CROYDON

Final Internal Audit Report

Staff Expenses – Compliance Checks

June 2021

Distribution: Interim Executive Director Resources and Deputy Monitoring Officer

Director of Human Resources

Interim Director of Finance, Investment and Risk and S151 Officer

Head of HR and Finance Service Centre

Deputy S151 Officer

Assurance Level	Identified Issues	
No Assurance	Priority 1	4
	Priority 2	1
	Priority 3	0

Confidentiality and Disclosure Clause

This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

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Contents

Page

Executive Summary

1. Introduction 3
2. Key Issues 3

Detailed Report

3. Actions and Key Findings/Rationale 5

Appendices

1. Terms of Reference
2. Definitions for Audit Opinions and Identified Issues
3. Statement of Responsibility

CROYDON

Executive Summary

1. Introduction

1.1. At the end of each tax year, the Council has a legal requirement to submit a 'P11D' form to HMRC, notifying them of any expenses paid to staff.

1.2. Expense claims are submitted electronically via the My Resources system. In circumstances where the employee does not have access to My Resources, a paper expense claim form should be completed.

1.3. All expense claims must be reviewed and authorised by the employee's approving manager in accordance with the Council's Expense Management Policy. All claims must be submitted within 60 days of the expense being incurred, together with supporting documentation as verification of the expense. In instances where the 60-day deadline has exceeded, the expense must be authorised by the relevant director. Expense claims made 90 days after they are incurred are not eligible for reimbursement.

1.4. The 2019/20 audit on 'Expenses and Overtime Payments to Staff' had a 'No' assurance opinion.

1.5. The fieldwork for this review was completed during the government measures put in place in response to COVID-19. While our review and testing was performed remotely, we have been able to obtain all relevant documents required to complete the review.

1.6. The audit was undertaken as part of the agreed Internal Audit Plan for 2020/21 based on a risk assessment. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1.

2. Key Issues

2.1. This audit is assessed as 'No' assurance as four (of the five) priority 1 issues identified in the 2019/20 Expenses and Overtime Payments to Staff audit were also identified and reported as part of sample testing in this audit.

2.2. It is acknowledged that the expenses policy was updated and communicated to the organisation on 30 September 2020 (i.e. after the period we selected our samples for testing from) which may have had a subsequent impact on organisational practices. Notwithstanding, the Council does need to take further appropriate management action to improve compliance.

Priority 1 Issues
Compulsory Car User Forms were not located for 11 of the sample of 15 staff on the car allowance scheme tested. **(Issue 1)**
Testing of a sample of 30 approved expense claims found that nine of these should not have been approved (seven where appropriate supporting documentation was not provided, one for a parking fine and one for membership) and that nine of these had been incorrectly categorised. **(Issue 2)**

Analysis of a report of expenses claimed identified 12 instances where overpayment had occurred as a result of duplicate expense claims. **(Issue 3)**
Analysis of a report of expenses claimed identified that 240 expense items were authorised outside of the 90 days eligibility timeframe as defined by Expenses Management Policy. Furthermore, the required director written approval was not available for 14 out the sample of 15 (out of a total of 105) expense items submitted more than 60 days (and less than 90 days) after the expense being incurred. **(Issue 4)**
Priority 2 Issue
Analysis of a report of expenses claimed identified that 32 of these were approved more than 30 days after having being submitted. **(Issue 5)**

There were no Priority 3 Issues.

