

AUDIT COMMITTEE

25 SEPTEMBER 2012

INTERNAL AUDIT PROGRESS REPORT TO 31 AUGUST 2012

REPORT OF INTERNAL AUDIT MANAGER

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RECENT REFERENCES:

AUD029 – Internal Audit Plan 2012/13 – 12 March 2012

AUD033 – Internal Audit End of Year Report 2011/12 – 26 June 2012

EXECUTIVE SUMMARY:

This report sets out the Internal Audit coverage, findings and performance to 31 August 2012.

Eighteen percent (5 audits, includes one follow up audit) of the 28 programmed audits in the audit plan have been completed to final or draft report stage. In addition to this 10 audits from the 2011/12 plan that were at draft report stage as at 31 March 2012 were finalised as part of the 2012/13 Audit Plan.

Three pieces of work have been requested by the S151 Officer (contingency budget) and two pieces of work undertaken from the special investigation contingency.

The Audit Plan for 2012/13 is shown in tabular form at Appendix A of this report and provides details on the progress of this year's audit plan.

One change has been proposed to the original 2012/13 Audit Plan approved by the Audit Committee 12 March 2012. The service audit of Planning to be replaced with an audit of the ICT Shared Service contract.

The Executive Summary for the 2011/12 Payroll review completed since the last Audit Committee meeting is shown in Appendix C, Item C.1

There were two Executive Summary items deferred from the 26 June 2012 Audit Committee meeting to provide the Head of Estates the opportunity to deliver an update on progress against the management actions identified. These items relating to the Guildhall Stock Control and Market audits will be reported to the December Audit Committee.

RECOMMENDATIONS:

1. That the matters raised by Internal Audit and action taken by Management are noted.
2. That the proposed amendment to the original 2012/13 Audit Plan is noted.

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DETAIL:

1 Audit Plan Progress

- 1.1 Appendix A indicates the progress against the 2012/13 audit plan to 31 August 2012.
- 1.2 Eighteen percent (5 audits, includes one follow up audit) of the 28 programmed audits in the audit plan have been completed to final or draft report stage. In addition to this ten audits from the 2011/12 plan that were at draft report stage were finalised as part of the 2012/13 plan have been completed.
- 1.3 In addition to the above, three reviews have been requested by the S151 Officer (contingency budget) and two pieces of work undertaken using the special investigation contingency budget.

2 Outstanding Internal Audit Recommendations

- 2.1 All Directors and Heads of Team are aware of their outstanding Audit Actions and these are now monitored on Covalent. An update for the Audit Committee on implementation of high risk management actions to 31 March 2012 was reported to the Audit Committee 26 June 2012. A further update will be reported to the December Audit Committee meeting.

3 Partnership Progress

- 3.1 The Audit Manager to date has spent 33.3% of his time on Winchester City Council audit matters and 33.3% at Havant Borough Council and 33.3% at Test Valley Borough Council. The annual target is 33.3% at each site.

4 Other Matters

- 4.1 Internal Audit has an overall productive time (chargeable days) target of 90%. Performance was below target at 85.2% as at 31 August 2012. A contributing factor to this is due to the recruitment process for the Auditor post taking place in quarter 1 and the following induction of the new post holder.

OTHER CONSIDERATIONS:

5 SUSTAINABILITY COMMUNITY STRATEGY AND CHANGE PLANS (RELEVANCE TO):

- 5.1 Internal Audit contributes through the annual audit plan to the corporate governance arrangements of Winchester City Council, which in turn supports the achievement of the objectives of the Sustainable Community Strategy and Change Plans.

6 RESOURCE IMPLICATIONS:

- 6.1 The Audit Plan is currently close on target to be 95% complete (27 of 28 audits) at the end of March 2013. There was a budget overrun of 17.5 days on completing 2011/12 audits to final report stage which unless not all the contingencies are used will result in one or possibly two audits not being undertaken in 2012/13. A risk based approach will be taken to assess which audits will not be undertaken if this occurs.

7 RISK MANAGEMENT ISSUES

- 7.1 The Internal Audit plan for 2012/13 is linked to the Corporate Risk Registers to ensure, where possible and appropriate, Internal Audit review those areas considered to be of the most significant risk. The annual plan was approved by the Audit Committee and continues to be reviewed to ensure they are in line with the risk registers and as a consequence have an audit programme closely linked to the Sustainable Community Strategy and Change Plans.

BACKGROUND DOCUMENTS:

Working papers and Audit Reports held within the Governance Group (some exempt).

APPENDICES:

Appendix A: Provides details on the progress of this year's audit plan to 31 August 2012.

