

Final Internal Audit Report

Staff Expenses

February 2025

Distribution: Corporate Director of Resources and S151 Officer
Chief People Officer
Director of Finance (Deputy S151 Officer)
Head of Internal Audit
Governance Officer

Assurance Level	Issues Identified	
Limited Assurance	Priority 1	2
	Priority 2	2
	Priority 3	1

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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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3. Statement of Responsibility

1. Introduction

- 1.1. The London Borough of Croydon (the Council) has a responsibility to ensure that expenses claimed by staff are approved and paid for, in a timely manner, and that these expenses are legitimate business-related expenses.
- 1.2. The Council has an Expense Management Policy (2021) which outlines who is responsible for expense management, how to submit a claim via the MyResources system and the expected timeframes to submit a claim. The policy also sets out the legitimate reasons for which an expense can be claimed that all expenses should be submitted within 60 days of the expenditure being incurred and that any expense submitted after 90 days will not be accepted.
- 1.3. The Council's expense process begins with the claimant submitting their expense to their line manager via MyResources, attaching receipts where necessary, and self-certifying the authenticity of their claim. Line managers are expected to review the expense claim, approve if valid and reject any claim that is not a reasonable business expense in line with the Council's Expense Management Policy.
- 1.4. All items under the value of £50 once approved by the line manager, are process via the 'automatic approval' route, for which no further approval is needed.
- 1.5. Expense claims over the value of £50 are subject to a second level of authorisation via the Council's expense auditor procedure. In these instances, the Governance Officer or the Head of Internal Audit will review each claim, and either approve it or reject it with a detailed explanation as to why it has been rejected. Claimants can re-submit their expense claim with appropriate changes if the claim is rejected.
- 1.6. The internal audit team at the Council runs rejection reports which collates data on all the rejected expense claims to identify trends in why expense claims were rejected. The Head of Internal Audit then reviews these reports and provides the findings to the senior management team.
- 1.7. The Governance Officer and Head of Internal Audit have already identified that line managers do not always perform their expense duties accurately and are in the early phases of identifying why and where issues with expense claims occur more frequently.
- 1.8. Whilst our review and testing were performed remotely, we have been able to obtain all relevant documents required to complete the review. We performed data analytics on an entire population of staff expense claims from September 2022 to September 2023.
- 1.9. This audit was undertaken as part of the agreed Internal Audit Plan for 2023/24. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1.

2. Key Issues

Priority 1 Issue

Across a sample of 24 expense claims, made between September 2022 and October 2023, testing found two instances (for £8.35 and £424.29) where expense claims that were not in line with the Expense Management Policy had been approved and paid by the Council. **(Issue 1)**

Data analytics testing carried out on the expense report data provided by the Council identified that 291 expense claims between September 2022 and October 2023 were approved and paid contrary to the Policy, despite being submitted between 61 and 1108 days after the expense was incurred. **(Issue 2)**

Priority 2 Issues

Across a sample of 24 expense claims, made between September 2022 and October 2023, data analysis identified a claim of £701, which was a re-imbursement due to the individual under-claiming their mileage expense over a three-year period between 2019 and 2022. Checks had not identified that the staff member had incorrectly calculated their mileage over a three-year period. **(Issue 3)**

The Council does not undertake regular and systematic data analysis of staff expenses and is still in the early phases of identifying issues and trends across departments and individual line managers. **(Issue 4)**

The Priority 3 issue is included under item 4 below.

3. Actions and Key Findings/Rationale

Control Area 2. Processing of Staff Expense Claims

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 1
1	<p>A change to the expense audit criteria has been implemented in October 2024, within the expenses module, where the £50 threshold has been removed. This has been replaced by the following criteria:</p> <ul style="list-style-type: none"> Any officer who has been added to the audit membership list. Any expense item over 60 days old. A random 15% sample of all other expense claims. <p>The above amended audit criteria will help detect (and therefore prevent) the type of identified expenses examples cited in the finding.</p>	<p>Expected Control:</p> <p>The Council should ensure that expense claims are appropriately reviewed and approved in line with their Expense Management Policy. This should include reviewing all expense claims regardless of value to ensure that claims are legitimate expenditure. There should be system controls in place that highlight when a claim is inappropriate, after the line manager approves it, particularly for claims over £50. Additionally, the expenses system (MyResources) should be able to flag when an individual has put in a high volume of expense claims over a defined period, even if each claim was under £50, to ensure appropriate levels of scrutiny.</p> <p>Finding/Issue:</p> <p>To assess whether expense claims were appropriately reviewed and approved in line with the Council's Expense Management Policy, a sample of 24 expense claims between September 2022 and October 2023 from a report generated from MyResources was selected for testing and it was identified that:</p> <ul style="list-style-type: none"> In one case, an expense claim of £8.35 for mileage had been approved despite the fact the individual had marked 'no' against 'insured for business purpose' on MyResources. Council Policy is to reject this claim and require evidence that insurance is in place before accepting any further mileage claims from the individual; and In one case, an expense claim was approved despite not being a legitimate expense claim, as the individual should have requested an ad hoc payment instead. The claim of £424.29 for a payment to a social worker was originally rejected by the Head of Internal Audit through the expense auditor process. The individual then split the claim into smaller separate

