



Directorate Authority Wide
Audit Title Members Expenses

Opinion Substantial

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REPORT DISTRIBUTION

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The assistance of staff in providing help and hospitality during the audit is gratefully acknowledged.

Executive Summary

Introduction

1. As an addition to the original Annual Audit Plan for 2011/12 it has been agreed that an audit of Members' Expenses and other expenditure incurred on behalf of Members, for example the use of County Cars, will be undertaken to ensure that the current system is robust. This is an area of substantial public interest and consequently there is a need for independent assurance that payments made and expenditure incurred are appropriate, accurate and reported transparently. The overall objective of the audit was to provide assurance that the current system for review, approval and monitoring of Members' expenses and related expenditure is adequate to ensure all payments made are accurate and bona fide.
2. We selected a sample of Members expense claims from April 2011 to November 2011. The sample included the top ten claimants, Members in senior positions and a random sample taking into account the political makeup of the Council; in total 40 Members' claims were reviewed. In addition to this we interviewed those Members who had yet to make any expense claims in the current financial year.
3. For each claim in the sample a selection of individual journeys were identified and testing was undertaken to confirm the validity of the claim, using meeting attendance information, minutes from meetings, electronic calendars and where necessary other sources on the internet. In order to verify mileage claimed for journeys made we used a standard route planner and allowed 10% margin for use of alternative routes.
4. To ensure that we had full understanding of the current processes in place we interviewed officers from the Members' Desk and the Civic Office who are currently responsible for reviewing and approving Members expenses under the direction of the Head of Democratic Services.

Opinion

5. Based on the findings in this audit, we can give **substantial** assurance that the current system for review, approval and monitoring of Members' expenses and related expenditure is adequate to ensure all payments made are accurate and bona fide. Although we have made several recommendations to improve the current process, the assurance level takes into account that audit testing identified very few instances where expenses had been claimed incorrectly. Substantial assurance means that:

Some of the controls evaluated are generally well designed, appropriate in scope and applied consistently and effectively. However, issues of poor design, gaps in coverage or inconsistent or ineffective implementation have been identified that require immediate management attention. The issues identified, if unresolved, mean that objectives may not be achieved.

Main findings

6. There is a lack of detail on a number of claims in the sample (manual or electronic) to enable those officers approving claims to determine the legitimacy of the claim.
7. There are some inconsistencies in the number of miles claimed for individual journeys, even when allowing a 10% margin for variations. These inconsistencies occur in 12 Members' claims.

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8. The sample identified instances where claims for expenses have not been made within the time limits in accordance with Regulation 14 of the Local Authorities (Members' Allowances) (England) Regulations 2003.
9. Expenses have been processed and paid prior to spot checking for validity, and without being signed and approved by a Head of Department.
10. All payments to Members are recorded on the Council's financial system. The payments made are monitored on a monthly basis by officers within the Democratic Services team.
11. Payments are only made to Members only with supporting documentation, for example complete mileage log sheets, and supporting receipts for parking, public transport/hotel expenses. Payments made match the detail on the claim forms.
12. The Council has met its statutory requirement to publish a list of county councillors' allowances and expenses claimed every year.

Detailed Report

Introduction and Background

13. As an addition to the original Annual Audit Plan for 2011/12 it was agreed that an audit of Members' Expenses and other expenditure incurred on behalf of Members, for example the use of County Cars, will be undertaken to ensure that the current system is robust.
14. This is an area of substantial public interest and consequently there is a need for independent assurance that payments made and expenditure incurred are appropriate, accurate and reported transparently.

Objectives and Scope of the audit

15. The overall objective of the audit was to provide assurance that the current system for review, approval and monitoring of Members' expenses and related expenditure is adequate to ensure all payments made are accurate and bona fide.
16. In line with the overall objective of the audit we reviewed the following controls objectives:
 - There is an appropriate level of guidance, information and support provided to both officers and Members to ensure an understanding of eligibility criteria and evidence requirements
 - All claims submitted are subject to review and approval to ensure they are bona fide expenses incurred on Kent County Council duties
 - Payments are processed and recorded correctly to ensure they are complete, accurate, timely and are not duplicated
 - Members' expenses, and other expenditure incurred on behalf of Members, are monitored and reported appropriately to ensure transparency and accountability
17. The controls identified have been evaluated to ensure they are well designed, appropriate in scope and are applied consistently and effectively. Where expected controls are absent we have established the existence of any compensatory controls.
18. Our assurance is provided through review of the system, supporting documentation and sample testing.
19. We reviewed written procedures and additional guidance provided to ascertain whether this it is adequate to ensure both officers and Members are aware of entitlements and requirements and therefore to minimise the risk of error.
20. Testing was then undertaken both through analytical review of all expenses paid for 2011/12 to date and through detailed review of a sample of expense claims selected at random across all Members. The sample selected was reviewed for the following:
 - Compliance with the Members' Allowances Scheme (Appendix 7 of the Constitution)
 - Evidence of review undertaken, relevant checks and availability of supporting documentation where relevant