Appendix B: Definition of Audit Opinions

Appendix C: Executive Summary Payroll Audit (2011/12).

APPENDIX A

Progress of 2012/13 Audit Plan to 31 August 2012

Audit Assignment	Planned Days	Actual Days	Stage / Comment
CONTINGENCIES			
S151 Requests	15	4	1. Fraud Survey (1 day) 2. Mayor's Account (2 days) 3. Telephone Billing (1 day)
Special Investigation	30	6.5	1. Additional work arising from Fraud Prevention Audit (5.5 days) 2. Data Analysis in support of a management case (1 day)
KEY FINANCIAL AUDITS			
Asset Management	11.5	0	Quarter 2
Benefits	11.5	0	Quarter 3
Budgetary Control	11.5	0	Quarter 3
Car Parks	11.5	9.5	Draft Report Stage
Cash collection	17	2	Work in Progress
Council tax	6	1	Work in Progress
Creditors	6	0	Quarter 3
Debtors	11.5	10	Draft Report Stage
Housing Rents	33	0	Quarter 4
Main Accounting	11.5	0	Quarter 3
NNDR	6	1	Work in Progress
Payroll	16.5	0	Quarter 4
Treasury Management	11.5	0	Quarter 3
CORPORATE AUDITS			
Code of Conduct	8.5	0	Quarter 4
Commissioning	17	0	Quarter 4

<u>Audit Assignment</u>	<u>Planned Days</u>	<u>Actual Days</u>	<u>Stage / Comment</u>
Corporate Governance	11.5	11.5	Completed.
Developers Contributions	11.5	0	Quarter 4
Follow Up Reviews on the Implementation of Management Audit Actions	11.5	5	1. First review completed and reported to the Audit Committee 26 June 2012. Second review to be undertaken in quarter 3.
Fraud Prevention	11.5	8	Work in Progress
Grounds Maintenance and Street Care (Contract Audit)	11.5	9	Work in Progress
Housing Term Contract – Responsive Maintenance and Void Repairs (Contract Audit)	11.5	0	Quarter 3
ICT Shared Service	11.5	.5	Quarter 3. Note not in the original approved 2012/13 Audit Plan. Was to be undertaken as part of 2011/12 Audit Plan. Considered a priority audit for 2012/13 and replaces the Service Audit on Planning that was shown in the original 2012/13 Audit Plan.
Leisure Contract (Contract Audit)	11.5	0	Quarter 4
Performance and Risk Management	17	17	Draft Report Stage
Software Licensing and Management of ICT Assets	6	.5	Quarter 4
Staff Recruitment	11.5	14.5	Draft Report Stage
ON-GOING ACTIVITIES			
Advice and Assurance to Customers as required.	22	10.5	17 items to 31 August 2012.
Anti Fraud and Corruption Policy and Awareness Training	5	2	
Audit Planning and Reporting	25	10	

<u>Audit Assignment</u>	<u>Planned Days</u>	<u>Actual Days</u>	<u>Stage / Comment</u>
External Audit Liaison	6	1.5	
NFI Fraud Prevention	11.5	5	
Role on Governance Group	3	1	
SERVICE AUDITS			
Guildhall	17	0	
COMPLETION OF 2011/12 AUDITS TO FINAL REPORT STAGE	10	27.5	Please see Appendix C, Item C.1 for the Payroll Executive Summary.
Total	461.5	157.5	

APPENDIX B

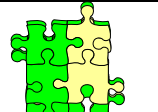
Assurance Opinions and Action Risk Levels

In order to assist management and members in using our reports:

- a) We categorise our **opinions** according to our assessment of the controls in place and the level of compliance with these controls. For each audit, we arrive at a conclusion that assesses the audit assurance in one of four categories. These arise from:

Our evaluation opinion: we assess the system of controls, which are in place to achieve the system of objectives.

Our testing opinion: we check whether the controls said to be in place are being consistently applied.

	Full	System Effectiveness opinion - There is a sound system of control designed to achieve the system objectives, and Testing opinion – The controls are being consistently applied.
	Substantial	System Effectiveness opinion – While there is a basically sound system there are weaknesses which put some of the control objectives at risk, and/or Testing opinion – There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
	Limited	System Effectiveness opinion – Weaknesses in the system of controls are such as to put the system objectives at risk, and/or Testing opinion – The level of non-compliance puts the system objectives at risk.
	No Assurance	System Effectiveness opinion – Control is generally weak leaving the system open to significant error or abuse, and/or Testing opinion – Significant non-compliance with basic controls leaves the system open to error or abuse.

- b) We categorise our Actions according to their level of risk.

