KPMG

INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

Internal Audit Service 2008/09 Progress report (4)

Oxford City Council

27th January 2009

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

Contents

	Page Number
Statement of Progress against the Internal Audit Plan	**3**
Internal Audit Reports	
- **Treasury Management**	**7**
- **Benefits**	**14**
- **Local Taxation**	**22**
- **Payroll**	**29**
Performance Information	**57**
Audit and Governance Committee Reporting Schedule	**58**

This report is provided pursuant to the terms of the contract with Oxford City Council. The report is intended solely for internal purposes by the management and Members of Oxford City Council and should not be used by or distributed to others, under the Freedom of Information Act 2000 or otherwise, without our prior written consent. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this Report to any party other than the Beneficiaries.

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Audit Plan / Timing 2008/09

	Area	Planned Days	Timing	Scope
Authority Wide				
1	**Corporate Governance**	10	February 2009	Further enhancements are required within this area to improve the use of resources score received. We will focus on a couple of key issues to aid in the development of this area.
2	**Risk management**	15	Completed with on – going support	We have assisted the Authority in the development of a revised risk register format, attended a Wider Leadership Team to promote risk management, established a Risk Group to champion risk management, and given a training session to Members on risk management. We also assisted in the development of the 2007/08 year end risk register, meeting with Heads of Service to populate the register.
3	**Equality and Diversity**	15	Draft report issued 9 January 2009	This area has not been subject to a review by internal audit (brought forward from 2007/08). We will review the overall arrangement for ensuring equality and diversity across the organisation against good practice.
4	**Health and Safety follow-up**	6	In Progress	This area was assessed as weak at the review in 2006/07, and follow up in 2007/08 identified recommendations remained outstanding. Members require independent assurance that controls and procedures are operating as intended and as such we will continue to review progress in the implementation of agreed actions.
5	**Single status**	6	To be completed prior to full costed proposal milestone of February 2009.	This review was requested by management and involves a validation of the single status pay model base data.
6	**Business Continuity/ Disaster Recovery**	10	Final report issued 7 November 2008 WEAK	The Authority has been reviewing its arrangements in light of recent issues, including the Oxford floods in 2007. We have reviewed the progress made by the Authority in implementing its action plan.

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Audit Plan / Timing 2008/09 (cont'd)

	Area	Planned Days	Timing	Scope
Finance and Asset Management				
7	**Benefits**	15	Final report issued 12 January 2009 GOOD	Managed audit – essential for DA reliance. Satisfactory ratings in 2005/06 and 2006/7 and good in 2007/08. We propose a similar compliance type audit due to the significance and value of the transactions.
8	**Local Taxation**	10	Final report issued 12 January 2009 GOOD	Managed audit – essential for DA reliance. Satisfactory ratings in 2005/06 and good / satisfactory ratings in 2006/07 progressing to good in 2007/08. We propose walkthrough testing for both NNDR and Council tax.
9	**Payroll**	10	Final report issued 13 January 2009 SATISFACTORY/WEAK	Managed audit – essential for DA reliance. Satisfactory ratings in 2005/06 to 2007/08. We propose to undertake compliance testing.
10	**Accounts payable**	5	In Progress	Managed audit – essential for DA reliance. Satisfactory ratings to in 2005/6 and 2006/7 and good in 2007/08. We propose to carry out walkthrough testing.
11	**Accounts receivable**	5		Managed audit – essential for DA reliance. Satisfactory ratings to in 2005/6 and 2006/7 and good in 2007/08. We propose to carry out walkthrough testing.
12	**Main accounting**	5		Managed audit – essential for DA reliance. Satisfactory rating to date. We propose to undertake walkthrough testing to confirm that the design of the controls has not changed.
13	**Treasury management**	5	Final report issued 24 December 2008 GOOD	Managed audit – essential for DA reliance. Good rating to date. We propose to undertake walkthrough testing to conform that the design of the controls has not changed.
14	**Fixed Assets**	10	March 2009 (request to postpone received due to staff un-availability)	Managed audit – essential for DA reliance. We propose to undertake compliance testing in this area.