3. Actions and Key Findings/Rationale

Control Area 1: Claim is Appropriately Documented

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 1
1	Since this audit a revised expenses policy has been re-written and publicised to managers in September 2020. Since the update of the HR systems the vehicle engine size and emissions is entered on each claim form and this is approved by the authorising line manager. Internal HR process controls have been updated to require all application forms to be routinely filed on the central employee file once HR approval check is done. Copies should also be held by the local manager, who also verifies vehicle documentation. On the matter of gaps in documentation it is proposed to do a generic application update to all CCU authorise staff and invite to update details – this check will be administered by HR between June and August and any staff not	The Council's 'Car Allowances' document details that, *'New car users and employees who change their vehicle provide their line manager with original copies of their vehicle registration document and insurance certificate for the vehicle they will be using for work purposes. Managers are responsible for checking this documentation before approving any mileage claims made for the vehicle*.' Testing of a sample of 15 users from the Council's current 'Compulsory Car Users List' identified that a corresponding 'Compulsory Car User Form' for was not available for 11 of these. Furthermore, of the 4 that were available only one had supporting documentation containing a copy of the user's original car insurance policy. A similar issue was identified and reported in the 2019/20 Expenses and Overtime Payments to Staff audit. Where the Compulsory Car User Form cannot be provided, the engine capacity and Co2 emissions rating of compulsory car users is unknown and there is a risk that employees vehicles are incorrectly categorised and therefore paid at an incorrect rate for their mileage claims.

	resubmitting with updated manager approval will be removed from CCU status.	
Responsible Officer	**Deadline**	
Director of HR	1st September 2021	

Control Area 2: Claim has appropriate Supporting Documentation

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 2
1	A revised and updated expenses policy was re-issued and a reminder on key points and responsibilities issued on 30th September 2020. It is proposed to continue an annual reminder of both approvers and claimants obligations annually in September as part of the renewed focus on good governance and strong accountability frameworks. Any individual breaches of policy identified would be considered as appropriate under the council's human resources procedures.	The Council's Expenses Management Policy details that: • *'Individuals submitting claims are responsible for ensuring that their claims are in accordance with the requirements of this policy. Any misrepresentation of expenses may result in disciplinary action which could result in termination of employment.'* • *'Please note that only business expenses should be claimed via My Resources. Any service or service user related expenses incurred should be claimed via the Council's Ad hoc payment process.'* • *'Expenses will only be reimbursed if accompanied by a receipt for the expense incurred. Evidence for claims for expenses paid for by contactless card may include, for example, the journey log from the Oyster card account or bank statement for contact–less debit card.'* • *'Individual memberships or fees for professional accreditation will not be paid by the Council.'* • *'Parking and motoring fines are the responsibility of the employee and will not be reimbursed by the Council.'* Testing of a sample of 30 approved expenses from the period 1 January 2020 to 31 August 2020 identified the following expense claims which were in contravention of the Expenses Management Policy: • Expense Report 0161648579 - A £194.68 'Car Mileage' claim that was not accompanied by any supporting documentation. • Expense Report 0208524913 - A £166.96 'Car Mileage' claim that was not accompanied by any supporting documentation. • Expense Report 0202953074 - A £308 'Overnight Accommodation – Breakfast' claim that was not accompanied by any supporting documentation.

		• Expense Report 0167207746 - A £378.22 'Use of Public Transport' claim for a flight where just the boarding pass (and not a receipt or invoice) was attached. • Expense Report 0163136210 - A £23.38 'Use of Public Transport' claim with the description of 'Direct Work' was attached with a meal receipt • Expense Report 0173431945 - A £100 parking fine was claimed under 'Off streetcar Parking/Toll' • Expense Report 0195157742 - A £344 Professional Membership fee was claimed. Furthermore, the following nine expenses were incorrectly categorised: • Expense Report 0167286270 - A £256 expense claim described as 'taxis' was categorised as an 'Overnight Accommodation - Overnight Stay' expense type. • Expense Report 0179040106 - A £224.97 expense claim described as 'Home Office Furniture' was categorised as an 'Overnight Accommodation' expense type. • Expense Report 0161648579 - A £194.68 expense claim described as 'Salon' was categorised as a 'Car Mileage' claim. • Expense Report 0200649634 - A £33.15 expense claim described as 'Yellow paint for floor marking' was categorised as 'Overnight Accommodation'. • Expense Report 0195157742 - A £344 expense claim described as 'Professional Membership fees for 20/21' was categorised as 'Medical Fees/GP Certificates'. • Expense Report 0202957547 - A£110.12 expense claim described as 'RAP Sport Scheme Emergency Equipment Order (sanitisers, sprays and wipes)' was categorised as 'Medical Fees/GP Certificates'. • Expense Report 0199374068 - A £5.49 expense claim described as 'Small armed force flag for balcony flagpole' was categorised as 'Overnight Accommodation'. • Expense Report 0192303280 - A £31.02 expense claim described as 'PL Cleaning Item for Care Package' was categorised as 'Taxis'. • Expense Report 0183267198 - A £14.10 expense claim described as 'emergency food delivery to blind resident during lock down' was categorised as 'Medical Fees/GP Certificates'

