

Audit and Governance Committee Report



30 January 2013

Report of **Audit Manager**

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To: Audit and Governance Committee

DATE: 30 January 2013

Wards Affected
All

Internal audit activity report quarter three 2012/2013

Recommendation

That members note the content of the report

Purpose of Report

1. The purpose of this report is to summarise the outcomes of recent internal audit activity for the committee to consider. The committee is asked to review the report and the main issues arising, and seek assurance that action will be/has been taken where necessary.
2. The contact officer for this report is Adrianna Partridge, Audit Manager for South Oxfordshire District Council and Vale of White Horse District Council, telephone (SODC) 01491 823544 and (VWHDC) 01235 547615.

Strategic Objectives

3. Managing our business effectively.

Background

4. Internal audit is an independent assurance function that primarily provides an objective opinion on the degree to which the internal control environment supports and promotes the achievements of the Council's objectives. It assists the Council by evaluating the adequacy of governance, risk management, controls and use of resources through its planned audit work, and recommending improvements where necessary. After each audit assignment, internal audit has a duty to report to management its findings on the control environment and risk exposure, and recommend changes for improvements where applicable. Managers are responsible for considering audit reports and taking the appropriate action to address control weaknesses.

5. Assurance ratings given by internal audit indicate the following:

Full Assurance: There is a sound system of internal control designed to meet the system objectives and the controls are being consistently applied.

Satisfactory Assurance: There is basically a sound system of internal control although there are some minor weaknesses and/or there is evidence that the level of non-compliance may put some minor system objectives at risk.

Limited Assurance: There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.

Nil Assurance: Control is weak leaving the system open to significant error or abuse and/or there is significant non-compliance with basic controls.

6. Each recommendation is given one of the following risk ratings:

High Risk: Fundamental control weakness for senior management action

Medium Risk: Other control weakness for local management action

Low Risk: Recommended best practice to improve overall control

2012/2013 Audit Reports

7. Since the last Audit and Governance Committee meeting, the following audits and follow up reviews have been completed:

Completed Audits

Full Assurance: 2

Satisfactory Assurance: 4

Limited Assurance: 2

Nil Assurance: 0

	Page Ref	Assurance Rating	No. of Recs.	High Risk Recs.	No. Agreed	Medium Risk Recs.	No. Agreed	Low Risk Recs.	No. Agreed
Seasonal Leisure 12/13	N/A	Full	2	0	0	0	0	2	2
1. Discretionary Grants 12/13	17	Limited	8	3	2	2	2	3	3
Housing Allocations 12/13	N/A	Full	0	0	0	0	0	0	0
Carbon Management 12/13	N/A	Satisfactory	7	0	0	2	2	5	5
Creditor Payments 12/13	N/A	Satisfactory	6	0	0	1	1	5	5
2. Payroll 12/13	27	Limited	15	0	0	9	9	6	6
Information Governance 12/13	N/A	Satisfactory	6	0	0	1	0	5	3
Data Protection 12/13	N/A	Satisfactory	6	0	0	1	1	5	4
Sundry Debtors 12/13	N/A	Satisfactory	4	0	0	1	1	3	3

Follow Up Reviews

	Page Ref	Original Assurance Given	No. of Recs	Implemented	Partly Implemented	Not Implemented	Ongoing
Verification of PIs 11/12	N/A	Satisfactory	6	5	0	1	0
Election Payments 11/12	N/A	Satisfactory	6	1	0	2	3
Grounds Maintenance 12/13	N/A	Satisfactory	8	4	0	4	0

Benefit Fraud 12/13	N/A	Full	3	2	0	0	1
Emergency Planning 12/13	N/A	Satisfactory	4	2	0	2	0

8. Members of the committee are asked to seek assurance from the internal audit report and/or respective managers that the agreed actions have been or will be undertaken where necessary.
9. A copy of each report has been sent to the appropriate service manager, the relevant strategic director, the section 151 officer and the relevant member portfolio holder. In addition to the above arrangements, reports are now published on the council intranet and committee members are alerted by e-mail when reports are published.
10. Internal audit continues to carry out a six month follow up on all non-financial audits to establish the implementation status of agreed recommendations. All key financial system recommendations are followed up as part of the annual assurance cycle.

Systemic Control Weaknesses

11. **Appendix 2** of this report sets out weaknesses which have been identified within planned audits which internal audit consider to be systemic within the council. Every recommendation made by internal audit since April 2010 has been logged within a recommendation register according to an Institute of Internal Auditors control type definition, and a point system has been used - 1 point for a low risk recommendation, 2 points for a medium risk recommendation and 3 points for a high risk recommendation. The points have been totalled against each control type, and the top 10% control weaknesses which occur across a number of operational areas have been listed as a systemic control weakness. The table will be reviewed and updated by the audit manager, head of finance and the strategic director (section 151 officer) on an ongoing basis, and will be used to inform the annual audit plan and the scope of individual reviews

Financial Implications

12. There are no financial implications attached to this report.

Legal Implications

13. None.

Risks

14. Identification of risk is an integral part of all audits.

ADRIANNA PARTRIDGE
AUDIT MANAGER

1. DISCRETIONARY GRANTS 2012/2013

1. INTRODUCTION

- 1.1 The fieldwork for this audit was undertaken in August 2012 and the final report was issued on 9 November 2012.
- 1.2 The following areas have been covered during the course of this review to provide assurance that:
- There are appropriate policies and procedures in place covering the award of discretionary grants.
 - Discretionary grant applications are fully completed, checked and managed appropriately.
 - Applications are appropriately evaluated and approved prior to any discretionary grant being awarded.
 - That approved grant payments are processed efficiently and reconciled with approved values.
 - There is sufficient and effective monitoring of discretionary grants including budget monitoring.
 - The discretionary grants programme is appropriately managed and reported.

