



Internal Audit Report  
Chief Executive's Service  
Employee Expenses – Assignment No. 14-08  
November 2014

## Final Report

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



## Background and Introduction

This audit was carried out as part of the audit plan for 2014/15, which was approved by the Audit Committee on 2 April 2014.

Employees can claim for eligible expenses according to procedures and guidance issued by Human Resources and Finance Division. Authorising managers are required to check that claims are valid and accurate. Once approved, claims are processed through the Council's payroll system, operated by Finance Division's Employment Services Team. Most claims are made online via MyView. Some staff lacking regular access to the Council's IT network continue to claim on paper forms. The annual cost of these allowances across the Council is just over £1 million.

## Acknowledgements

Internal Audit acknowledges with thanks the co-operation received during this audit from the Employment Services Team (Finance Division) and from Human Resources.

## Control Objectives and Opinions

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

Control Objective: To ensure the adequacy of the Council's policy in respect of employee payments	
Auditor's Comments: Audit review found that the policy in respect of employee expenses is robust, and testing confirmed that effective automated controls are in place along with extensive guidance for claimants and managers. However, the policy has not been presented to Council or committee for approval. In addition, there is scope to review and better integrate the guidance to address the risk of misinterpretation and minimise the time spent on submitting and authorising claims.	
Strength of Internal Controls:	Moderately strong

Control Objective: To ensure that payments made to or on behalf of employees are accurate
Auditor's Comments: There are automated controls built in to the Council's MyView system. For example, managers can only approve claims from their own staff; and managers are reminded to check the supporting evidence for claims. However, Internal Audit found it difficult to fully verify some claims on the basis of the information submitted with the claim. The audit also found that some claimants are not keeping their fuel receipts, which may be needed to evidence the Council's

## Internal Audit Report

reclaim of VAT from Her Majesty's Revenue and Customs (HMRC).	
Strength of Internal Controls:	Moderate

### Management Action and Follow-Up

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

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

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

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

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

### Feedback

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

### Distribution

The final report will be distributed to:

B Malone, Chief Executive

J Symon, Head of Finance

K Donaldson, Corporate Human Resources Manager

E Sturgeon, Chief Exchequer Officer, Finance

A Ramsay, Assistant Payroll Manager, Employment Services Team, Finance,

K Ridley, Personnel Manager, Human Resources

G Taylor, Head of Democratic Services

P Dickson, Complaints & Governance Officer

External Audit

## Authorisation

The auditor for this assignment was R D Watt. The supervising auditor was M Morrison.

This report is authorised for issue:

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Jacqueline Clark  
Chief Internal Auditor  
Date: 3 November 2014



## Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Council policy and employee expenses	Low
2	Guidance on the intranet regarding expenses	Low
3	Retention of VAT receipts	Medium
4	Claim details and authorisation checks	Low
5	Corporate and Service oversight of claims	Medium





## Appendix 2: Action Plan

### Action Point 1 - Council policy and employee expenses

According to the Scheme of Administration, the Strategic Policy and Resources Committee is responsible for oversight of human and financial resources (paragraphs 12.2.8.1 and 12.2.6.1).

The Policy Statement on travel and subsistence allowances has not been presented to any Council Committee for approval and there is uncertainty as to whether such approval should be sought for this type of policy.

### Management Action Plan

The policy currently in place is well known to managers and staff, and no changes are envisaged, so there is no urgent need for presentation to Council / Committee.

The Council's HR policies are reviewed at regular intervals on a cyclical basis. The approval process for all of these policies is currently being reappraised. On the next occasion when the policy for travel and subsistence is reviewed, then it will be dealt with in accordance with the approval procedure in effect at that time.

Importance:	Low
Responsible Officer:	K Ridley, Personnel Manager, HR
Lead Service:	Chief Executive's Service
Date for Completion (Month / Year):	August 2015
Required Evidence of Completion:	Updated travel and subsistence policy and note explaining how approval process applied complies with agreed new practice

### Auditor's Comments

Satisfactory

## Action Point 2 - Guidance on the intranet regarding expenses

The council's intranet site, ERIC, provides information to employees and budget managers on how to claim for expenses and how to check claims; for online claims, there is also guidance on MyView. The Human Resources Division has produced guidance on the general principles for ERIC and Finance Division has produced guidance for both ERIC and MyView.

The guidance would benefit from revision as the volume of this guidance may be unnecessarily complex and confusing for staff and managers and may result in spending a disproportionate amount of time on claim submission and verification. In addition, the guidance does not make it clear that fraudulent claims may result in criminal prosecution. Furthermore, the Human Resources guidance recommends that staff should use ERIC's "ready reckoner" to estimate distances travelled, however this is approximate at best and, with the advent of many online facilities, actual distances travelled can now be checked more accurately.