		The above findings are recurring issues also identified in the previous audit in 2019/20. It should be noted that the managers/directors prior to approving claims are required to thoroughly check that the claims made are valid, correctly claimed and attached with valid supporting documentation.
Responsible Officer	**Deadline**	Where expense claims are submitted despite being invalid or an infringement to the Council's Expense Management Policy, there is a risk that these claims are reimbursed which causes financial loss to the Council. There is also a risk of potential financial penalties if the records were inspected by HMRC.
Head of HR Service Centre	September 2021	

Control Area 3: Claim is not Duplicate

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 3
1	At the time of the audit, there was an error in the reporting which incorrectly showed some duplicated records. This is resolved. It is possible; however, that legitimately there may be occasions where there are more than one journey of a same mileage in a day. So it is not possible to turn off multiple claims. Line managers are responsible for checking and authorising claims and there is no alternative available resource to double check each claim. In the proposed annual reminder of the expenses policy the care needed on authorising claims will be highlighted to approving managers in line with delegated authority.	Discussion with Head of HR and Finance Service Centre established that there were no specific controls in place to identify potential duplicates in the staff expense system (i.e. My Resources). Reliance is placed on the due diligence of the approving manager. Analysis of expense reports from 1 January 2020 to 31 August 2020 identified that 73 (out of 2444) staff expense report appeared to be duplicates. Further analysis by the Head of HR and Finance Service Centre determined that these duplicates were: -

Reason	No. of Claims
Overpayments resulting from duplicate claims.	12
Unknown reason.	2
System capturing identical claims more than once.	12
System reports capturing multi-level approval workflow as separate claims.	39
Genuine claims.	6
No financial effect - £0 amount claims.	2
Total	**73**

Where legitimate expenses are captured in a duplicated manner, there is a risk that true duplicates are harder to identify. While duplicate expense submissions may be honest mistakes, these may also include deliberate staff attempts to commit expense fraud. It is duplicate claims can be identified and appropriate action/s taken.

Responsible Officer	Deadline
Head of HR Service Centre	September 2021

Control Area 4: Claim is Timely

<table>
<tr><th>Priority</th><th>Action Proposed by Management</th><th>Detailed Finding/Rationale - Issue 4</th></tr>
<tr><td rowspan="2">1</td><td>Line managers are responsible for checking and authorising claims and there is no alternative available resource to double check each claim

In line with the updated expenses policy issued in September 2020 any exception to approval beyond 60 days has to have Exec Director authorisation.

In the proposed annual reminder of the expenses policy the care needed on authorising claims will be highlighted to approving managers in line with delegated authority.</td><td rowspan="2">The Council’s Expense Management Policy details that, ‘Expenses older than 90 days are not reimbursable. Approving Managers must not approve any expenses claims submitted which are older than 90 days.’ And that, ‘Any expenses older than 60 days requires the approval of the worker’s Director and may be not be reimbursed. Prior to submitting an expense claim older than 60 days email approval should be sought from the director and attached to the expenses claim in My Resources.’

