed would be retained until informed otherwise (Rec 5).
- 4.7.11 There was also a similar lack of consistent understanding in relation to Mosaic records. It was identified that it was the user's responsibility to set and amend retention periods to cases within the system. Once the end of the retention period was reached, users should contact ICT to arrange deletion (Rec 5). Work was being carried out within Adult Social Care to ensure that old records that had passed their retention period were destroyed and that retention periods were set on Mosaic.
- 4.7.12 Information@work possessed a document retention module where retention periods for records could be set and records automatically deleted once the end of the period was reached. However, this function was not widely used by services, meaning that services needed to individually review records, identify retention periods and manually delete records once the end of the retention period was reached. This had led to some records being retained indefinitely by default, in addition to a lack of consistent understanding between the i@w team and services as to whether documents were automatically deleted once the end of retention periods was reached (Rec 5).
- 4.7.13 A recent review of i@w by a consultant<sup>13</sup> had identified that there were no consistent information lifecycle management processes, best use was not being made of the system and the versions used were out of support, with known defects and vulnerabilities.

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<sup>13</sup> Review conducted by Channel 3 Consulting in August 2020

### 4.8 DIRECTORATE AND TEAM RETENTION SCHEDULES

- 4.5.1 Retention schedules identify the types of records held, together with how long they should be retained, in line with relevant statutory and legal requirements and good practice.
  - 4.5.2 It was generally observed that retention schedules were in place for services, although they did not have clear version control, detail when they were last updated or reflect the current structure of the Council (Rec 6). However, they did take account of relevant statutory and legal requirements as detailed on LG Inform Plus and were produced by the Senior Information Governance Officer, with input from some service staff.
  - 4.5.3 In all cases where there was a retention schedule in place, there were details of how long records should be retained and what records should be retained permanently, and in most cases when records should be destroyed. In discussion with a selection of managers, it was noted that whilst some teams did have their own retention schedules, where this was not the case, service ones were sometimes not specific enough (Rec 6). Generally, all records were covered by retention schedules.
  - 4.5.4 As detailed in section 4.4, records held in various Council systems and at Modern Records were not necessarily being destroyed when the end of the retention period was reached.
  - 4.5.5 Discussion with a selection of managers identified that in about half the cases either some or regular checks/disposal were carried out to ensure compliance with retention schedules, with a third indicating there either was no regular review or records were not kept in line with retention policy (Rec 6).
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### 4.9 DOCUMENT RETENTION

- 4.9.1 In the majority of cases sampled, managers indicated that relevant records were retained permanently, and these were verified to the relevant retention schedules. However, there was one case where records were kept permanently by default as records were unable to be deleted from the system they were

## APPENDIX 4

stored in (In-Tend, the Council's electronic procurement system), as identified previously (4.4.6). This was also the case for Ohms, the Council's housing management system and for information@work, the Council's document management system, where services were not making use of the document retention module.

- 4.9.2 As detailed earlier, this default permanent retention of records has statutory and legal implications (as information should not be retained for longer than necessary), as well as then necessitating disclosure for relevant subject access requests, and financial implications as storage requirements are increased.
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### 4.10 INFORMATION SHARING

- 4.10.1 The Information Commissioners Office detailed that there should be clear policies, procedures and guidance for data sharing. Review of the existing records management policy identified that this was not included in it. There is however a small section in the proposed revised policy about information sharing, referring to the Information Security policy and individual teams' responsibilities to create protocols for data sharing (Rec 7).
- 4.10.2 However, discussion with a sample of managers identified that in the majority of cases where information was shared, they were aware of agreements in place.
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### 4.11 TRAINING AND ADVICE

- 4.11.1 Training and advice is key to ensuring that staff are aware of and implementing relevant policies in a consistent manner, and are able to access assistance as and when required, which also helps ensure that the Council is meeting statutory and legal requirements.

## APPENDIX 4

- 4.11.2 It was identified that information governance training on Learning Pool included a section on records management, covering the lifecycle of data, its storage, retention and disposal, as well as appropriate labelling and an agreed filing system, recording details of it in an information asset register and regular review of records. This training should be covered as part of the induction that new starters need to complete within the first week of commencing employment at the Council, although it was noted that it was not explicitly included in the new starters' induction checklist. There was also face-to-face training on Information Assets Ownership (IAO) for the Public Sector held for Heads of Service in 2018 to promote an understanding of IAO and its use on a day-to-day basis.
- 4.11.3 However, discussion with a selection of managers identified that in approximately half the cases, they were not aware of or had not received any records management training (Rec 8).