High (1) Major issues for the attention of senior management.
Medium (2) Other recommendations for local management action.
Low (3) Minor matters.

APPENDIX C.1**Item C.3 – Payroll 2011/12**

This report covers the internal audit of procedures and controls in place over Payroll at Winchester City Council. The internal audit has been undertaken in accordance with the 2011/2012 agreed Internal Audit plan.

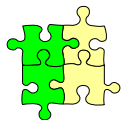
Audit Objectives

The audit was designed to ensure that management has implemented adequate and effective controls over the management of payroll.

Areas Covered

Audit work was undertaken to cover the following areas: -

- Additions / deletions from the payroll
- SELIMA system security and controls
- BACS payments, the authorisation process for releasing payments
- Salary, overtime and allowance payments
- Deductions
- Planning Officer overpayment, including checking current progress to recover from HMRC and LGPS

Audit Opinion**Limited**

System Effectiveness opinion – Weaknesses in the system of controls are such as to put the system objectives at risk, and/or

Testing opinion – The level of non-compliance puts the system objectives at risk.

Conclusions

1. The audit showed there to be an improvement in the retention of key documentation supporting the addition and deletion of employees on the payroll. It is evident that whilst there has been a backlog in capturing documentation on Retriever the paper files have been easily accessible to confirm key stages of the appointment process are taking place e.g. proof of identity, references obtained and contract of employment issued.
2. Reports showing system access rights have not been able to be produced since the payroll system was upgraded to Envoy in 2011. It has not therefore been possible to confirm they are set correctly and operating effectively. It is however evident that the inbuilt system controls do ensure there is a segregation of duties demonstrated by new starters and leavers requiring entry in the Human Resources system module prior to being drawn into the Payroll system module.
3. The inbuilt system controls within the ALBACs system were found to be good, forcing a segregation of duties between the officers preparing the payroll / BACs file and those transmitting the file for payment. There are however two areas which require review, firstly the extent of the checks completed by the officer responsible for authorising the release of payments which are currently limited to reasonableness checks on individual values being paid. It was also established that the BACs file is submitted, accepted and committed to prior to the authorisation to release the payment takes place. It is understood that this is done to ensure the employees are paid on time and in the event of a payment being challenged by the releasing officer and found to be incorrect there is an opportunity to recall the payment. This process would benefit from further review to establish if changes in the order in which key stages are completed can be adjusted to allow for the payroll being authorised for release prior to the BACs transaction being submitted.
4. Payments are generated via Envoy (payroll system) and then data files uploaded to Financials on a monthly basis, allowing for budget monitoring of employee costs. The audit confirmed that this process is being conducted in a timely manner and quality control checks do exist within the process to ensure completeness of the upload. Prior to uploading the Envoy file it is however subject to a code validation process which automatically converts any invalid general ledger codes to valid codes. Whilst it is understood that this exercise is conducted to ensure all employee costs are posted to valid ledger codes it means that the two systems (Envoy and Financials) can never be fully reconciled. A more appropriate way of uploading the Envoy file would be to upload it intact, free from changes, with invalid codes posted to a suspense account. This would then enable invalid codes to

be identified and corrected on Envoy, eliminating their future use and allow for the periodic reconciliation between the two systems confirming the employee costs shown on Envoy match those used for budget monitoring and reporting purposes.

5. The controls over the overtime and expense claims were found to be good. All payments checked were found to be authorised either through a completed and authorised overtime claim or through the online system on Envoy recently adopted for submitting and authorising overtime claims.
6. The annual changes to standing data or parameters (tax rates, national insurance and pension percentages) are input, checked and sample tested through evidenced manual calculations. This provides assurance that deductions made to individuals pay continue to be calculated correctly once amendments have been made.
7. Progress is being made to recover the salary payment made to a member of staff, which was reported in 2009. The original value of the overpayment was £15,435.48 and the balance to be recovered from employee was £7,941.80 as at the 31 March 2012. The Local Government Pension Scheme overpayments have now been fully recovered. There has been some progress made in recovering the overpayment of tax and national insurance. Correspondence from HM Revenues and Customs outlines the process to follow including details of the required forms to complete, which the Payroll and Transport Manager is currently progressing.
8. The key controls, identified by the Council's External Auditors, have been tested and confirmed to be operating effectively.

Previous Recommendation Follow Up

There are four internal audit agreed actions outstanding from previous audits, none of which are classified as high risk.

Acknowledgement

We would like to thank the management and staff of the Organisational Development and Accountancy teams for their assistance during the audit.