Responsible Officer	Deadline	
N/a	Implemented	<p>amounts which were approved by the line manager and circumvented the expense auditor review as the split claims were low enough to go through the ‘automatic approval’ route.</p> <p>Discussion with the Governance Officer noted that all expense claims under the value of £50 only required line manager approval. There was no review by the expense auditors (the internal audit team) of low-value, high-volume claims (i.e., numerous claims by the same individual for amounts under £50) which allowed staff members to bypass the expense auditor review entirely.</p> <p>Risk:</p> <p>Where staff do not adhere to the policy and managers approve these expenses, there is a risk that inappropriate and illegitimate expense claims are approved and paid by the Council.</p>

Control Area 2. Processing of Staff Expense Claims

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 2
1	<p>To mitigate the risk of expense items being approved which are older than 60 days the following improvements have been implemented in October 2024:</p> <ul style="list-style-type: none"> Prior to submitting a claim a warning is provided to the user reminding them of the 60 and 90 day thresholds. All expense items over 60 days old will automatically be subject to audit. <p>As part of the Oracle Improvement Programme we are looking into automating the workflow so the review and approval of all expense claims over 60 days is undertaken within the Oracle system.</p> <p>Based on the above, controls will be in place to prevent further unjustified expenses over 60 days being processed.</p>	<p>Expected Control</p> <p>Expense claims are required to be submitted within a timely manner, in line with the Council Expense Management Policy. The Council should not approve claims that were submitted over 90 days after the expenditure was incurred and should challenge all claims submitted after 60 days of the expenditure being incurred, accepting these claims only in exceptional circumstances. Expenses submitted over 60 days should automatically be reviewed by the expense auditors.</p> <p>Finding/Issue</p> <p>There were no controls within the MyResource system that prevented late claims from being submitted.</p> <p>Data analytics on the report of all expense claims within the past 12 months identified 291 approved expense claims that had been submitted over 60 days after having been incurred. These claims had been submitted between 61 and 1108 days after expense was incurred. Of these 291 approved claims, 243 had been approved through the ‘automatic approval’ route and so circumvented the expense auditor check and 128 had been submitted over 90 days after the expense was incurred.</p> <p>Further sample testing of seven approved expense claims, submitted between 107 and 1108 days after the expenditure was incurred identified the following:</p> <ul style="list-style-type: none"> Of four expense claims, which were between 108 and 1108 days late, and were under the value of £50 (and had therefore circumvented the expense auditor check), two were also identified as illegitimate claims due to insufficient information provided concerning journeys made for mileage claims; One expense claim for £62.20, submitted 995 days after the expense was incurred, was approved due to Director approval, however, as this is shown as having been approved via

		<p>the automatic route in spite of being over £50, it is likely that this claim was submitted before the expense auditor process was introduced; and</p> <ul style="list-style-type: none"> Two expense claims, 107 and 730 days late, had originally been submitted in date but due to challenges, rejections, and the need for re-submission with additional information, they became out of date claims. <p>Discussion with the Governance Officer noted that automatic approval was a significant factor as to why most of these late expense claims were approved outside of the timeframes, as in these cases, the line manager had approved the claim despite the lateness of submission. Unless claims exceed £50, they were not subject to a second check through the expense auditor procedure.</p> <p>It was explained that the basis for sample selection for the expenses audit was focussed on value rather than the timeliness of when expenses were submitted.</p>
Responsible Officer	Deadline	Risk
N/a	Implemented	<p>The Council is subjected to unexpected or inappropriate expenditure and financial pressure due to the untimely submission of expense claims. Late claims also increase the risk of claims being inaccurate and / or difficult to verify by the Council.</p>