2. BACKGROUND

- 2.1 Community grant schemes are managed by the council's corporate strategy grants team, which comprises of a shared grants team leader and a grants officer who are allocated 20% to VWHDC and 80% to South Oxfordshire District Council to reflect the differing level of grants funded across the two councils. The shared team also took over the partnership grants within the corporate strategy service area during 2011/2012.
- 2.2 From a community grant budget of £103,400, a total of £99,135 was allocated to 50 organisations including £250 towards the grants software package. These were decided by one of four area committees or by the council's executive.
- 2.3 £175,780 was awarded to 15 organisations as partnership grants within corporate strategy in 2011/2012 by the Leader of the council as a part of budget setting. A further £9,520 was available in partnership grants within health and housing, £13,250 within planning and £83,850 within economy, leisure and property. In 2012/13 partnership grants have been reduced to 15 organisations overall and total £241,029.

3. PREVIOUS AUDIT REPORTS

- 3.1 Discretionary grants was last subject to an internal audit review in May 2008 within the community grants audit. No recommendations were raised and a full assurance opinion was issued.

4. 2012/2013 AUDIT ASSURANCE

- 4.1 **Limited assurance:** There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.
- 4.2 Eight recommendations have been raised in this review. Three high risk, two medium risk and three low risk.

5. MAIN FINDINGS

5.1 Policies and procedures

5.1.1 In 2011/2012 the council awarded partnership grants (PG) to existing voluntary sector organisations to support ongoing running costs, as decided by the leader of the council as part of the budget setting process. One off awards were also agreed under the community grants (CG) scheme which, from 2012/13 onwards, is to be replaced with a capital community grant (CCG) scheme and in addition there will be a revenue grant (RG) scheme which will fund festivals and events.

5.1.2 The PG scheme does not appear to be covered by a policy and comprehensive procedures are lacking. Three recommendations have been made as a result of our work in this area. (Recs 1 – 3)

5.2 Applications

5.2.1 The process to be followed is clearly set out for CG applicants as a part of the online application process. An electronic system called Benefactor is used to record and manage grants. The system allows the grants team to design application forms to capture the required information, import completed online applications and automatically populate information into the system, record key stages of the grant application process and electronically store supporting documentation and letters.

5.2.2 A sample of ten awards in 2011/12 was selected at random to cover each type of grant. From the checks undertaken there are no concerns regarding the application process for CG's. However, PG awards are ongoing and whilst a monitoring form was introduced during 2011/12 for grants awarded, there is no application for continued funding. Two recommendations have been made as a result of our work in this area. (Recs 4 & 5)

5.3 Evaluation and approval

5.3.1 CG applications are assessed using a scoring scheme agreed by the Executive for the period 2011/12. This sets out a score within categories such as meeting priorities of the council and community benefit for each application. The scoring system is revised for the CCG scheme from 2012/13 onwards. The criteria includes a general condition that only one grant for a particular project or service will be awarded in any one financial year. The officers evaluation of each application is reviewed by one of five committees, four being area based and one the executive. This appears to result in an inconsistent approach to award decisions and an inefficient use of resources, for example, requiring five sets of committee documentation.

5.3.2 There is no process in place for evaluating PG awards each year as they are granted as ongoing funding to organisations that are not required to complete an expression of interest in continuing to receive funding or a renewed application. One recommendation has been made as a result of our work in this area. (Rec 6)

5.4 **Payments**

5.4.1 Payments are made by BACS and initiated by a payment request voucher through the Agresso accounts payable module to the individual organisations who are set up as suppliers. From the checks undertaken payments appear to be made in a timely manner. CG payments are awarded as a fixed amount based on estimated costs of projects. When the invoices supporting a grant claim amount to less than expected, there is no scope within the CG award agreement to reduce the amount of grant accordingly. This has been addressed within the CCG scheme which replaces the CG from 2012/13 onwards.

5.4.2 Spreadsheets are used to monitor agreed funding and expenditure, as the current system used to manage grant applications does not include budget monitoring functionality. A replacement system with better functionality is being assessed at the time of review with plans for this to be in place from April 2013. One recommendation has been made as a result of our work in this area. (Rec 7)

5.5 **Monitoring**

5.5.1 Each grant award imposes key conditions including monitoring requirements. CG's can either be paid in stages with an initial payment then a monitoring form is sent and reviewed prior to final payment, or can be paid upon receipt of a monitoring form which is sent with the applicant's notification letter. From 2012/13 the CCG scheme will pay to awarded projects upon completion of the project. From 2011/12 PG organisations have been issued a monitoring form with a date it is to be returned by, but this was the first year that monitoring was evident for the awards checked.

5.5.2 A review of budget monitoring spreadsheets identified no issues and from checks undertaken there are no significant concerns regarding the monitoring of awarded grants. A combination of spreadsheets and officer diaries is used to manage the monitoring of award projects, but it is hoped that better monitoring functionality can be provided when the current grants software system is replaced. One recommendation has been made as a result of our work in this area. (Rec 8)

5.6 **Managing and reporting**

5.6.1 The grants team use a work plan to set out deadlines and responsibilities for key tasks in managing each award scheme, but documentation for PG's is lacking. From review of ten awards there were no concerns regarding their management at an individual project level. An annual grant report is produced and circulated to councillors through the weekly information newsletter, and the council's contribution is reported in press releases through the council's website and in the local press for key projects. No recommendations have been made as a result of our work in this area.

