



WEST MIDLANDS
COMBINED AUTHORITY

BIRMINGHAM • COVENTRY • DUDLEY • SANDWELL • SOLIHULL • WALSALL • WOLVERHAMPTON

Internal Audit Report
Expenses, Gifts and Hospitality 2017/18
28 July 2017

1. Executive summary

Introduction

An audit of the arrangements in place for the payment of expenses, (including travel) and the acceptance of gifts and hospitality in relation to employees, the Mayor, Members and Councillors was undertaken as part of the approved internal audit plan for 2017/2018.

The West Midlands Combined Authority Travel and Expenses policy sets out the procedures for claiming business expenses incurred. The Travel and Expenses policy was introduced on 3 July 2017. Under the new policy expenses will be submitted, processed and approved via the Agresso system instead of via current manual processes. However, claims relating to mileage and credit card payments will remain a manual process. In addition, expenses will no longer be paid in petty cash.

The Code of conduct in the Constitution includes procedures for making declarations regarding gifts & hospitality.

Scope and objectives of audit work

Our audit was conducted in conformance with the Public Sector Internal Audit Standards and considered the following objectives, and the potential risks to the achievement of those objectives:

- To seek assurance that expenses are claimed and paid in accordance with the West Midlands Combined Authority Constitution and Travel and Expenses policy and that gifts and hospitality are dealt with in accordance with the Constitution.

Scope	Potential risks
<p>The scope of this review included the following:</p> <ul style="list-style-type: none">• Submission authorisation and payment of expenses;• Treatment of gifts and hospitality. <p>The above areas were reviewed to confirm compliance with the Constitution and the Travel and Expenses Policy.</p>	<ul style="list-style-type: none">• Ineligible expenses may be paid.• Unauthorised, incorrect or unsupported expenses are paid.• Non-compliant treatment of gifts and hospitality may lead to allegations of a conflict of interest.

Limitations to the scope of our audit

The scope of the audit was limited to coverage of the above areas with sample testing undertaken of expenses from 1 June 2016 onwards. However, as the Travel and Expenses Policy only recently came into effect on 3 July 2017, no coverage of expenses claimed post 3 July 2017 was undertaken. Limited coverage of previous payment of expenses via petty cash was undertaken. The register held by Legal Services for declared gifts and hospitality was reviewed.

Overall conclusion

Taking account of the issues identified in this report, in our opinion the controls operating within the system, provide **satisfactory assurance** as part of the process to mitigate risks to an acceptable level.

Limited	Satisfactory	Substantial
There is a risk of objectives not being met due to serious control failings.	A framework of controls is in place, but controls need to be strengthened further.	There is a robust framework of controls which are applied continuously.

Key issues identified

We have identified one **amber** issue where improvements could be made, arising from the following:

- Gifts and hospitality declaration forms had not been fully completed in all cases to state explicitly the reasons for the offer and whether accepted or declined. Further, a mechanism had not been established to evidence the review and decision making undertaken.

In addition, we have raised three issues classified as **green** which are detailed in section two of this report. A copy of this report will be presented to the Audit and Standards Committee.

Examples of good practice identified

During our work, we identified the following examples of good practice in the management of risk, as achieved through the effective design and application of controls:

Travel and Expenses

- A Travel and Expenses Policy was approved by the Management Board on 25 May 2017 and introduced on the 3 July 2017.
- Processes for checking payroll expense claims had been established and evidenced by certification of the claims.
- Sample testing of travel and expenses paid via payroll and credit card was found to be eligible, certified by the claimant, appropriately authorised and supported with accompanying evidence.
- Payments had been paid correctly in accordance with the claim with one minor exception. This has been discussed with the Payroll Manager for resolution.
- Sample testing also showed that expenses claimed fell in line with the new policy.

Gifts and Hospitality

- The treatment of gifts and hospitality for employees is covered in the Constitution and is further included in the West Midlands Combined Authority Travel and Expenses policy.
- The treatment of gifts and hospitality is included in the code of conduct for the Mayor and Members.
- An electronic declaration of gifts and hospitality form is available for employees and the Mayor to make declarations.
- A gifts and hospitality register is maintained for employees and the Mayor or members.