Control Area 4. Payment of Claims

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 3
2	<p>To improve the transparency of the mileage claimed by officers, the system now provides the ability for users to enter a start and end location into the system and the mileage is automatically calculated. It also provides the ability to remove user's commuting distance from the overall mileage.</p> <p>This feature was deployed in October 2024, however, is not currently mandatory.</p> <p>Ongoing work, through the audit tool, will continue to educate staff and approvers to help prevent further instances.</p>	<p>Expected Control</p> <p>The Council should ensure that expense payments to staff are accurate and paid in a timely manner. Claims for mileage should be checked, either manually or through an automated control, to ensure that the value has been calculated correctly.</p> <p>Finding/Issue</p> <p>Sample testing of 24 expense claims from September 2022 to October 2023 from a report generated by MyResources identified an expense claim, valued at £701, which was made due to the individual under-claiming their mileage expenses over a three-year period, between 2019 to 2022.</p> <p>The Governance Officer advised that staff were responsible for calculating the value of their mileage claims and inputting this value into MyResources, and it was the responsibility of the individual to ensure their expense claims were accurate. MyResources did not automatically calculate mileage values. Accordingly, where an individual had underclaimed, there was no requirement for the Council to reimburse them. However, in this case, the Council paid £701 to reimburse the individual. This resulted in an unexpected expenditure for the Council which could have been avoided had the system identified the inaccurate mileage claim.</p> <p>Risk</p> <p>Inaccuracies, and/or, under-claiming is not identified by the Council and budgeted for, resulting in unexpected expenditure and unnecessary financial strain.</p>
Responsible Officer		Deadline
Governance Officer		Ongoing

Control Area 4. Payment of Claims

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 4
2	<p>A number of new reports were deployed in December 2024 to support audit in review and understanding trends in expense claims.</p> <p>Further work is required to use this data to understand the trends, which will then inform future training.</p>	<p>Expected Control</p> <p>The Council should look to perform data analytics on the expense rejection data collated to identify trends and departments/line managers that are performing badly. These findings should be reported to the appropriate Director and targeted training should be utilised to improve performance.</p> <p>Finding/Issue</p> <p>The Governance Officer advised that the Council did not undertake regular reconciliations for staff expenses. Instead, the internal audit team ran rejection reports on the expense data and submitted these to senior management. These reports contained a full list of every expense rejected and audit notes as to why each was rejected.</p> <p>The Governance Officer provided the rejection reports, however upon review, it was noted that they were in raw data form. No data analytics had been run on this data to identify trends and/or highlight repeat offenders or departments where issues arose more often.</p> <p>Upon further discussion with the Governance Officer, they advised that there was still an issue with line managers approving inappropriate expenses and the rejection reports were an attempt to identify trends in the rejection of expenses. However, they advised that they were still in the early phases of using data to target departments and line managers that are not adhering to the Council's Expense Policy.</p> <p>Risk</p> <p>The Council are unaware of what departments and line managers are not adhering to the Expense Policy and are unable to address the root cause of this non-adherence.</p>
Responsible Officer		Deadline
Chief People Officer / Head of Internal Audit/ Governance Officer		31 March 2025

4. Priority 3 Issue

Agreed action	Findings
<p><u>Control Area 1: Legislative, Organisational and Management Requirements</u></p> <p><u>Action proposed by management:</u></p> <p>The staff expense policy was updated in February 2024 and reissued in March 2024.</p> <p><u>Responsible Officer:</u> Chief People Officer</p> <p><u>Deadline:</u> Implemented</p>	<p>Expected Control</p> <p>Council policies and procedures should be regularly reviewed and updated.</p> <p>Issue/Finding</p> <p>At the time of the audit, October 2023, the Expense Management Policy had not been updated since August 2021. The Chief People Officer advised that generally, this policy is reviewed and updated annually.</p> <p>Risk</p> <p>The Council's expense policy and procedures are not up to date or relevant to current expense practise.</p>

AUDIT TERMS OF REFERENCE

Staff Expenses

1 INTRODUCTION

- 1.1 Croydon Council (“the Council”) reimburses staff for reasonable expenses incurred in the course of their employment duties. The Council has an Expense Management Policy that sets out the requirements for an expense claim to be valid.
- 1.2 In addition to the requirements set out in the Council’s Expense Management Policy, the Council must ensure that expenses paid are lawful. HMRC sets out the requirements for expenses paid to staff to be exempt from taxation, and the Council, like all employers, must submit an annual P11D form to HMRC listing expenses paid to staff.
- 1.3 Staff at the Council submit expenses claims through My Resources (the general finance system). Once submitted, these claims must then be approved by a manager before payment. If expense claims are submitted more than 60 days after spending occurred, then Corporate Director approval is required. Expense claims cannot normally be submitted more than 90 days after occurrence.
- 1.4 Previous internal audits of staff expenses in 2021/22 and 2019/20 both resulted in No Assurance opinions.
- 1.5 This audit is part of the agreed Internal Audit Plan for 2023/24.

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 will examine the Council’s arrangements in relation to Staff Expenses, and will include the following areas:
 - Regulatory, Organisation and Management Requirements
 - Processing of Staff Expense Claims;
 - Supporting Evidence & Justification of Claims;
 - Payments of Claims; and
 - Data Analysis.

Control Areas/Risks	Issues Raised		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Regulatory, Organisational and Management Requirements	0	0	1
Processing of Staff Expense Claims	2	0	0
Supporting Evidence of Staff Expense Claims	0	0	0
Payments of Claims	0	2	0
Data Analysis	0	0	0
Total	2	2	1

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.

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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