

Cumbria Shared Internal Audit Service  
Audit Report for Carlisle City Council  
Resources Directorate



Audit of Overtime

Draft Report Issued: 14 September 2016  
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## Audit Resources

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## Audit Report Distribution

For Action:	Alison Taylor, Chief Finance Officer
For Information:	Jason Gooding, Chief Executive
Audit Committee	The Audit Committee, which is due to be held on 22 December 2016, will receive the findings and recommendations from this audit.

### Cumbria Shared Internal Audit Service

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# Executive Summary

## 1. Background

- 1.1. This report summarises the findings from the audit of overtime. This was a planned audit assignment which was undertaken in accordance with the 2015/16 Audit Plan.
- 1.2. The Council set a target to reduce expenditure on overtime however this has been challenging as at the same time staffing levels have had to be reduced to reflect funding cuts. This has highlighted the need to review the use of overtime and how it can be used efficiently to allow the Council to continue to deliver services given reductions in its staff establishment.
- 1.3. Information for this audit was provided by relevant staff in the Financial Services and HR Departments and from a number of other Directorates including Local Environment, Customer Services etc. All evidence has been examined and evaluated to form an opinion regarding the controls in operation over overtime.

## 2. Audit Approach

### 2.1. Audit Objectives and Methodology

- 2.1.1. Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems. A risk based audit approach has been applied which aligns to the five key audit control objectives which are outlined in section 4; detailed findings and recommendations are reported within section 5 of this report.

### 2.2. Audit Scope and Limitations

- 2.2.1. The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsor for this review was Peter Mason, Director of Resources. The agreed scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control in the following areas:
  - Contractual Overtime.
  - Workforce Planning i.e long term impact of staff reductions and the requirement for overtime.
  - Recommended practices and methods to reduce overtime.
  - Value for money

2.2.2. There were no instances whereby the audit work undertaken was impaired by the availability of information.

### 3. Assurance Opinion

- 3.1. Each audit review is given an assurance opinion and these are intended to assist Members and Officers in their assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A**.
- 3.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within overtime provide **Reasonable** assurance.

*Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.*

### 4. Summary of Recommendations, Audit Findings and Report Distribution

- 4.1. There are three levels of audit recommendation; the definition for each level is explained in **Appendix B**.
- 4.2. There are 3 audit recommendations arising from this audit review and these can be summarised as follows:

Control Objective	No. of recommendations		
	High	Medium	Advisory
1. <b>Management</b> - achievement of the organisation's strategic objectives achieved (see section 5.1)	0	2	0
2. <b>Regulatory</b> - compliance with laws, regulations, policies, procedures and contracts	0	0	0
3. <b>Information</b> - reliability and integrity of financial and operational information (see section 5.2)	0	0	1
4. <b>Security</b> - safeguarding of assets	0	0	0

5. <b>Value</b> - effectiveness and efficiency of operations and programmes	0	0	0
<b>Total Number of Recommendations</b>	0	2	1

4.3. **Strengths:** The following areas of good practice were identified during the course of the audit:

- There are effective arrangements for monitoring overtime budgets.
- Contractual overtime is limited to two members of staff within the Waste Services Department and these contracts have been reviewed as part of Waste Services' service review.
- The value for money to use overtime has also been considered as part of ongoing services reviews.
- Some directorates are already reviewing their general overtime budgets as part of their review of services and structures

4.4. **Areas for development:** Improvements in the following areas are necessary in order to strengthen existing control arrangements:

4.4.1. *High priority issues:*

- None.

4.4.2. *Medium priority issues:*

- Corporate objectives/guidance/a set of principles which sets out the rationale and assessment for the use of overtime are not defined.
- The budget meetings that are held with directors and their budget managers to review and set the annual staff budgets as part of the annual budget process have yet to be formally documented. The Directors' approval of their annual staffing budget including general overtime has yet to be formally documented.

4.4.3. *Advisory issues:*

- It is recognised that there is a need to review the management information on overtime costs available to managers, in addition to their monthly budget reports, to assist in controlling overtime costs and managing the use of overtime.

**Comment from the Chief Finance Officer**

It is pleasing to note the strengths and areas of good practice in the Council's monitoring and use of overtime which is reflected in

the reasonable assurance rating. The 2 medium priority recommendations have been agreed by management and will be implemented within the agreed timescales.

# Management Action Plan

## 5. Matters Arising / Agreed Action Plan

5.1. **Management** - achievement of the organisation's strategic objectives.