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Audit Plan / Timing 2008/09 (cont'd)

	Area	Planned Days	Timing	Scope
Business Systems				
15	**Data Security**	10	Final report issued 7 November 2008 WEAK	We have reviewed the arrangements the Authority has in place which ensures the safe keeping of information both on and off site.
City Regeneration				
16	**Building Control / Planning / Inspection/ Enforcement**	20	February 2009	We will review the controls in place over application processing, inspection and enforcement which ensure compliance with documented procedures.
17	**Taxi Licensing**	15	Final report issued 10 September 2008 WEAK	We have reviewed the controls in place over the approval and review of taxi licences which ensure compliance with documented procedures.
City Services				
18	**Local Financial Systems**	15	Draft report issued 19 December 2008	We have reviewed the local systems for receipting and collecting income within trade waste, leisure and the tourist information centre. We have also followed up the implementation of recommendations made in relation to the parks cash collection which was graded as weak in 2007/08.
19	**Housing Repairs**	20	Draft report issued 6 January 2009	We have completed an end to end review of the responsive repairs process, from initial enquiry through to post inspection. We have also reviewed the controls in place for recharging tenants for repairs which are their responsibility.
20	**Leaseholder recharging**	10	February 2009	We propose to review the processes in place which ensure compliance with legislation with the recovery of all income due to the Authority, including the approval of write-offs of bad debt.
21	**Car Parking**	10	Final report issued 10 September 2008 WEAK	We have reviewed the overall arrangements in respect of car parking including the implementation of the car parking strategy, setting and collecting of charges, and compliance with legal obligations.

KPMG

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Audit Plan / Timing 2008/09 (cont'd)

	Area	Planned Days	Timing	Scope
VFM				
22	**VFM follow up**	10	Work has been completed on Housing Repairs ad Capital with reports issued. Draft reports are being prepared for February Committee on Street Cleansing and Vehicles	Members need assurance that management are beginning to implement the outcomes of value for money reports that have been agreed by the Audit & Governance Committee. We propose to undertake follow-up work on the Capital Programme, Street Cleaning, Vehicle Maintenance and Housing Repairs.
23	**Leisure Market Testing**	20	Work on-going. Verbal report to January Committee.	The market testing of Leisure Services is a major project for the City Council and is very important in delivering the savings required for 2009/10 and beyond. Members were keen that KPMG should have a role reviewing the project as it unfolds, rather than waiting until the end of the process. We will use our experience of market testing to discuss alternative approaches with relevant officers/Members and will keep the Audit & Governance Committee informed of progress.
24	**VFM Mapping**	7	Completed	This exercise commenced in 2007/08 and is attempting to collate all the available empirical evidence of the comparative cost and quality of individual services and will enable the Authority to make better informed decisions on the areas it should prioritise for improved VFM.
25	**VFM studies**	13	To be identified	As with last year, we have allowed some VFM days to be commissioned on a "call-off" basis by the Audit & Governance Committee and officers in order to address emerging issues.
Contingency				
26	**Contingency**	25		15 days utilised in relation to grant claim audits. 10 days utilised for further risk management support. Additional work completed in relation to: •Capitalisation of Assets •Home Choice Deposits

KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

KPMG

INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

Internal Audit Report 2008/09
Treasury management

Oxford City Council

24 December 2008

Overall Report Rating:
Good

Report status	
Date of debrief	12 December 2008
Discussion draft issued	22 December 2008
Management responses received	22 December 2008
Final report issued	24 December 2008
Presented to Audit and Governance Committee	27 January 2009

Distribution listing –for action
Penny Gardner /Sarah Fogden – Head of Finance
Andy Brooks – Chief Technical Accountant

AUDIT ▪ TAX ▪ ADVISORY

1. Executive summary

Conclusion

As internal auditors of the Oxford City Council ("the Authority") we are required to give an annual overview of the system of internal control. In arriving at this overview, we give a conclusion on the individual systems reviewed during the year. Our conclusion is either that the system is good, satisfactory, weak or unacceptable. However, in giving our conclusion, it should be acknowledged that our work is designed to enable us to form an opinion on the quality of the systems examined based upon the work undertaken during our current review. It should not be relied upon to disclose all weaknesses that may exist and therefore the conclusion is not a guarantee that all aspects of the systems reviewed are adequate and effective.

From the work performed on treasury management, we consider that the controls put in place by management are adequately designed to ensure that objectives are achieved. In relation to the operation of these controls, the lack of evidence to support second officer review for investments has led to a split rating of good / satisfactory.