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- Accuracy of processing the amount claimed and reconciliation to the amount recorded and subsequently paid
- Demonstration of appropriate verification and approval

Detailed Findings

There is an appropriate level of guidance, information and support provided to both officers and Members to ensure an understanding of eligibility criteria and evidence requirements

21. This control was partially met. The Council's Constitution (Appendix Seven) and Members' Handbook both provide Members with guidance on expenses and allowances.
22. The Members' Handbook states that the time limit for claims is three months; however, in accordance with Regulation 14 of the Local Authorities (Members' Allowances) (England) Regulations 2003 and with the Council's Constitution, the time limit for the submission of claims relating to travel, subsistence, co-optees and dependent carers allowances is four months from the date the expense was incurred.
23. Members can choose not to claim expenses; however they do not have to formally notify anyone. Testing of all members who have yet to make a claim in this financial year 2011/12 identified that one Member intended to make a claim for two years' worth of expenses. We advised that claims should be made within four months and referred the Member to the Democratic Services team.
24. Neither the Constitution nor the Members' Handbook advises that VAT petrol receipts should be submitted with each claim where mileage expenses are incurred. However it is our understanding that regulations require a valid VAT receipt is retained to substantiate any claim that is made to HM Revenue & Customs by the Council. Both the constitution and the Members' Handbook clearly state that receipts should be provided for expenses incurred when using public transport, parking fees and hotel expenses.
25. Members have been written to recently to remind them to make their claims within the required time period. We have reviewed a draft copy of a further memo to be issued, which will contain a reminder of the expenses procedures, and, subject to a formal decision of the Council's Selection and Member Services Committee, an instruction that with effect from 1st April 2012 (or a later date to be agreed by the Committee) expense claims can only be submitted through Oracle Self Service. Guidance for using Self Service has also been drawn up and refresher training sessions will be available for Members to attend.
26. The Members' Handbook was last updated in January 2011 and requires further updating to reflect changes in taxable mileage allowances. The Members' Handbook should also be updated with regard to the submission of expense claims via the Oracle Self Service function, subject to the decision of the Selection and Member Services Committee referred to in paragraph 25 above.

All claims submitted are subject to review and approval to ensure they are bona fide expenses incurred on Kent County Council duties

27. This control was partially met. Currently Members are able to claim expenses on manual forms and submit via self service, approximately one third of Members use the self service function.

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28. All manual expense forms are submitted to the officers on the Members' Desk, to be signed/initialled by an officer to confirm a review has been completed and signed by the Head of Department to process for payment. Of the 67 manual claims in the sample the majority were reviewed, however, only ten were signed and approved for payment by the Head of Department. We recommend that signatures are obtained prior to expenses being paid until the on line expense claims become mandatory, subject to the decision of the Selection and Member Services Committee.
29. Online claims are automated, and are sent to an officer in the Members' Support team for review and approval. We understand that the Head of the Civic office has requested that an additional automated approval step be added to the process to enable a separation between the reviewer and approver. Until this automation is in place, the Head of the Civic Office initials a paper copy of the on line submission to confirm approval for payment. We can confirm we have seen sufficient evidence to suggest this process is in place and working.
30. With effect from October 2011, a sample of all Members expense claims submitted each month have been subject to spot checking to test the validity of the claims. The spot check involves verifying attendance at meetings and checking mileage. Attendance at meetings is verified by checking Committee minutes on the Councils' intranet or by contacting relevant officers. In addition to this Members' Desk officers attempt to verify the claims using the electronic Outlook Calendars. However this can prove difficult as not all Members have given view only access to the diaries.
31. We were unable to verify whether spot checking had been completed in October as the supporting paperwork had been mislaid. At the time of the audit (January 2012) the spot checking of expense claims was being undertaken on claims that had been submitted in November, and therefore the Members would have already received payment.
32. Staff in the Members' Support Team have compiled guidance which has been available since October 2011 to assist them when checking Members expenses. We have reviewed the guidance and made a recommendation to improve the content.
33. The Council's Constitution states that according to legislation constitution expense claims should be submitted within four months of the expense being incurred. Testing of expense claims submitted from April to November 2011 identified 28 claims that had time expired but were still paid.
34. Testing identified one instance of mileage claim over a long distance. Members should give consideration to the method of transport used for essential journeys and efforts should be made to choose the most cost effective method available.
35. Testing of expense claims was undertaken on 40 Members. The sample was selected by reviewing a sample of claims from the top ten highest claimers, in addition to this a further 30 Members were selected including, the Leader, Deputy Leader, Leaders of the Opposition Groups,, those Members in high profile roles (Chairman and Vice Chairman, Governance and Audit Committee Chairman, Personnel Committee Chairman and the Superannuation Fund Committee Chairman) the remainder were selected at random but taking into account the political make up of the Council. In addition to those already raised testing identified the following issues:
 - Lack of detail on claim to determine what duties Members had been undertaking
 - Dates of meetings incorrect on submission

