

Swindon Borough Council

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Swindon Internal Audit Services

Memorandum to: Kathryn Ashton Licensing Manager
Cllr. S. Weisinger Chair of Audit Committee

Copies to: Bernie Brannan Board Director, Service Delivery
Richard Bell Head of Planning, Regulatory Services and Heritage

From: Nick Hobbs Head of Internal Audit

Date: 12th February 2016

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Final

Internal Audit follow-up review: Licensing Income Reconciliation

Introduction

An Internal Audit review of Licensing (Taxi and Private Hire) was requested by the Head of Planning, Regulatory Services and Heritage on inheriting responsibility for this area. The initial review was completed in December 2014 and reported to the March 2015 meeting of the Audit Committee.

The audit review found that many aspects of the Licensing system were working effectively, for example the enforcement of licences, the regular inspection of vehicles and the appeals process. However, some fundamental internal controls that should ensure public safety, that income is not misappropriated, legislation is complied with and Council objectives are achieved, were missing.

The Auditor therefore concluded that there were fundamental weaknesses in the internal control arrangements leading to a 'significant' risk to the Council.

In accordance with best practice, a follow-up review was carried out to establish progress in implementing agreed recommendations. The outcome of this review was reported back to Audit Committee in November 2015.

Key recommendations in relation to the Disclosure and Barring Service checks; Charges and Document Retention and Data Access had been implemented. However, the recommendation regarding the analysis and reconciliation of approximately £250,000 of income per year had still to be implemented. Central Finance had made further cash income analysis codes available for this purpose but these have not been used at the time of the audit.

Another recommendation relating to the lack of segregation in duties between the collection of income and administration of the applications was also still to be implemented.

Members requested that the Head of Internal Audit be asked to review the effectiveness of the income collection and reconciliation process that the Licensing Manager had stated were now in place.

Status of implementation of recommendations

Recommendation - Analysis and reconciliation of income

Follow-up testing to assess the status of audit recommendations was conducted by the Auditor on 4th February 2016. At this date, the Licensing Manager advised that the recommendation to analyse and reconcile income had not yet been fully implemented.

New further income analysis codes set up by Finance have been in use by the Licensing Team since November 2015. However, reconciliation of Service applications/sales recorded in Lalpac (the Service management information system) to Service income received (as analysed by further analysis codes in Oracle Financials) is currently outstanding.

The Licensing Manager advised that reports of Service applications/sales by period are not available from Lalpac (the Service management information system) to conduct full income reconciliation. The Manager explained that the Lalpac system is no longer supported and due to be replaced shortly with Uniform (case management system, which is used by staff in a wide variety of teams across the Council).

The auditor conducted sample testing on income received between the 20th and 27th January 2016. The auditor found that all licence applications/sales, which were processed through the One Stop Shop, were paid into the Cash Management system and identified by the relevant further analysis code for each Service type and the transaction charge.

The total of daily licence income tested was satisfactorily reconciled by the auditor to the banking for four days of the sample period. However, two minor banking variances occurred i.e. an under banking of £3.85 on 25th January and an over of £3.68 on 26th January. At the time of this audit the reconciliations were not conducted so the variances had not been identified or explained. The day following audit testing the Taxi Team Leader explained that one of the discrepancies was due to a £3 credit card transaction charge.

Payments processed through the Cash Management system are not automatically updated to the Lalpac system as there is no electronic link to facilitate this. Although the Service is currently waiting to move to the Uniform system, there is no functionality for payments to be automatically updated to this system from the Cash Management system. Hence the manual update of payment details and receipt numbers along with the associated risks will continue in Uniform, which is consistent across all users of this system in regulatory services.

There is potential for erroneous or fictitious payment receipt numbers to be entered into Lalpac and go undetected with the Council deprived of income for services provided. There is also no validation of receipt numbers recorded in Lalpac to ensure receipt numbers are both the correct length and unique.

The Taxi Licensing and Contracts Team Leader advised the Auditor that Licensing staff manually enter payment transactions from the application forms into Lalpac either the same or day following receipt. Appointment information and client details provided from the income narrative spreadsheet are recorded against the relevant applicant records held in Lalpac.