OBSERVATIONS AND RECOMMENDATIONS

POLICIES AND PROCEDURES

1. Partnership grant policy

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Up to date policies are in place for the process of assessing and managing partnership grants.</p> <p><u>Findings</u> A policy covering the process of assessing, agreeing and managing partnership grants is lacking.</p> <p><u>Risk</u> If appropriate policies are not in place for the award of partnership grants then it may prove difficult to establish that the council has acted in an open and transparent manner in agreeing awards should decisions be challenged.</p>	Documented and up to date policies should be in place for the process of assessing, agreeing and managing partnership grants.	Shared Grants Team Leader
Management Response		Implementation Date
<p>Recommendation is Agreed Officers will produce a new policy and procedures for partnership grants for approval by Cabinet in 2013-14. The policy and procedures will be implemented in 2014-15.</p> <p>Management response: Shared Grants Team Leader</p>		1 April 2014

2. Procedures

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Up to date procedures should be in place for all aspects of the grants process which include a consistent and appropriate system of version control.</p> <p><u>Findings</u> It was noted that there is a work plan for community grants which covers the process up to notifying applicants of the outcome, and the new grants for young achievers is covered by a comprehensive work plan and flow chart. However procedures and work plans for the partnership grants are lacking.</p>	Documented procedures and work plans should be in place for all aspects of the grants process which include an appropriate and consistent version control.	Shared Grants Team Leader

<u>Risk</u> If comprehensive policies and procedures are not in place then officers may unknowingly act outside of agreed guidelines.		
Management Response		Implementation Date
<p>Recommendation is Agreed Existing documented procedures will include appropriate and consistent version control. When the partnership policy and procedures have been approved (see above response) then these will also include version control.</p> <p>Management response: Shared Grants Team Leader</p>		<p>1 April 2013 for existing procedures. 1 April 2014 for partnership grants.</p>

3. Declaration of interest

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> The requirement for officers with responsibility for administering grants to declare any interest should be included within policies and procedures for all types of grant.</p> <p><u>Findings</u> Whilst there was evidence that councillors and officers declare an interest when making decisions regarding grants, there is no documented requirement within the grants policies and procedures.</p> <p><u>Risk</u> If the requirement for officers and councillors to declare interests in any grant applications is not documented then they may be unaware of their responsibility to do so.</p>	<p>The requirement for councillors and officers with responsibility for administering grants to declare any interest should be included within policies and procedures for all types of grant.</p>	<p>Shared Grants Team Leader</p>
Management Response		Implementation Date
<p>Recommendation is Agreed All existing policies will be updated with the requirement that councillors and officers with responsibility for administering grants need to declare an interest. The partnership policy will include this requirement when it is agreed.</p> <p>Management response: Shared Grants Team Leader</p>		<p>1 April 2013 1 April 2014</p>

APPLICATIONS

4. Applicant details

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Grant applications should include a declaration that the information provided is correct and include details of the person completing the application and date of application.</p> <p><u>Findings</u> Although contact details are requested, applications for community grants do not record the name, date and position of the person completing the application and the contact may not necessarily be same person who completes the online application. The scheme is replaced by the Capital Community Grants Scheme in 2012/13.</p> <p><u>Risk</u> If a declaration that the information is correct and details of the person completing an application on behalf of an organisation are not obtained, then it may prove difficult to prove responsibility should information be found to be false or fraudulent.</p>	<p>Capital Community Grant and Revenues Grant applications should include details of the person completing the application and the date of application.</p>	<p>Shared Grants Team Leader</p>
Management Response		Implementation Date
<p>Recommendation is Agreed Revenue grant applications will be updated to include a declaration that the information provided is correct and include details of the person completing the application form and the date of the application.</p> <p>Management response: Shared Grants Team Leader</p>		<p>1 April 2013</p>

5. Partnership grant applications

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Partnership grants should be assessed based on up to date information obtained from an application or expression of ongoing interest at the time of decision to grant funding.</p>	<p>Partnership grants should be applied for, or at least require an expression of interest each year. Each application should then be assessed according to an</p>	<p>Shared Grants Team Leader</p>

<p><u>Findings</u> Whilst organisations awarded ongoing partnership grants in 2011/2012 are monitored, an expression of interest or renewed application was not obtained prior to the decision to continue funding.</p> <p>An agreed criteria for assessing the award of partnership grants each year was not available.</p> <p><u>Risk</u> If decisions to award funding are not based on up to date information obtained from an expression of interest then the reputation of the council may be adversely affected should the process in awarding partnership grants be questioned.</p>	<p>agreed criteria prior to the decision to continue funding.</p>	
Management Response		Implementation Date
<p>Recommendation is Agreed This will form part of the new policy for partnership grants as detailed above.</p> <p>Management response: Shared Grants Team Leader</p>		<p>1 April 2014</p>

EVALUATION AND APPROVAL

6. Community grant decisions

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Grant awards are decided consistently and having consideration to all applicants so that they are fairly assessed.</p> <p><u>Findings</u> Community grants are assessed by four area committees and the executive resulting in five sets of committee documentation.</p> <p>The applications assessed by the five committees on 6 April 2011 did not appear to follow the suggested funding criteria. Two applications scoring 45 and 90 received full funding of £500 and £1,050. Only one application scored 150 or more and this received £3,250 of the requested</p>	<p>Consideration should be given to having one central committee decide on grant awards rather than a geographical split which appears to create inconsistencies and additional administration.</p>	