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- Over claiming mileage when distances compared using AA route planner (allowing 10% for alternative routes)
- Members who attend committee meetings as 'spectators' are not always logged on committee minutes, making it difficult to verify their attendance'
- Claiming mileage from the Council when representing KCC at outside bodies when claims should be made to the bodies directly e.g. school governor, trustee of Academy
- Receipts submitted for public transport did not always contain details of journey – however this was only in two instances, all others in the sample were supported by an appropriate receipt or ticket.

Payments are processed and recorded correctly to ensure they are complete, accurate, timely and are not duplicated

36. This control was fully met. Payments to Members are recorded on the Council's financial system (Oracle). The payments made are monitored on a monthly basis by officers within the Democratic Services team.
37. Payments are made to Members only with supporting documentation, for example complete mileage log sheets, and supporting receipts for parking, public transport/hotel expenses. Expense claims are sent to Employee Services for processing.
38. With effect from October 2011, monthly reconciliations have been undertaken by the County Car Administrator of Members use of the county cars and the expenses they have claimed. Testing of three months worth of county car data did not identify any issues with duplicate claims.
39. Testing has been undertaken on the top ten claimants for all claims within the sample to verify whether the mileage expenses claimed match those submitted on the expense claims.
40. Testing confirmed that claims matched the payments in all cases. The budget monitoring sheet contains sufficient details to enable monitoring of periods claim to avoid duplication. Payments made to Members are timely providing that they submit their claims by the cut off dates which are held on KNet.

Members' expenses, and other expenditure incurred on behalf of Members, are monitored and reported appropriately to ensure transparency and accountability

41. This control was fully met. Members' expenses are monitored monthly for budget purposes by the Democratic Services Team.
42. The Council has a statutory requirement to publish a list of county councillors' allowances and expenses claimed each year. This is published on the Kent.gov website. However, consideration could be given to publishing expenses information more frequently in line with that of the publishing of the expenses of the Senior Officers of the Council, although it is accepted that the Council is not required to do so.
43. In addition to expenses being published on the Kent.gov website, the annual expenses report is taken to the Selection and Member Services Committee for review prior to publication.

Conclusions

44. Based on the findings of this audit, we can give **substantial** assurance that the overall objectives for the current system for approving and paying Members expenses will be achieved.

The areas highlighted during the audit where recommendations have been made include:

- Updating the Members' Handbook
- Use of electronic diaries and increase detail on expense claims
- Guidance for officers responsible for reviewing claims to be updated
- Not approving claims until spot checks have been completed and only if they are within the agreed time period
- Claiming expenses from outside bodies
- Publishing Members expense information more frequently

New processes to improve controls in this area were put in place in October 2011. The timing of this audit was such that we were only able to test the effectiveness of the new controls for expenses related to October and November 2011. As such, these processes are not yet fully embedded and the assurance level provided relates to the full financial year recognising that improvements are in progress.

We appreciate that improving controls may increase the amount of pre-payment checking of expense claims and the impact that this process has directly on Members. However, we understand that the Modern.Gov system, which KCC uses for the publication of its Committee agendas, the Forward Plan and Member information has an expenses module which may improve the expense claim submission process. We suggest that further investigation is made into the viability of using this module.