We have made one recommendation, which will address the identified weakness. The implementation of this recommendation should enhance the control environment and provide an increased level of assurance to the Authority and management from the date of implementation.

Context

This audit was completed as part of the agreed internal audit plan for 2008-09. The objective was to provide management with information as to the adequacy and effectiveness of controls operating within the Authority's treasury management process. The scope of our work has not covered access controls or functionality of the new application which is used to make money market deposits as this had only been in place for a week at the date of the audit. Further, there were no recommendations made in our 2007/08 report. Consequently, no follow-up work has been undertaken.

Given the declining trend in the Bank of England base rate and general instability in the banking sector it is critical that the Council has a treasury management process which minimises the risk of lost capital whilst looking to generate the best available returns. We note that the Council has stringent requirements for the ratings of institutions on its lending list and these ratings are reviewed on a weekly basis, with institutions removed from the list where they no longer meet acceptable criteria. However, given the high penalty charges (up to 70% of capital) for early withdrawals it is not practical for the Council to extract funds from institutions at the point they are removed from the list. As a result there is always some risk that capital may not be returned – this is the situation the Council experienced with its investments in Icelandic institutions (see Appendix 1 for further details) earlier in the financial year.

As at the end of October 2008, the Council had £35.7m in short term cash investments with an average interest rate of 5.69%. In addition, the Council has a £2m long term deposit at 5.27% maturing in August 2010. The original forecast investment income for 2008/09 was around £2.6m, however this estimate has recently been revised down to £2.06m given the declining interest rates. The Council's only debt holding is £7.7m of PWLB loans, with maturity dates ranging from June 2009 to October 2015.

Per the latest figures from the CIPFA benchmarking club the Council has an average return on combined investments (excluding externally managed funds) of 5.85% for the 12 months to 30 September 2008 – this was equal to the average return for all benchmarked institutions.

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

1. Executive summary (cont'd)

Acknowledgement

We would like to take this opportunity to thank all members of staff whom we contacted over the course of this review for their time and assistance.

Key Findings

The table below highlights the main findings of our review. Further details, together with our recommendation, is included in the 'detailed findings and recommendations section' of the report which can be found from page six.

Areas of good practice	Areas for further development
Our review identified the following areas of good practice in respect of the Authority's Treasury Management arrangements ✓ Each investment is supported by a loan card noting date of deposit, amount, broker, counterparty, date of repayment and expected interest; ✓ Cashflow information is reviewed and updated on a daily basis by treasury management staff; ✓ Monthly meetings are held to discuss treasury activities and issues for the forthcoming month. ✓ Detailed information is produced for monthly reporting; ✓ Weekly updates to ratings are reflected on a timely basis; ✓ Counterparties are removed from the lending list once their rating degrades below the required level and no further loans are placed with such counterparties; ✓ A weekly summary sheet is produced for the Head of Finance, summarising key treasury management information; ✓ Investments and borrowings for the sample tested complied with the Councils policy and procedures; ✓ Relevant bank accounts have been reconciled and subject to independent review throughout the financial year; ✓ The Treasury Management Strategy has been recently reviewed and revised as a result of recent market conditions.	Our work has also identified the following area where controls could be further strengthened. • We identified that the treasury management manual has not been updated to reflect the revised Treasury Management Strategy, specifically in relation to the new requirement from October 2008 for two officers to agree investment decisions.

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

1. Executive summary (cont'd)

We have assessed each finding in our report and assigned to it a priority, as follows

High	Medium	Low
Issues arising referring to important matters that are fundamental and material to the system of internal control. We believe that the matters observed might cause a system objective not to be met or leave a risk unmitigated and need to be addressed as a matter of urgency.	Issues arising that have an important effect on the controls but do not require immediate action. A system objective may still be met in full or in part or a risk adequately mitigated but the weakness represents a deficiency in the system.	Issues arising that would, if corrected, improve the internal control in general but are not vital to the overall system of internal control.

The table below details the number of recommendations made, the priority assigned and those accepted by management

Recommendations	High	Medium	Low	Total
Made	-	-	1	1
Accepted	-	-	1	1

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Appendix 1: Investments placed with Icelandic institutions

The chart below shows the investments placed with Icelandic banking institutions at October 7th 2008 (the date the Icelandic banking system entered administration). The current recovery status of the funds is unknown, however Treasury Management staff have submitted a claim on the monies, including interest earned up to October 8th 2008.