### Management Action Plan

The information provided on ERIC and MyView has grown over time in response to changing processes; e.g., the use of new software to handle claims from most staff.

Human Resources will work together with the Finance Division to revise the ERIC and MyView guidance, with a view to simplifying and consolidating the information for managers and staff.

Importance:	Low
Responsible Officer:	K Ridley, Personnel Manager, HR
Lead Service:	Chief Executive's Service
Date for Completion (Month / Year):	March 2015
Required Evidence of Completion:	Links to revised guidance on ERIC and MyView on procedures for travel and subsistence claim submission and authorisation

### Auditor's Comments

Satisfactory

### Action Point 3 - Retention of VAT receipts

According to the rules with regard to Value Added Tax (VAT), the Council can reclaim from HMRC the VAT which it pays on fuel used on Council business. This extends to the fuel used by staff in their own cars when these are used on Council business and reimbursed via employee expenses (i.e., mileage claims).

In order to reclaim such VAT, the Council must retain evidence of the VAT paid. This evidence may be inspected at any time by HMRC; if not made available, penalties may be imposed. Authorising managers are required to confirm that claimants have provided a valid VAT receipt. Staff are required to keep their own fuel receipts for a period of up to seven years.

Audit review of a sample of 29 claims found:

- In 24 cases, the claimant provided a receipt within six weeks of request;
- In 3 cases, the claimant failed to provide appropriate and timely documentation;
- In 2 cases, the claimant acknowledged having not kept a receipt.

### Management Action Plan

According to guidance on MyView, authorising managers should check at least annually that receipts are being retained by claimants.

Compliance with policy is a Service responsibility delegated to authorising managers. The Chief Exchequer Officer will issue a reminder of this to Executive Directors for cascade to authorising managers. The Chief Exchequer Officer will also raise the profile of the need for VAT receipts and associated checks with Service Financial Controllers at their next scheduled meeting.

Importance:	Medium
Responsible Officer:	E Sturgeon, Chief Exchequer Officer
Lead Service:	Chief Executive's Service
Date for Completion (Month / Year):	November 2014
Required Evidence of Completion:	1. Copy of reminder to Executive Directors 2. Copy of record of meeting of Service Financial Controllers

### Auditor's Comments

Satisfactory

#### Action Point 4 - Claim details and authorisation checks

Claims should record sufficient detail to permit their accuracy to be readily verified.

Audit review of a sample of claimed journeys found that in a number of cases there was insufficient detailed information to allow the accuracy of the claimed distance travelled to be verified.

#### Management Action Plan

According to the employee expenses policy and the Financial Regulations, it is the responsibility of Services to verify that claims are accurate and promptly submitted.

A reminder of the above will be issued to claimants and authorising managers.

Importance:	Low
Responsible Officer:	E Sturgeon, Chief Exchequer Officer
Lead Service:	Chief Executive's Service
Date for Completion (Month / Year):	November 2014
Required Evidence of Completion:	Copy of reminder issued to Services

#### Auditor's Comments

Satisfactory

## Action Point 5 - Corporate and Service oversight of claims

The Financial Regulations require Executive Directors to ensure “the prompt submission of accurate claims”; and the Head of Finance to ensure “adequate procedures are in place for checking claims” (paragraphs 12.2.2-3). Most claims are paid via the Integrated Human Resources and Payroll system, which incorporates automated checks (e.g., a Head of Service may authorise the claims of staff in that service but not the claims of staff in other services). There is detailed guidance for authorising managers on ERIC and MyView.

Audit review of a sample of journeys revealed that whilst some claims were for less than the distance as calculated by an online tool, some journeys appeared to have a claim for a greater number of miles. This was not always easy to ascertain due to the limited information recorded for some of the destinations visited. (See Action Point 4.)

## Management Action Plan

The audit’s findings indicate that there may be room for improvement in the verification of the accuracy of claims. Consequently, the Chief Exchequer Officer will review this issue with Services, with the aim of identifying appropriate means for Services to evidence improved performance on claim accuracy. Ultimately, however, ensuring the accuracy of claims is a responsibility of Executive Directors.

Importance:	Medium
Responsible Officer:	E Sturgeon, Chief Exchequer Officer
Lead Service:	Chief Executive’s Service
Date for Completion (Month / Year):	December 2014
Required Evidence of Completion:	Copy of review conclusions

## Auditor’s Comments

Satisfactory