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Appendix 1 Management Action Plan

Finding	Recommendation	Priority (H/M/L)	Management Response	Accountable Officer	Implementation Date
Guidance, Information and Support					
The Members' Handbook does not correspond with the latest version of the Council's Constitution. Specifically those areas that are incorrect are, the allowance payable for mileage expenses, the time limit under which claims for expenses can be made, members allowances and the contact details for any queries that a Member may have when completing their expense claims.	The Members Handbook should be updated to reflect Appendix 7 of the Council's Constitution.	L	This recommendation is accepted in full	Peter Sass – Head of Democratic Services	By the end of March 2012
Guidance, Information and Support					
Neither the Constitution nor the Members' Handbook makes reference to the requirement for VAT petrol receipts to be submitted with mileage claims.	The Constitution and Members' Handbook should be updated to reflect the requirement for mileage claims to be supported with VAT petrol receipts for the months claimed.	L	This recommendation is accepted in full	Peter Sass – Head of Democratic Services	By the end of March 2012
On testing of expense claims, for both manual and self service submissions, not all Members had submitted petrol receipts, and in some cases on self service, had indicated receipts were available, but had still not submitted them.	A memo should be issued to Members with effect from 1st April 2012 that the receipt indicator should only be ticked on self service when they have a valid VAT petrol receipt which would cover the journeys claimed for.	L	This recommendation is accepted in full	Peter Sass – Head of Democratic Services	By the end of March 2012
Guidance, Information and Support					

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Appendix 1 Management Action Plan

Finding	Recommendation	Priority (H/M/L)	Management Response	Accountable Officer	Implementation Date
Testing of expense claims identified that not all Members make use of electronic diaries, in addition to this not all councillors provide view only access to their outlook calendars therefore making reconciliation of the Members whereabouts to their expenses difficult for officers.	In order to assist Members service desk with the sample checking of expense claims, Members should make use of the electronic diaries, and provide view only access to officers on the Members desk.	L	This recommendation will be discussed with Members, subject to the deliberations of the Selection and Member Services Committee	Peter Sass – Head of Democratic Services	By the end of March 2012
Guidance, Information and Support					
A review of the officers guidance, highlighted that it states that claims should only be paid if less than three months old. The guidance should also state that the spot checking should be rotated to ensure that each Member has a claim checked in detail at least once per financial year. Interviews with the Members' Desk officers also confirmed that a paper based system was in place to monitor which Members had been spot checked so far that year (the process had only been in place since October 2011) unfortunately, the paperwork had been mislaid and they were unable to evidence which claims had been checked.	The officers' guidance notes should be updated to reflect the Council's Constitution and legislation, and to reflect the changes in the spot checking process. Monitoring of which Members claims have been spot checked should be held electronically, in an area that can be access by all those officers likely to complete the testing going forward.	L	The recommendation in respect of updating the guidance notes is accepted in full. The process for spot-checking Members' claims should be discussed at the Selection and Member Services Committee	Peter Sass – Head of Democratic Services	By the end of March 2012
Review and Approval					

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Appendix 1 Management Action Plan

Finding	Recommendation	Priority (H/M/L)	Management Response	Accountable Officer	Implementation Date
Of the 67 manual claims in the sample, the majority were reviewed, however only ten were signed approved for payment by the Head of Department.	The Head of Department should sign off all manual claims until the self service function is mandatory.	M	This recommendation is accepted in full	Peter Sass – Head of Democratic Services	By the end of March 2012
Review and Approval					
On testing mileage expense mileage are claimed, lack of detail provided to enable those approving expense claims to determine whether the claim is legitimate	More detail should be provided for the purpose of the journey, and post codes should always be provided, particularly when claims are not for journeys to county hall	M	It is accepted that Members should always provide sufficient detail on their claim forms to enable them to be checked and authorised and Members will be reminded to do so	Peter Sass – Head of Democratic Services	By the end of March 2012
Review and Approval					
Testing undertaken of mileage claims highlighted inconsistencies in the number of miles claimed; we allowed 10% to allow for variations to the journey, but this still identified some anomalies in the expense claims of 12 Members.	Member Services Desk officers responsible for reviewing expense claims should check distances claimed ensuring consistency by using the same route planner. 10% allowance should be given to allow for variances in routes taken. The route planner used should be communicated to Members to ensure that they are fully aware of the methods used to validate their claims.	M	This recommendation is accepted	Peter Sass – Head of Democratic Services	By the end of March 2012
Review and Approval					