We reviewed the documentation relating to the placing of there investments and confirmed that in all 4 cases treasury management procedures had been followed.

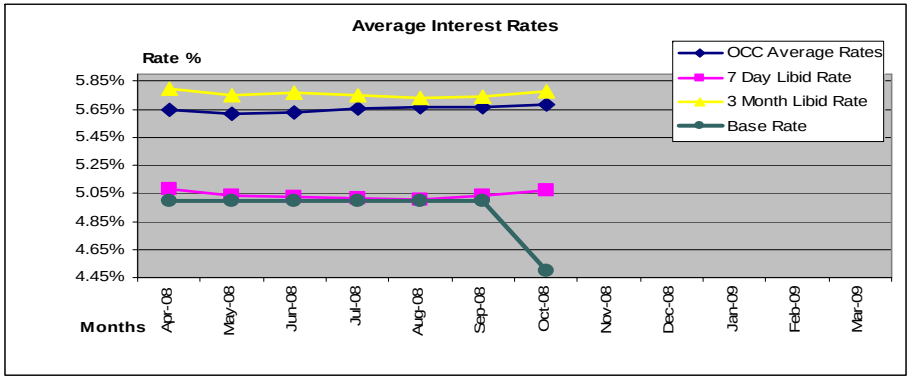
We further reviewed whether a 'too good to be true' approach to investment risk management would have identified the inherent risks in placing deposits with Icelandic institutions. In all 4 cases we found that the interest rate offered by the relevant Icelandic institution was in line with the rates offered by other institutions with which the Council had investments of similar maturity.

Institution	Deposit amount	Placement date	Maturity date	Interest rate offered
Glitnir	£1,500,000	04/02/2008	28/01/2009	5.51%
Heritable	£1,000,000	05/06/2008	05/01/2009	6.04%
Heritable	£1,000,000	25/07/2008	30/04/2009	6.18%
Heritable	£1,000,000	05/09/2008	09/12/2008	5.83%

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Appendix 2 – Investment performance for the year to date

The following charts are taken from the blue book which is distributed to members and managers on a monthly basis.

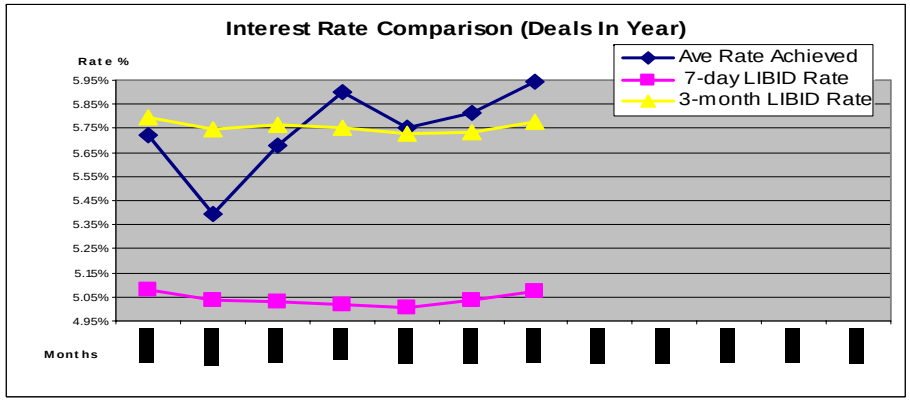


The chart on the left shows the average return for the Council's portfolio as a whole compared to 7-day and 3-month LIBID rates and the Bank of England base rate.

The chart on the right shows the average interest rate achieved for all investments placed for each month against the 7-day and 3-month LIBID rates.

Note that the 3-month LIBID reflects the expected average rate for an investment with a 3-month maturity. Better rates will be offered for investments with a longer maturity, for example the 6-month LIBID rate will generally be higher than the 3-month LIBID rate.

Therefore performance against the 3-month LIBID may not necessarily be an appropriate measure of performance if the average term of the Council's investments is not equal to 3 months.



© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Appendix 3: Summary of work done and risks reviewed

Objective	Summary of work done	Detailed risks considered
Treasury management	▪ reviewed treasury management processes and workflows to ensure that these are streamlined and operate efficiently and mitigate the identified risks; ▪ reviewed the methods in place for monitoring the changing risk profile of investments; ▪ tested a sample of 15 investments placed during 2008/09 to confirm processes were followed; ▪ tested a sample of 15 deposits in money market funds to ensure appropriately signed off; ▪ reviewed a sample of 5 weekly market reports received from the investment advisors and confirmed that ratings changes had been accurately reflected in the lending and loans lists; ▪ reviewed all investment placed to confirm that investments were not placed with institutions not on the lending list; ▪ reviewed the reconciliation between the nominal ledger and the treasury accounts for all periods up to the audit date; ▪ reviewed the information reported to Council and confirmed (for one month) the information reported back to source data; ▪ confirmed that the revised strategy had been communicated to all relevant staff on a timely basis; ▪ reviewed cashflow forecasting processes and confirmed that the cashflow matched supporting information; and ▪ reviewed PWLB loans held and confirmed all repayments to PWLB statements	• inappropriate investment decisions are made leading to loss of funds; • inappropriate borrowing decisions are made which may not offer value for money; • cash-flow forecasts are not accurate leading to inappropriate investment/borrowing decisions being made.

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

KPMG

INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

Internal Audit Report 2008/09

Oxford City Council

Benefits

12 January 2009

Overall Report Rating:
Good

Report status	
Date of Debrief	19th December 2008
Discussion draft issued	7th January 2009
Management responses received	9th January 2009
Final report issued	12th January 2009
Presented to Audit and Governance Committee	27th January 2009

Distribution for action	Distribution for information
Phil Adlard - Benefits Performance and Quality Manager Steph Etherton - Benefits Operations Manager	Penny Gardner/ Sarah Fogden - Head of Finance Paul Warters – Head of Customer Services

AUDIT ▪ TAX ▪ ADVISORY

1. Executive summary

Conclusion

As internal auditors of Oxford City Council ("the Authority") we are required to give an annual overview of the systems of internal control. In arriving at this overview, we give a conclusion on the individual systems reviewed during the year. Our conclusion is either that the system is good, satisfactory, weak or unacceptable. However, in giving our conclusion, it should be acknowledged that our work is designed to enable us to form an opinion on the quality of the systems examined based upon the work undertaken during our current review. It should not be relied upon to disclose all weaknesses that may exist and therefore the conclusion is not a guarantee that all aspects of the systems reviewed are adequate and effective.

From the work performed on Benefits, we consider that there is an adequate and effective system of risk management, control and governance to address the risk that objectives are not fully achieved. As a result, we have graded this area as good**.**

We have made 1 recommendation which will address the identified weaknesses. The implementation of this recommendation should enhance the control environment and provide an increased level of assurance to the Authority and management from the date of implementation.

Context

As part of internal audit's review of the general control environment within Oxford City Council ("the Authority") a review of benefits was undertaken. This was completed as part of the internal audit plan for 2008/09. The objective of the audit was to provide management with information as to the adequacy and effectiveness of the controls in place designed to ensure that only bonafide claims for Housing and Council Tax Benefit are paid, and is properly processed and correctly awarded in a timely manner.

The Authority's Housing and Council Tax Benefits system operates in Academy. The day to day processing of applications is dealt with by four teams within benefits: the Scanning team, Assessment team, Systems team, and Quality and Appeals team. Recovery of overpayments is dealt with by the Revenues Division. During 2008/09, the Authority merged Revenues and Benefits with Customer Services as part of its transformation agenda.

A main focus of the Authority for 2008/09 has been the Oxford City Council Housing and Council Tax Benefit Take Up Strategy. This strategy has been in place since 2005 and is reviewed annually. The strategy is led by the Benefits management team and has involved the following key areas to identify individuals / households with the potential to receive housing and / or council tax benefits:

- Working with Mosaic (Experian)

- Working with the Pensions Service

- Advertising Benefits on posters within all buses operating within Oxford.

- Liaison with community champions to promote contact and awareness of people's ability to claim benefits with target groups. The target groups are BME (Eastern European, Chinese, Afro-Caribbean, and Asian) and areas of deprivation (based on the indices of deprivation).

Performance against the strategy is monitored and reported monthly within the blue books, and quarterly in the red books.