Agreed Action Plan

<u>No</u>	<u>Control Weakness</u>	<u>Potential Risk / Rational</u>	<u>Agreed Action Plan</u>	<u>Responsible Officer and Deadline</u>
		High		
1	There is no independent reconciliation of Envoy to Financials (by ledger code) which would confirm employee costs have been accounted for correctly.	Manipulation of data files (automatic and manual) leading to potential errors or false payments not being identified.	On completion of the exercise to correct the codes within Envoy a regular reconciliation will be conducted to the General Ledger to provide assurance that employee costs have been accounted for correctly.	Management Accountant Target Date: 31 October 2012
		Medium		
2	The Envoy payment data file is subject to a ledger code validation process prior to it being uploaded onto Financials. The process includes automated changes to ledger codes based on a conversion table and manual adjustments if ledger codes are unknown. This results in the two systems not being able to be easily reconciled (by ledger code) to provide assurance that all employee costs have been accounted for correctly.	Manipulation of data files (automatic and manual) leading to potential errors or false payments not being identified.	The ledger codes adjusted through the conversion table and the corresponding valid codes will be corrected Envoy eliminating the need for the conversion process to be applied.	Payroll and Transport Manager / Management Accountant Target Date: Completed

<u>No</u>	<u>Control Weakness</u>	<u>Potential Risk / Rational</u>	<u>Agreed Action Plan</u>	<u>Responsible Officer and Deadline</u>
3	The monthly payroll BACs file is submitted and accepted prior to the authorisation to release the payroll being sought.	Payroll released without prior to review and authorisation leading to errors or false payments	Authorisation to release the monthly BACs file will be sought prior to committing the Council to the payment through it being accepted on the BACs system.	Payroll and Transport Manager Target Date: 31 August 2012
4	The checks completed by the officer authorised to release the payroll are not sufficient to enable identification errors of omissions to be identified.	Payment errors or false payments not identified.	Additional reports will be provided to the releasing officer, including completed checklists and prior period payment reports enabling more robust checks to be completed and evidenced prior to payroll being authorised for release.	Head of Organisational Development Target Date: 31 August 2012
5	The sickness absence reports are not aligned to the establishment list leading to sickness records of individuals, including reasons for sickness, being reported to the wrong Heads of Team.	Penalties incurred through infringements of Data Protection	An exercise will be completed reviewing and updating the hierarchy settings within Selima ensuring the sickness absence reports are aligned to the establishment list.	Assistant HR Advisor Target Date: 31 December 2012

No	<u>Control Weakness</u>	<u>Potential Risk / Rational</u>	<u>Agreed Action Plan</u>	<u>Responsible Officer and Deadline</u>
6	Instances were observed when cabinets in Organisational Development were left unlocked overnight leaving personal information easily accessible.	Penalties incurred through infringements of Data Protection	Officers will be reminded at the next Organisational Development team meeting of the need to ensure all cabinets holding personal information are locked overnight or when the office is unattended.	Head of Organisational Development Target Date: 30 September 2012
7	Establishment reports are being produced regularly and made available to Heads of Team; however there is no evidence to show that Heads of Team have accessed these reports and reviewed them.	Errors on the establishment are not identified leading to errors payroll payments	A link to the reports located on Retriever will be included in notification emails to Heads of Team alerting them establishment reports are available and where they are located, the email to also provide instruction on the requirement to respond to Organisational Development on completion of review. For monitoring purposes a summary spreadsheet will be maintained which provides evidence of responses from Heads of Team.	Assistant HR Advisor Target Date: 30 September 2012

<u>No</u>	<u>Control Weakness</u>	<u>Potential Risk / Rational</u>	<u>Agreed Action Plan</u>	<u>Responsible Officer and Deadline</u>
		Actions outstanding from previous audits		
	<p>AuditInt/OD/046 The Performance Indicator spreadsheet for payroll is not up to date. There has been an organisational restructure, which means that Payroll has moved from Exchequer services to Human Resources and as a result, the PI's haven't been logged in Covalent.</p>	<p>Medium Ineffective monitoring of payroll performance</p>	<p>Agreed that following the review of the performance indicators, these will be monitored on a monthly basis and loaded into Covalent.</p>	<p>Payroll and Transport Manager 30 September 2011 Anticipated Completion Date: 30 November 2012</p>
	<p>AuditInt/OD/047 As per the previous payroll audit, it was identified that the retention of documents on personnel files was not always complete, specifically evidence of identity checks and leavers checklists.</p>	<p>Medium Additions / Deletions to the payroll are unauthorised</p>	<p>Agreed to issue a reminder to management to ensure they provide HR with the required documentation for starters and leavers.</p>	<p>Head of Organisational Development 30 September 2012</p>