Examination of a report of all expenses claimed from 1 January 2020 to 31 August 2020 identified that this included: -

• 240 expense items (95 expense reports) that were submitted after 90 days of the expenses being incurred; and

• 105 expense items (54 expense reports) that were submitted after 60 days (and less than 90 days) of the expenses being incurred. Examination of the supporting documentation held for a sample of 15 of these expenses was not able to identify the required written approval from a director, although one of the expenses had been workflow approved by a director.

Where expense claims are approved despite being an infringement to the Council’s Expense Management Policy, there is a risk that invalid expense claims are being paid to staff, causing financial loss to the Council. There is also a risk that it encourages staff not to be strict and adhere to other policies from the Expense Management Policy, which in turn could lead to more risks.</td></tr>
<tr><td><table>
<tr><th>Responsible Officer</th><th>Deadline</th></tr>
<tr><td>Head of HR Service Centre</td><td>September 2021</td></tr>
</table></td></tr>
</table>

<table>
<tr><th>Priority</th><th>Action Proposed by Management</th><th>Detailed Finding/Rationale - Issue 5</th></tr>
<tr><td>2</td><td>Once input by the employee, the HRM system automatically assigns an action to the authorising manager. If the authorising manager does not approve the claim within 21 days the approval notification escalates up through the line manager hierarchy.</td><td>Examination of a report of the 2,444 expense reports (claims) processed between 1 January and 31 August 2020 identified that 32 of these were approved by a manager more than 30 days after having being submitted by the employee, as follows:
<table>
<tr><th>Days Taken to approve</th><th>Number of Expense Reports</th></tr>
<tr><td>31-40</td><td>9</td></tr>
<tr><td>41-50</td><td>20</td></tr>
<tr><td>51-60</td><td>-</td></tr>
<tr><td>>60</td><td>3</td></tr>
</table>
Where there is a lack of timeliness in the approval and then the subsequent reimbursement of expense claims, there is a risk that staff might get frustrated which could affect their work. There is also a risk that staff might alter their next expenses to compensate for the delay in repayments.</td></tr>
<tr><th>Responsible Officer</th><th>Deadline</th><td rowspan="2"></td></tr>
<tr><td>Head of HR Service Centre</td><td>July 2021</td></tr>
</table>

Appendix 1

AUDIT TERMS OF REFERENCE
Staff Expenses – Compliance Checks

1. INTRODUCTION

1.1 At the end of each tax year, the Council has a legal requirement to submit a 'P11D' form to HMRC, notifying them of any expenses paid to staff.

1.2 Expense claims are submitted electronically via the My Resources system. In circumstances where the employee does not have access to My Resources, a paper expense claim form should be completed.

1.3 All expense claims must be reviewed and authorised by the employee's approving manager in accordance with the Council's Expense Management Policy. All claims must be submitted within 60 days of the expense being incurred, together with supporting documentation as verification of the expense. In instances whether the 60 day deadline has exceeded, the expense must be authorised by the relevant director. Expense claims made 90 days after they are incurred are not eligible for reimbursement.

1.4 The 2019/20 audit on 'Expenses and Overtime Payments to Staff' had a 'No' assurance opinion.

1.5 This audit is being undertaken as part of the agreed Internal Audit Plan for 2020/21.

2. OBJECTIVES AND METHOD

2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.

2.2 The audit will for each controls / process being considered:

- Walkthrough the processes to consider the key controls;
- Conduct sample testing of the identified key controls, and
- Report on these accordingly.

3. SCOPE

3.1 This audit included the following areas (and issues raised):

Control Areas/Risks	Issues Raised		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Claim is appropriately documented	1	0	0
Claim has appropriate supporting documentation	1	0	0
Claim is not a duplicate	1	0	0
Claim is timely	1	1	0
Council's Expense Management Policy	0	0	0
Total	**4**	**1**	**0**

Appendix 2

Definitions for Audit Opinions and Identified Issues

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are constantly applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance of the controls which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk,
	No Assurance	Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse and reputational damage.

Priorities assigned to identified issues are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area.

Appendix 3

Statement of Responsibility

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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