© 2008 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

1. Executive summary (cont'd)

Monthly performance statistics are monitored and reported to Members through the 'blue book' and quarterly through the 'red books.' These in turn feed into the reports for the Authority's Executive Board and Full Council. At the time of audit, the Benefits performance results were available up to 30 November 2008. These show that in respect of:

Performance Indicator	2008/09 Actual (days) - Nov 2008	2008/09 Target (days)	2007/08 YE Actual (days)
BVPI 78a – New Claims	24.74 days	24 days	22.39 days
BVPI 78b – Change of Circumstances	15.67 days	15 days	13.42 days

- Total new claims processed by the Authority to date is 5,416 (2007/08 5,600); and
- Total change of circumstances process by the Authority thus far in 2008/09 is 21,373 (2007/08 12,000).

The increase in the number of changes of circumstances processed has been attributed by management to changes in the economic climate and housing market.

Acknowledgement

We would like to take this opportunity to thank all members of staff whom we contacted over the course of this review for their time and assistanc

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

1. Executive summary (cont'd)

Areas of good practice	Areas for further development
Our review identified the following areas of good practice in relation to the Authority's Benefits processes: ✓ A Manual containing both procedures and legislation updates for the core areas of the benefits process is in place; ✓ An annual review of Benefits 'Take Up' Strategy; ✓ Benefit payments reconciliations are completed and reviewed. These were found to be up to date at the time of audit; ✓ Benefits overpayment reconciliation is completed on a monthly basis and subject to independent review by a Group Accountant; ✓ Separation of duty is evident between the claim assessment process and the claim spot checks; and ✓ An adequate audit trail is in place for the write off of out of date and stopped benefits cheques. ✓ Best value and local performance indicators are reviewed by the Benefits Managers and reported to Members; ✓ 100% of backdated awards granted are reviewed by the Quality and Appeals team; ✓ 100% check on the work of new Benefit Assessment Officers in their first 8 weeks with regular feedback.	Our work also identified the following area where controls could be further strengthened: Queries identified by the Quality and Appeals Team during spot checks and referred back to the Assessment Team should be followed up to ensure that they are actioned appropriately.

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

1. Executive summary (cont'd)

We have assessed each finding in our report and assigned to it a priority, as follows:

High	Medium	Low
Issues arising referring to important matters that are fundamental and material to the system of internal control. We believe that the matters observed might cause a system objective not to be met or leave a risk unmitigated and need to be addressed as a matter of urgency.	Issues arising that have an important effect on the controls but do not require immediate action. A system objective may still be met in full or in part or a risk adequately mitigated but the weakness represents a deficiency in the system.	Issues arising that would, if corrected, improve the internal control in general but are not vital to the overall system of internal control.

The table below details the number of recommendations made, the priority assigned and those accepted by management.

Recommendations	High	Medium	Low	Total
Made	-	-	1	1
Accepted	-	-	1	1

The previous internal audit report on Benefits was issued in January 2008. In that report, we made one recommendation in respect of increasing the sample size of claims subject to spot checks in accordance with the then DWP requirements. This requirement changed in April 2008 and the 4% sample size has been replaced with "a focus on good practice". The Authority has decided to reduce the level of spot checks making the previous recommendation redundant.

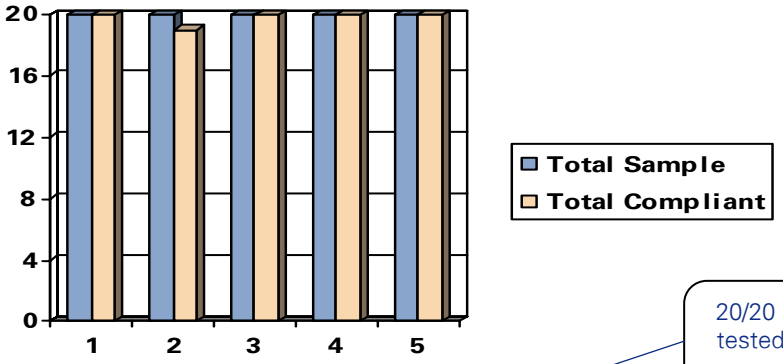
© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

2: Results of Compliance Testing

Results of Compliance Testing

During our review of Benefits we sample tested compliance for the following:

1. General benefit applications were scrutinised and authorised prior to award.
2. Backdated benefit applications had evidence of good cause and the award was only backdated for a maximum of 52 weeks.
3. Extended benefit applications were only extended for a period of 4 weeks and had evidence to support the reason for extension.
4. Benefit overpayments recovery action was in line with procedure and undertaken in a timely manner.
5. Unpresented and returned cheques had been cancelled with the bank and written off both the ledger and benefits system in a timely manner.