<p>£4,750 which is 68.42% of the requested funding. Four applications scoring between 125 and 149 received 93.88% of the requested funding. The suggested scoring criteria does not appear to be followed consistently.</p> <p>Whilst there are benefits to councillors with local knowledge deciding awards, the council may not be seen to be operating in a consistent manner. One of the area committees was attended by 13 councillors of which three declared a personal and prejudicial interest in applications and nine declared personal knowledge of some of the speakers or members of the community applying for grants.</p> <p>An inconsistent approach was noted, for example the committee decisions on 6 April 2011 included two parish twinning projects applying for grants towards travel costs that were presented to two different area committees. Each had a low score, 45 and 55, but one committee awarded full funding of £500 and the other made no award. Also, five applications assessed as having sufficient funding, hence officers recommended no grant award had two committees award funding to two of the applications with the other three declined by another committee.</p> <p><u>Risk</u> If applications for funding are not ranked and consistently assessed the council may not be perceived to be acting fairly in deciding grant awards.</p>		
Management Response		Implementation Date
<p>Recommendation is Not Agreed Politicians wish to retain the four area committees to give local accountability. The issues will be explained to the chairman for each committee and I will try to ensure that the minutes explain any variances from the officer recommendations.</p>		

Management response: Shared Grants Team Leader

PAYMENTS

7. Reconciliation

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Evidence of reconciliation with the general ledger should be recorded on monitoring spreadsheets.</p> <p><u>Findings</u> Whilst reconciliations are undertaken as part of budget monitoring and at an individual award level the balances according to the general ledger are not recorded on monitoring spreadsheets as evidence of reconciliation together with an explanation of any variances.</p> <p>From the checks undertaken two journal entries for £750 and -£884 were the only variances for community grants in 2011/2012. Four Joint Environmental Trusts totalling £11,725 were listed on the partnership grants monitoring spreadsheet but were not matched with corresponding journal entries. This was explained by the shared grants team leader but should be recorded within a reconciliation statement.</p> <p><u>Risk</u> If evidence of reconciliation is not maintained there is no audit trail to support actions taken.</p>	<p>Grant monitoring spreadsheets should include a record of the Agresso balance and evidence the reconciliations undertaken and any variances should be identified and either resolved or explained.</p>	<p>Shared Grants Team Leader</p>
Management Response	Implementation Date	
<p>Recommendation is Agreed The capital and partnership grants monitoring spreadsheets will include a record of the agresso balance and evidence the reconciliations have been undertaken by the relevant officer.</p> <p>Management response: Shared Grants Team Leader</p>	<p>1 April 2013</p>	

MONITORING

8. Match funding

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Conditions attached to grant awards should be realistic and achievable.</p> <p><u>Findings</u> One of the ten grant awards reviewed had a condition of obtaining match funding from the parish council. The council awarded a grant of £1,000 but the organisation only obtained £500 from the parish council. The award was paid despite not having the full match from the parish. The condition of requiring match funding did not appear to be applied consistently across the five committees deciding upon community grants.</p> <p><u>Risk</u> If applicants are required to obtain match funding from parish council's then some smaller parishes may be unable to support to the same level and funds would be committed that cannot be spent.</p>	<p>The decision to make obtaining match funding a grant condition should be reconsidered and perhaps applicants encouraged to seek funding rather than imposing a condition. If the match funding requirement is a condition then grants should not be paid without further approval.</p>	<p>Shared Grants Team Leader</p>
Management Response		Implementation Date
<p>Recommendation is Agreed The capital community grant policy does not include a requirement for match funding and we will brief the Chair of each Area Committee beforehand that we cannot impose this condition once an application has been submitted.</p> <p>Management response: Shared Grants Team Leader</p>		<p>1 December 2012</p>

2. PAYROLL 2012/2013

1. INTRODUCTION

1.1 The fieldwork for this audit was undertaken in June to August 2012 and the final report was issued on 11 December 2012.

1.2 The following areas have been covered during the course of this review to provide assurance that:

- Roles and responsibilities for SODC's and VWHDC's payroll have been appropriately assigned and adequately resourced.
- There are appropriate policies and procedures over pay which is adequately communicated to council staff.
- The administration of payroll is appropriate (i.e. transfer and security of records), supported by internal procedures and prompt.
- Amendments to standing data are appropriately authorised, documented and actioned punctually, including:
 - starters and leavers
 - overtime
 - addition/deductions or variations to pay (e.g. pay rises)
 - personal data.
- To ensure system parameters are up to date and appropriate.
- Payroll communication/data is transferred between payroll, HR and finance in an accurate and timely manner and is secure.
- All payroll reconciliations are administered promptly and subject to independent review.
- To ensure that adequate system back-up arrangements are in place to ensure business continuity.

2. BACKGROUND

2.1 Payroll is the second largest expense to the council, with the council currently employing 173 staff members as of the end of November 2012. From reviewing the general ledger, pay costs were over 6.07 million in 2011/2012.

2.2 In February 2012, the payroll processing duties were transferred from a council in-house team to Capita (based in Carlisle). Internal audit made a site visit to the Carlisle office in June 2012. Payroll is paid monthly via BACS, and payroll is processed through a system called Ingenuity at Work (IAW).