● **Medium priority**

Audit finding	Management response
<p><b>5.1.1. Objectives/guidance for the use of overtime and its reduction</b></p> <p>Internal Audit were advised that the Pay Policy &amp; Arrangements document details the corporate guidance for staff to claim and managers to approve overtime ie. additional hours worked. Audit testing confirmed that the policy does not reflect any corporate objectives/guidance that sets out the aims, purpose and use of overtime to assist in delivering corporate/service priorities.</p> <p>The Senior Management Team (SMT) agreed that a set of principles be adopted and applied across the Council to ensure a fair and transparent approach to assess and reduce overtime spend. Audit were advised that this new approach is still work in progress and a set of principles has yet to be adopted and applied. HR advisors continue to support managers as required in finding solutions to reduce the cost of overtime whilst supporting employee wellbeing.</p> <p><b>Recommendation 1:</b></p> <p>a) Corporate objectives/guidance that clearly defines the rationale for the use of general overtime should be documented and communicated.</p> <p>b) SMT should finalise the set of principles to ensure a fair and transparent approach is taken.</p>	<p><b>Agreed management action:</b></p> <p>Agreed. A set of principles will be established and communicated to guide managers on the use of overtime.</p>
<p><b>Risk exposure if not addressed:</b></p> <ul style="list-style-type: none"> <li>Incorrect and inconsistent decision making because managers do not have guidance on the corporate approach to the use overtime.</li> <li>The use of overtime is not effective because there is not a consistent approach to managing this</li> </ul>	<p><b>Responsible manager for implementing:</b>  <b>Chief Finance Officer</b></p> <p><b>Date to be implemented:</b>  <b>March 2017</b></p>

## ● Medium priority

Audit finding	Management response
<p><b>5.1.2. Overtime budgets</b></p> <p>Each director reviews and approves their annual staffing budget including contractual and general overtime to verify it is sufficient to deliver their service plan/objectives. Internal Audit were advised that contractual overtime is included in employees' contracts and general overtime is the same each year. General overtime is based on historical data until a notification to change the directorate's structure is submitted and this is the standard annual budget process to continue to deliver the same level of service.</p> <p>Audit testing confirmed the majority of the annual staffing budget is supported and aligned to the staffing establishment however there is insufficient evidence to support the calculation of the general overtime budget. Internal audit were advised that budget meetings are held to review and discuss annual staffing budgets however neither these meetings nor the approval of the annual staffing budget have yet to be formally documented.</p> <p>Audit testing confirmed that service managers are not involved in the budget setting process when planning and reviewing general overtime budgets. However, Internal Audit were advised that overtime costs and salary budgets form part of service managers' reviews of their services and structures to accommodate VR/ER requests.</p> <p><b>Recommendation 2:</b></p> <p>a) Management should ensure that as part of the annual budget process a record is maintained of their review and approval of their general overtime budget.</p> <p>b) A record of management's review and challenge on directorates' general overtime budgets should be maintained as part of the annual budget process.</p> <p>c) Budget holders should assess how budget managers are involved in the planning and assessment of general overtime. budget.</p>	<p><b>Agreed management action:</b></p> <p>a) b) and c)</p> <p>As part of the annual budget process an email response or correspondence sign off will be introduced to obtain assurance from directors and their budget holders of their review, challenge and approval of their annual staffing budgets including any general overtime budgets.</p>



**Risk exposure if not addressed:**

- Corporate/service priorities are not achieved because there is not an effective arrangement to review annual staffing budgets including overtime
- Incorrect and inconsistent decision making because there is an absence of information to support overtime budgets.

**Responsible manager for implementing:****Chief Finance Officer****Date to be implemented:****December 2017****5.2 Information** - reliability and integrity of financial and operational information.● **Advisory priority**

Audit finding	Management response
<p><b>5.2.1 Management information on overtime costs</b></p> <p>Internal Audit were advised that there is an overtime cost centre 0111 for each individual department/directorate. Audit testing confirmed that the overtime coding structure has not been reviewed for some time to ensure it enables managers' to fulfil their responsibilities for managing overtime costs. We were advised that there is a basic requirement to record overtime within the financial ledger to comply with accounting requirements ie however it is recognised that there is scope to provide more detailed information on overtime but outside the main accounting system.</p>	<p><b>Agreed management action:</b></p> <p>Agreed. We will review the feasibility of using Itrent to record detailed management information on overtime including the introduction of a code to capture the reasons for the use of overtime.</p>
<p><b>Recommendation 3:</b></p> <p>Management should review current management information on overtime costs to assess whether this is adequate to allow managers to control overtime and for senior management's review of the use of overtime.</p>	
<p><b>Risk exposure if not addressed:</b></p> <ul style="list-style-type: none"> <li>• Insufficient information recorded to enable effective management and review of the use of overtime</li> </ul>	<p><b>Responsible manager for implementing:</b></p> <p><b>Chief Finance Officer</b></p> <p><b>Date to be implemented:</b></p> <p><b>March 2017</b></p>

## Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
<b>Substantial</b>	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The controls tested are being consistently applied and no weaknesses were identified.</p> <p>Recommendations, if any, are of an advisory nature in context of the systems and operating controls &amp; management of risks.</p>
<b>Reasonable</b>	There is a reasonable system of internal control in place which should ensure that system objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed.</p> <p>Recommendations are no greater than medium priority.</p>
<b>Partial</b>	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.	<p>There is an unsatisfactory level of internal control in place as controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>Recommendations may include high and medium priority matters for address.</p>
<b>Limited / None</b>	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist. Recommendations will include high priority matters for address. Some medium priority matters may also be present.</p>

## Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below.

Definition:		
High	●	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	●	Some risk exposure identified from a weakness in the system of internal control
Advisory	●	Minor risk exposure / suggested improvement to enhance the system of control