The Licensing Manager has advised that reporting from the Uniform system is expected to improve from that currently available in Lalpac. The Manager will request bespoke reports from Uniform. These reports will identify and report Service applications/sales on both a daily and weekly basis so that a reconciliation of sales to actual income received can be conducted. In the meantime, to mitigate this risk as far as possible, the Auditor has advised that proof of payment receipts must be requested before provision of Service. This is to ensure that, where possible, all income due is received by the Council before provision of service. However, the Licensing Manager has commented that this is impracticable because the service already has sight of applicant payments and it would

be unreasonable to require again. However, the Licensing Manager is exploring the possibility of having a duplicate of the receipt from Financial Administration. The Auditor considers that implementation of either proof of payment option will provide the necessary control.

Recommendation - Segregation in duties between the collection of income and administration of the applications

Officers from the Service, manage on a rotational basis, the client appointments and the receipting and cashing up of income received through the One Stop Shop. These Officers have password access to create and update client Service type and payment details in Lalpac. In the event of staff absence, service provision could be provided by the same person who enters details on Lalpac and receives income through the One Stop Shop. Fictitious payment details for applications/sales could therefore be entered into Lalpac without detection; applications/sales could be provided to members of the public with the Council at risk of loss of income.

It is acknowledged that the Licensing Manager or the Taxi Licensing and Contracts Team Leader apply a final approval stage before issue of licences. This is to provide is an independent check to ensure that licences are supported by adequate and correct application and payment details before issue.

This final approval before issue of the licence includes a review of all of the paperwork associated with the renewal such as application form, DVLA copy, medical etc. The application form records the stages of processing and Officer involved at each stage of the process. An office use only stamp, applied to the application form on receipt, records the stages of processing and the Officer completing each stage. The stages include the Officer receiving the application, Officer processing the application and the Officer approving the application. The approving Officer is required to use the cash analysis receipt number written onto the application form to check against that days payments to ensure the number is sequential and check Lalpac to confirm who processed the application in Lalpac.

The Licensing Manager advised the Auditor that she will shortly be advertising for a new administrative post which will bring resilience and clear segregation of duties to the Service. This post is intended to provide a dedicated staff resource to handle appointments; receipting and cashing up of income for the Licensing Service received through the One Stop Shop. This member of staff will have 'read only' access to Lalpac so will not be able to input or amend any records and will not be responsible for delivery of licensing applications/sales. This segregation will mitigate the risks of theft and fraud.

As with any small section, in the event of staff absence segregation of duties is compromised. At the time of audit two members of the Licensing team were off sick. This reduced the segregation in duties with existing officers involved in the collection of income, administering applications through Lalpac and in limited cases provision of service applications/sales.

The Auditor established that a segregation of duties is required in processing licensing refunds or void transactions through the Cash Management system i.e. this is conducted by a member of the finance cashier staff. However, the Licensing Manager and the Taxi Licensing and Contracts Team Leader are not required to authorise these transactions before processing to ensure they are justified. This approval process should be put in place with immediate effect and advised to all Licensing and finance cashier staff for adherence.

From the sample of income transactions tested by the Auditor there were no refund or void transactions processed. The Licensing Manager advised that these transactions are very rare and considers the potential risk of fraud relating to these types of transaction to be low. The Licensing Manager acknowledged that no refund/void should be made

without authorisation and agreed to implement a refund/void authorisation process with the Senior Cashier in Finance. Going forward, an e-mail trail of refund/void transaction authorisations authorised, by designated officers, prior to processing will be maintained i.e. any refunds/voids authorised by the Taxi Licensing and Contracts Team Leader, the Licensing Manager or the Head of Planning, Regulatory and Heritage will be kept with the daily reconciliation sheet.

Conclusion

Within the Licensing system there is still a lack of independent management check and reconciliation of income collected to services provided. Improved reporting of applications/sales required to complete the reconciliation is dependent on the implementation of the new management information system Uniform, which the Licensing Manager has advised is imminent.

Due to the size of the team there is pressure in maintaining adequate segregation in duties. However, the appointment of a new administrative post will enable a dedicated member of staff to service the Licensing desk within the One Stop Shop and bring a segregation of duties. This member of staff will only be able to receive income but not have access or opportunity to update details in Lalpac (or Uniform) or deliver service.

In the event of Service refunds or void transactions through the Cash Management these must be approved by either the Licensing Manager or the Taxi Licensing and Contracts Team Leader before processing by the finance cashier staff. Arrangements to implement these required controls should be made with immediate effect. The Licensing Manager has stated that she will implement a control to ensure that refund/void transactions are authorised by a designated officer before processing by the Senior Cashier or a member of her staff.

If you have any queries regarding the above please do not hesitate to contact Lorraine Sarson, who carried out the audit, or me.

Many thanks,