3. PREVIOUS AUDIT REPORTS

3.1 Payroll was last subject to an internal audit review in August 2011 and 12 recommendations were raised of which 11 were agreed. A limited assurance opinion was issued.

3.2 On review, two recommendations have been implemented, six are no longer applicable due to the service moving to Capita and the remaining three have not been implemented. Recommendations not implemented have been carried forward into the current year review.

4. 2012/2013 AUDIT ASSURANCE

- 4.1 **Limited assurance:** There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.
- 4.2 Fifteen recommendations have been raised in this review. Nine medium risk and six low risk recommendations.

5. MAIN FINDINGS

5.1 Roles and responsibilities

- 5.1.1 Capita has established an organisational chart outlining the team responsible for the processing of payroll for the council, however this needs updating. The team is led by the team leader payroll clients and consists of two payroll administrators. The roles and responsibilities of Capita and council responsibilities are listed within the service level agreement. However, internal audit could not evidence an end to end payroll cycle by which all tasks are allocated and documented. It has also been identified that the responsibility to check the identity of authorised signatories (e.g. for timesheets) has not been established. One recommendation has been made as a result of our work in this area (Rec 1).

5.2 Policies and procedures

- 5.2.1 The policies and procedures currently used by Capita are those provided by the previous payroll in-house team - which are specific to the council. The Capita payroll team leader client has stated there is a need to review and refresh policies and procedures. One recommendation has been raised as a result of our work in this area (Rec 2).

5.3 Payroll administration

- 5.3.1 Capita (business manager at Capita) and the council (shared head of finance) oversaw the secure handover of payroll information, but a record of what information is held, where and the responsible officer is not in place. There is a record of information physically sent to and from the Capita council offices – however the equivalent information for the Capita Carlisle office was not provided. Internal audit reviewed the access levels given to the payroll team to the payroll database IAW and found no issues of concern. Internal audit also reviewed the payroll database password parameter controls and it was noted the minimum password field length is 1.
- 5.3.2 Internal audit reviewed a sample of 20 starters and 20 leavers to ascertain timely pay, and in each case payment was administered on a timely basis. However, it was noted that a payslip distribution list used by Capita is not refreshed monthly to ensure payslips go to the correct location. Four recommendations were made as a result of our work in this area. (Recs 3, 4, 5 & 6).

5.4 Amendments

- 5.4.1 For any amendments, human resources e-mails changes to Capita payroll via

a controlled spreadsheet. One payroll officer inputs and another checks the data has been entered correctly onto the payroll database IAW. Internal audit checked a sample of 11 new starters (full sample), 20 leavers, 30 variations to pay (e.g. maternity pay) and 20 amendments to personal data.

5.4.2 For new starters, original documented authorisation of the request to recruit form could not be found in five of the 11 cases. For one starter, a starter form could not be found and for a further four starters sufficient authorisation of the starter form could not be identified. For five leavers, sufficient authorisation of the leaver form could not be found. For overtime claims, the overtime claim form could not be found for four cases. On reviewing childcare payments, internal audit noted eight cases where the authorisation for the original creation of the childcare account could not be found. For two occasions, the occupational maternity form was not found. From the sample of personal data changes, the initial request could not be found for seven cases.

5.4.3 Internal audit noted Capita do not check the identity of the authorisation signatory (i.e. by line managers) for overtime timesheets and stated this is a council responsibility. Three recommendations were made as a result of our work in this area (Recs 7, 8, & 9).

5.5 **System parameters**

5.5.1 The team leader payroll client (Capita) is responsible for the system parameters being up to date on the IAW database. Pay rises and increments are administered in accordance with the amendments process. Internal audit requested the parameters to evidence prompt adjustment for tax changes, and it was noted that this process is not subject to review and sign off. One recommendation has been made as a result of our work in this area (Rec 10).

5.6 **Communication of data**

5.6.1 The main areas where there is an exchange of data is between human resources and Capita regarding amendments to staff details and pay, and human resources and finance regarding authorisation for release of BACS payment and reconciliation data. Capita payroll use a secure e-mail approach which involves the use of encryption to reduce risk of unauthorised level of access. From the review conducted, there are no concerns raised over the timeliness or security of exchange of data.

5.6.2 Capita have a complaints and queries process. Complaints go through a four stage process and are recorded on a spreadsheet (complaints log), however no complaints have been made up until the audit date. Queries are also recorded on a spreadsheet (query log) and are assigned to a responsible officer to resolve. Internal audit identified two queries from the council which have remained unanswered for over a month. Three queries were not recorded on the query log held by Capita and a set turnaround time for all queries is not in place. One recommendation has been made as a result of our work in this area (Rec 11).

5.7 **Payroll reconciliations**

5.7.1 The council's shared accountant reconciles the payment run to the general

ledger on a monthly basis. Internal audit reviewed a monthly reconciliation and has no concerns. The payroll team reconcile the establishment listing to payroll records on an annual basis, however there is no formal tax reconciliation from the payroll database to the general ledger. On a monthly basis, various reports regarding starters and leavers and top 10 earners are e-mailed to the head of finance to review. Any queries arising from this review are discussed either by e-mail or phone. Once matters are satisfactorily resolved, the overall BACS authorisation is sent. One recommendation has been made as a result of our work in this area (Rec 12).