Acknowledgement

Several employees gave their time and co-operation during this review. We would like to record our thanks to all the individuals concerned.

2. Issues arising

Priority rating for issues identified:

Red

Action is imperative to ensure that the objectives for the area under review are met

Amber

Action is required to avoid exposure to significant risks in achieving objectives

Green

Action is advised to enhance risk control or operational efficiency

Action is required to avoid exposure to significant risks in achieving objectives
Amber

No	Issue arising	Agreed action including responsibility and target date
2.1	<p>A review of the gifts and hospitality register identified that for all 21 entries included, the description had been clearly stated. However, we noted that in 14 cases the reason for the offer had not been clearly stated. In five cases, it was not stated if the offer had been accepted or declined. Of the two highest value entries (£200 and £198), we noted that in one instance the reason for the offer and whether accepted / declined had not been stated. In the remaining instance, which was declined the register was fully completed.</p> <p>We understand Legal Services review the register each time it is updated. However, there is no mechanism for recording the outcome of their review.</p> <p>Implication: In the event of query, challenge or fraud it may be difficult to demonstrate actions or decisions.</p>	<p>Declaration forms have now been amended to include separate fields for stating the reason for the offer, acceptance or declining to help ensure that they are fully completed. Action will also be taken to facilitate evidencing of review, especially where any exceptions are identified.</p> <p>Responsibility: Anthony Bowater – OD Systems and Management Information Partner</p> <p>Target date: Implemented</p> <p>Whilst Legal Services currently undertake review, assignment of this responsibility per the organisational structure within the Combined Authority will be reviewed.</p> <p>Responsibility: Tim Martin – Head of Governance</p> <p>Target date: 31 December 2017</p>

No	Issue arising	Agreed action including responsibility and target date
2.2	<p>We understand that Members and Councillors are expected to make declarations of gifts and hospitality when attending meetings. However, the standing agenda item covering declarations does not refer to gifts and hospitality explicitly.</p> <p>Whilst any declarations would be minuted, there is no mechanism to record these centrally.</p> <p>Implication: Ambiguity around expectations of what is included in declarations of interests may result in any gifts and hospitality received not being declared.</p>	<p>The wording of the standing agenda item, regarding declarations of interests will be made more explicit regarding declarations of gifts and hospitality received. Any declarations made at meetings will be included in the existing register.</p> <p>Responsibility: Tim Martin – Head of Governance</p> <p>Target date: 31 August 2017</p>
2.3	<p>Currently the Combined Authority does not reclaim VAT on the fuel element of employee mileage claims. This VAT would generate additional funds.</p> <p>Implication: Income is not received from VAT recovered on mileage claims.</p>	<p>A feasibility review will be undertaken to determine if it would be cost effective to recover VAT on mileage claims based on current levels of mileage undertaken. If it is decided to recover VAT, employees will be advised to submit supporting VAT receipts with mileage claim forms.</p> <p>Responsibility: Kate Ketteringham – Payroll and Pensions Manager</p> <p>Target date: 30 September 2017</p>
2.4	<p>The Combined Authority Travel and Expenses Policy was approved by Management Board on 25 May 2017. The Policy has been communicated to employees of the Combined Authority using a corporate e mail and is also available on the intranet site. The Mayor has also been provided with the Policy. However, it has not yet been communicated to the wider Membership.</p> <p>Implication: Members may not be aware of the Combined Authority’s Travel and Expenses Policy.</p>	<p>The Combined Authority’s Travel and Expenses Policy will be formally communicated and made available to Members.</p> <p>Responsibility: Kate Ketteringham – Payroll and Pensions Manager</p> <p>Target date: 31 October 2017</p>

Limitations inherent to the internal auditor's work

This report has been prepared solely for the Combined Authority in accordance with the terms and conditions set out in the terms of reference. Internal audit does not accept or assume any liability of duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without prior consent. Internal audit has undertaken this review subject to the limitations outlined below.

Internal control

- Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Responsibilities of management and auditors

- It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.
- Internal audit endeavours to plan audit work so that it has a reasonable expectation of detecting significant control weakness and if detected, will carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.
- Accordingly, these examinations by internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist.

Date Issued: 28 July 2017

Report distribution: Mark Taylor – Director of Corporate Services
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