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Appendix 1 Management Action Plan

Finding	Recommendation	Priority (H/M/L)	Management Response	Accountable Officer	Implementation Date
Testing highlighted a small number of instances for journeys undertaken to represent the Council at outside bodies. It is our understanding that these expenses may be claimed from the outside body where there are resources available to do so. For example where a Member is a school governor the school may have a policy to pay expenses.	Members appointed to outside bodies to represent the Council should claim expenses directly with that body where there is a provision to do so. Member guidance should be updated to reflect this recommendation.	M	This recommendation is accepted	Peter Sass	By the end of March 2012
Review and Approval					
Testing of all Members' expense claims paid between April 2011 and November 2011 identified 28 instances where claims had been paid that were beyond the four month limit.	No claims should be paid if the date of the expense incurred is outside the agreed time scale in accordance with Regulation 14 of the Local Authorities (Members' Allowances) (England) Regulations 2003 and with the Councils' Constitution.	M	This recommendation is accepted	Peter Sass – Head of Democratic Services	By the end of March 2012
Review and Approval					

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Appendix 1 Management Action Plan

Finding	Recommendation	Priority (H/M/L)	Management Response	Accountable Officer	Implementation Date
At the time of the audit in January 2012, officers in the Member Service Desk were spot checking claims that had already been processed and paid for November 2011. The officer responsible advised that due to resourcing issues the claims were often difficult to verify prior to payment.	Expenses should not be processed until they have been through the spot checking process. Resource should be made available so that claims can be reviewed with sufficient time to verify and still enable the expense payment to be processed by the cut off date as indicated on KNet.	M	This recommendation is accepted, although it is suggested that the detailed spot checking of claim forms should involve a different, randomly selected 10 % sample of all claims submitted each month	Peter Sass – Head of Democratic Services	By the end of March 2012
Monitoring and Reporting					
Currently Members expenses are published yearly, breaking down types of expenses and allowances claimed. Senior officers' expenses are published more frequently.	Consideration should be given to publish details of Members' expenses more frequently to provide greater transparency.	L	The Selection and Member Services Committee will be asked if they agree a variation to the statutory requirement to publish details of allowances and expenses annually	Peter Sass – Head of Democratic Services	By the end of March 2012

Assurance Level	Definition
Full	The controls evaluated are well designed, appropriate in scope and applied consistently and effectively. Any issues identified are minor in nature and should not prevent objectives being achieved.
Substantial	The controls evaluated are generally well designed, appropriate in scope and applied consistently and effectively, but weaknesses have been identified that require management attention. These issues increase the possibility that objectives may not be achieved.
Limited	Some controls evaluated are generally well designed, appropriate in scope and applied consistently and effectively. However, issues of poor design, gaps in coverage or inconsistent or ineffective implementation have been identified that require immediate management attention. The issues identified, if unresolved, mean that objectives may not be achieved.
No Assurance	Expected controls are absent, or where evaluated are flawed in design, scope or application. The auditor is unable to form a view as to whether objectives will be achieved.

OR:

Opinion	Definition
Compliant	The area assessed meets all the requirements of the legislation, regulation, policy or other guiding documentation.
Not compliant	For the area assessed there are requirements of the legislation, regulation, policy or other guiding documentation that have not been met.*

Priority Rating		Definition
● ● ●	High	<p>Immediate management action is required to remedy a serious failure of internal control that has led, or may lead, to one or more of the following:</p> <ul style="list-style-type: none"> • Substantial loss of resources. • Serious failure to comply with legislation and / or Council Policy. • Significant reputational damage for the Council, involving national media. • Significant adverse regulatory impact, such as a national report, intervention or suspension of services.
● ●	Medium	<p>Timely management action is required to remedy weaknesses in internal control that could lead to one or more of the following:</p> <ul style="list-style-type: none"> • Loss of resources. • Failure to comply with some aspects of legislation and / or Council Policy. • Reputational damage for the Council, involving local or regional media • Adverse regulatory impact, such as loss of external ratings or negative local report.
●	Low	<p>Management action is suggested to improve the quality and/or efficiency of the control environment of the Council.</p>