5.8 **Business continuity and back-up plans**

5.8.1 Capita policies and procedures include an emergency response plan and business continuity plan, and on review no areas of concern were identified. Internal audit reviewed an extract of the log of back ups and queried the testing of the back up plans which, the systems and network manager confirmed last took place in March 2012. There have been no instances of data loss reported in the period of scrutiny (2012/2013). The arrangements reviewed are adequate. No recommendations have been made as a result of our work in this area.

OBSERVATIONS AND RECOMMENDATIONS

ROLES AND RESPONSIBILITIES

1. Payroll cycle

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> A payroll cycle is used to identify tasks for officers at the council and at Capita – which is made available to all officers to ensure transparency and accountability.</p> <p><u>Findings</u> The ‘Payroll processes reference’ outlines roles and responsibilities (of both the council and Capita) however, there is no evidence of a payroll cycle analysis used to allocate tasks. It has further been established that the responsibility to check the identity of authorised signatories has not been established.</p> <p><u>Risk</u> Duties are not allocated and are not undertaken.</p>	Document and allocate tasks end to end across the payroll cycle and ensure this information is available to council officers and the Capita payroll team.	Payroll manager (Capita), payroll team leader client (Capita) and shared business support manager (council)
Management Response		Implementation Date
<p>Recommendation is Agreed We will work with the council to ensure this is completed.</p> <p>Management response: Payroll team leader client (Capita)</p>		31 January 2013

POLICIES AND PROCEDURES

2. Policies and procedures

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Policies and procedures covering all payroll processes should be in place and circulated to all relevant officers.</p> <p><u>Findings</u> (a) The policies and procedures currently used by Capita are copies used by the previous payroll in-house team - which are specific to SODC and VWHDC. The payroll team leader client has stated there is a need to review and refresh policies and procedures.</p> <p>(b) The Capita payroll team has a monthly checklist, which lists all their tasks and duties. The payroll team leader client stated this needs updating as not all the tasks listed are performed.</p> <p>(c) The 'Payroll Processes Reference' states the council representative will authorise BACS payments – however the representatives are not documented. Please note during the fieldwork process, it has been established this is the head of finance or one of the two shared accountancy managers.</p> <p><u>Risk</u> Without up to date policies, there may be inconsistencies in practice or the incorrect administration of duties.</p>	<p>(a) Ensure there are up to date policies and procedures covering payroll processes.</p> <p>(b) Ensure the monthly checklist used by Capita is updated to reflect current tasks.</p> <p>(c) Document the list of authorised officers to authorise BACS releases on an agreed document and incorporate into policies and procedures.</p>	<p>Payroll team leader client (Capita)</p>
Management Response		Implementation Date
<p>Recommendation is Agreed (b) has been completed. However, (a) and (c) are currently being formulated.</p> <p>Management response: Payroll team leader client (Capita)</p>		<p>31 January 2013</p>

PAYROLL ADMINISTRATION

3. Itinerary

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> There is a record of all information physically transported where and when.</p> <p><u>Findings</u> It has been stated that Capita (Carlisle) has a register of all information sent and received from the Capita team at the council – however this was not presented to internal audit during the fieldwork process.</p> <p><u>Risk</u> The location of information may not be known – which may lead to the loss of personal information.</p>	<p>Ensure there is an adequate itinerary of documents physically sent to/from the Capita Carlisle office.</p>	<p>Payroll team leader client (Capita)</p>
Management Response		Implementation Date
<p>Recommendation is Agreed This can be achieved with co-operation of the council. If the council logs information sent to the payroll team, the payroll team will sign, scan and send to confirm receipt of documents. (Note: the interim HR manager has stated human resources are happy to help).</p> <p>Management response: Payroll team leader client (Capita)</p>		<p>31 January 2013</p>

4. Catalogue of information

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> There is a record of where all payroll information is held and who is the responsible officer.</p> <p><u>Findings</u> As part of the transfer of the payroll service from the in-house team to Capita, a number of archive boxes with historical payroll data was sent to Capita Carlisle. A decision was made to store expenses receipts in the Capita council office.</p> <p>There is currently no record of payroll information held, its location and who is responsible for such information. From speaking to the</p>	<p>Ensure there is a catalogue of all payroll information held, its location and the responsible officer.</p>	<p>Payroll team leader client (Capita)</p>

<p>payroll team leader client (Capita), there was a lack of knowledge of where information is currently held (e.g. timesheets prior to February for the financial year 2011/2012).</p> <p><u>Risk</u> The location of information may not be known – which may lead to the loss of information and data protection infringements.</p>		
Management Response		Implementation Date
<p>Recommendation is Agreed All information 2011/12 and current year is held by Capita. Information prior to this is held by South and Vale councils.</p> <p>Management response: Payroll team leader client (Capita)</p>		31 January 2013

5. Payslips

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Payslips are sent to the place of work of the recipient based on the most recent information.</p> <p><u>Findings</u> A report is currently generated from HR Pro documenting the staff member's main place of work, and used by Capita to formulate a distribution list – however this list was not refreshed every month.</p> <p><u>Risk</u> Payslips are not received by employees in a timely manner leading to dissatisfaction and possible loss of payslip.</p>	Ensure payslips are sent to staff locations based on the live data available from HR Pro.	Customer service manager (Capita)
Management Response		Implementation Date
<p>Recommendation is Agreed A solution is currently being developed and should be in place soon. An up to date distributions list needs to be provided to the customer service manager on a monthly basis.</p> <p>Management response: Payroll team leader client (Capita)</p>		31 December 2012

6. Minimum password length

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Establish a minimum field length of eight or more (as stated in</p>	Increase the minimum password field length for access to Ingenuity	Payroll team leader client (Capita)

Microsoft: Safety & Security Centre).	At Work (IAW).	
<u>Findings</u> Internal audit reviewed the password parameters for the payroll database (IAW) and identified the minimum password field length was one.		
<u>Risk</u> Inappropriate access to the payroll database (IAW) which may lead to inappropriate changes to payroll data and pay.		
Management Response		Implementation Date
Recommendation is Agreed This has now been adjusted to 8.		Implemented
Management response: Payroll team leader client (Capita)		

PAYROLL AMENDMENTS

7. Overtime claims

(Medium Risk)

Rationale	Recommendation	Responsibility
<u>Best Practice</u> All overtime claims are readily available and all records of time keeping are accurate.	(a) Ensure all overtime claims are retained and are easily accessible.	Payroll team leader client (Capita) and interim shared HR manager (council)
<u>Findings</u> Internal audit selected a sample of 20 overtime claims and established that four timesheets could not be found to support payments and for one case the reason for the overtime could not be established.	(b) Ensure all overtime claims record the reason for overtime.	
<u>Risk</u> There is a lack of audit trail, accountability and possible financial loss to the council.		
Management Response		Implementation Date
Recommendation is Agreed (a) We are happy with the arrangements now in place. (b) Agreed.		(a) Immediately (b) Implemented
Management response: Payroll team leader client (Capita) and interim shared HR manager (council)		

8. Childcare vouchers

(Medium Risk)

Rationale	Recommendation	Responsibility
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<p><u>Best Practice</u> There is a record for all requests to set up childcare vouchers.</p> <p><u>Findings</u> From a sample of 30 variations to pay, internal audit found 8 cases where it was not possible to obtain a record of the officer setting up childcare vouchers with the council.</p> <p><u>Risk</u> There is incorrect administration of childcare voucher payments.</p>	<p>Ensure there is an adequate audit trail authorising the creation of childcare voucher accounts.</p>	<p>Business support manager (council)</p>
<p>Management Response</p>		<p>Implementation Date</p>
<p>Recommendation is Agreed We now save emails requesting this on personnel files.</p> <p>Management response: Interim shared HR manager (council)</p>		<p>Immediately</p>

9. Maternity forms

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> There is a record of the occupational maternity form.</p> <p><u>Findings</u> Internal audit selected 30 officer variation payments (e.g. maternity leave or childcare payments), and found 2 cases, where there was no occupational maternity form.</p> <p><u>Risk</u> Lack of compliance with best practice.</p>	<p>Ensure there is a record of the occupational maternity form.</p>	<p>HR business support team (council)</p>
<p>Management Response</p>		<p>Implementation Date</p>
<p>Recommendation is Agreed This is done as a matter of course. There should not be any forms missing in future as we now make certain that the form has been received before any maternity pay calculations are sent to the employee.</p> <p>Management response: Interim shared HR manager (council)</p>		<p>Immediately</p>

SYSTEM PARAMETERS

10. System parameters

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> All tax changes should be signed off as reviewed and appropriate.</p> <p><u>Findings</u> Tax code changes are sent from HMRC via electronic data interface and uploaded manually. The tax changes are administered by the senior systems analyst (at Capita). However, there is no formal review and sign off of this process.</p> <p><u>Risk</u> Incorrect tax changes are administered and officers are incorrectly paid.</p>	<p>Ensure there is a sign off to approve the tax changes made on the payroll database.</p>	<p>Payroll team leader client (Capita)</p>
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>Management response: Payroll team leader client (Capita)</p>		<p>30 May 2013</p>

COMMUNICATION

11. Response times

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> (a) All queries received by Capita are recorded to allow for effective response and monitoring.</p> <p>(b) There is an established turnaround time for queries which is adhered to.</p> <p>(c) Payroll team is adequately resourced which is reflected in prompt response times to queries.</p> <p><u>Findings</u> (a) The Capita payroll team uses a queries log spreadsheet to manage and respond to 'South & Vale District Councils' queries. Internal audit obtained 3 specific queries which had been sent from accountancy to Capita and was unable to track them on the query log.</p>	<p>(a) Ensure there is the correct capture of queries on the query log.</p> <p>(b) Ensure there is a set turnaround time for queries.</p> <p>(c) The council should monitor response times to queries.</p>	<p>Payroll team leader client (Capita) and shared finance & systems manager (council)</p>

<p>(b) Two of the queries remain unanswered at the time of the review dating back to July. It was noted that an agreed turnaround time to respond to queries has not been established between Capita and the council.</p> <p>(c) Two queries from the query log were randomly selected to check progress against, but evidence could not be obtained from Capita that progress was being made.</p> <p><u>Risk</u> Queries are not answered promptly or properly and payroll problems are not resolved promptly leading to the exacerbation of errors.</p>		
Management Response	Implementation Date	
<p>Recommendation is Agreed</p> <p>(a) and (b) All queries are now logged in Jira to ensure accuracy of statistics for turnaround times. (c) will be picked up during the monthly conference calls that take place between Finance, HR and Capita Payroll.</p> <p>Management response: Payroll team leader client (Capita) and shared finance & systems manager (council)</p>	31 January 2013	

RECONCILIATION

12. Tax reconciliation

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> There is a tax reconciliation conducted between the payroll database and general ledger to ensure tax submission to HMRC is correct.</p> <p><u>Findings</u> There is no tax reconciliation conducted at year end between the payroll database and general ledger.</p> <p><u>Risk</u> The tax submission is incorrectly submitted leading to incorrect financial reporting to HMRC.</p>	<p>Ensure a tax reconciliation is conducted between the payroll database and general ledger at year end.</p>	<p>Shared accountancy manager (revenue) (council)</p>
Management Response	Implementation Date	

Recommendation is Agreed	30 July 2013
Management response: Shared accountancy manager (revenue) (council)	

2011/2012 PREVIOUS AUDIT RECOMMENDATIONS

13. Authorisation check

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> An approved signatory list is in place to which approval of all amendments is agreed.</p> <p><u>Findings (2010/2011) & (2011/2012)</u> Members do not have the facility at present to submit expenses electronically and return paper forms which contain an 'authorised signature'. During testing it was highlighted that there is currently no authorised signatory list in place against which payroll can verify the 'authorised signature' to ensure that the expenses have been appropriately approved.</p> <p><u>Findings (2012/2013)</u> Due to the changes in the payroll process internal audit recommends a review of the authorisation check for members and overtime claim forms.</p> <p><u>Risk</u> Amendments to pay may be processed without the required authorisation.</p>	Human resources, finance and democratic services to discuss process of authorisation check for members and overtime claim forms.	Head of finance (council)
2010/2011 Management Response	Implementation Date	
<p>Recommendation is Agreed</p> <p>All members/councillors claims are authorised for payment by one individual (or their substitute) from democratic services and a list of specimen authorised signatories from democratic services will be obtained and held within payroll.</p> <p>Work has been completed to provide members/councillors with access to submit claims electronically, only a few members are unable to use this format. Access and authorisation rules are built in to the electronic process.</p>	31 December 2010	

Management Response: Payroll project lead	
2011/2012 Management Response	Implementation Date
<p>Recommendation is Agreed An authorised signatory list has been drawn up for staff who have been authorised by their heads of service to sign off any payroll input forms.</p> <p>Management Response: Payroll supervisor</p>	30 November 2011
2012/2013 Management Response	Implementation Date
<p>Recommendation is Agreed</p> <p>Management response: Head of finance (council)</p>	31 January 2013

14. Request to recruit form approval

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> All request to recruit forms are approved by the HR manager.</p> <p><u>Findings (2011/2012)</u> During sample testing of starters, for two of the two tested, the request to recruit form was not approved by the HR manager.</p> <p><u>Finding (2012/2013)</u> Internal audit identified a request to recruit form which had not been signed by the HR Manager (or an equivalent e-mail). Internal audit identified two cases which highlight 1) request to recruit forms are not signed in all cases and 2) electronic signatures are used in cases – however this in itself is not authorisation.</p> <p><u>Risk</u> If the request to recruit forms are not approved by the HR manager, there is a risk of unauthorised starters being set-up on the system.</p>	All request to recruit forms should be signed by the HR manager, giving approval to recruit.	Shared HR business support manager (council)
2011/2012 Management Response		Implementation Date
<p>Recommendation is Agreed in Principle Agreed that someone in the HR team needs to approve request to recruit forms however this does not need to be</p>		Immediate

<p>the shared HR manager. The HR business partners should have a detailed knowledge of what is happening in their service area and should also have a general understanding of what's happening in other service areas. This should give them the knowledge necessary to approve request to recruit forms for their service areas.</p> <p>Management Response: Shared HR manager</p>	
2012/2013 Management Response	Implementation Date
<p>Recommendation is Agreed in Principle</p> <p>As per last year's response, the relevant HR Business Partner will sign the form on behalf of HR (not the HR manager) as they will have the most detailed knowledge of what is happening in the that particular service. I think that electronic signatures should be taken as adequate approval.</p> <p>Management response: Interim shared HR manager (council)</p>	Immediate

15. Changes trail

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> For all personnel change forms received via email, the email is filed alongside the form so that an audit trail exists.</p> <p><u>Findings (2011/2012)</u> During sample testing of leavers, only three of the nine leaver forms were signed by the service manager. The HR business support manager stated that the forms are received via email and the email is sent by the service manager, so the appointment is not required to be signed. Internal audit requested copies of the email to confirm approval from service manager, but HR did not send copies of the email.</p> <p><u>Findings (2012/2013)</u> Internal audit reviewed 11 starters, 20 leavers and 20 amendments and established:</p> <ul style="list-style-type: none"> For four starters, sufficient evidence of authorised starter forms could not be found. In an additional 	<p>(a) Ensure all e-mail correspondence of starter/leaver/request to recruit forms are held with the personnel files electronically (including casuals).</p> <p>(b) Ensure all leaver forms are retained.</p> <p>(c) Ensure requests for personal data changes are retained.</p>	Shared HR business support manager

<p>case, no starter form. Authorisation for five request to recruit forms could not be found.</p> <ul style="list-style-type: none"> • For five leavers, sufficient authorisation could not be obtained. • In one leaver case, a casual worker, there was no leaver form. • In seven cases, the source request of the amendment could not be found. <p><u>Risk</u> With these documents missing, there is a lack of audit trail and this would not comply with the council's own records management policy.</p>		
Management Response 2011/2012		Implementation Date
Recommendation is Agreed Management Response: Shared HR manager		Immediate
Management Response 2012/2013		Implementation Date
Recommendation is Agreed The emails should have been saved. Management response: Interim shared HR manager		Immediate