20/20 applications were identified as complete and supported by valid evidence. All were scrutinised and authorised prior to award.

19/20 backdated awards were assessed as correctly backdated with good cause, supported by application and backdate request.
1 case was incorrectly recorded as a backdate as it related to the period between application and decision date.

20/20 extended payments were agreed to supporting evidence on Academy and were
confirmed as being paid for a maximum term of 4 weeks.

20/20 overpayments had adequate recovery action documented on Academy which was found to be in line with the Authority's procedure.

20/20 unpresented and returned cheques tested were agreed to Co-operative Bank cancellation reports and were written off both Academy and Agresso.

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Appendix A: 2008/09 Benefits Performance Indicators

BVPI 78a – New Claims – Average time to Process

	2008/09 Target	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Performance to date	2007/08 results
Council Tax		25.7	25.41	24.83	24.97	25.56	n/a	n/a	n/a	n/a	23.89
Council Tenants		23.60	22.54	24.87	26.26	26.00	n/a	n/a	n/a	n/a	21.60
Private Tenants / Housing Association		22.02	22.85	19.67	19.16	20.47	n/a	n/a	n/a	n/a	21.46
Overall Performance	**24 days**	23.68	23.75	22.36	22.05	23.15	26.85	26.82	28.79	**24.74**	22.39

N/A – change in academy reporting for consolidated PI purposes (NI181) resulted in non-reporting in the split of PI results by type.

BVPI 78b– Change of Circumstances – Average time to Process

	2008/09 Target	Apr	Mary	Jun	Jul	Aug	Sept	Oct	Nov	Performance to date	2007/08 results
Overall Performance	**15 days**	9.96	14.99	13.97	14.86	16.66	16.39	18.09	19.92	**15.67**	13.42

NI181– New Claim and Change of Circumstances – Average time to Process

	2008/09 Target	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Performance to date	2007/08 results
Overall Performance	**17 days**	12.66	17.62	16.17	16.90	18.74	17.14	20.43	22.02	**17.50**	n/a

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Appendix B: Summary of work undertaken and risks reviewed

Our work involved:

- identifying and documenting controls in place through discussion with staff;
- testing key underlying controls to confirm that they have operated;
- evaluating the adequacy of existing processes and controls; and
- highlighting areas for improvement and / or streamlining.

	Work undertaken		Risks reviewed
Housing and Council Tax Benefit	We reviewed the controls in place which ensure: • Scrutiny of benefits claims and appropriate authorisation prior to the payment of Housing/Council Tax Benefit; • Monitoring and appropriate recovery of benefit overpayments; • Regular monitoring of spend to date against budget and the investigation of variances; • Completion and review of benefits system to nominal ledger reconciliations; • The regularity and adequacy of management information reported to committee re. financial and non-financial information; • The effectiveness of monitoring unpresented and returned cheques; and • Up to date and accurate access controls are in place, including the updating of benefit rates.	➔ ➔ ➔ ➔	▪ Erroneous or fraudulent claims by claimants; ▪ Payment of unsigned claims; ▪ Overpayments made not identified; and ▪ Ineffective monitoring of benefits performance and targets.

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

KPMG

INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

Internal Audit Report 2008/09
Local Taxation

Oxford City Council

12th January 2009

Overall Report Rating:
Good

Report status	
Date of debrief	19 December 2008
Discussion draft issued	6 January 2009
Management responses received	9 January 2009
Final report issued	12 January 2009
Presented to Audit and Governance Committee	27 January 2009

Distribution listing
Paul Wilding - Council Tax Manager- For Information
Anne Harvey Lynch - NNDR Manager- For Information
Paul Warters – Head of Customer Services - For Management response
Sarah Fogden / Penny Gardner - For Management response

AUDIT ▪ TAX ▪ ADVISORY

1. Executive summary

Conclusion

As internal auditors of the Oxford City Council ("the Authority") we are required to give an annual overview of the system of internal control. In arriving at this overview, we give a conclusion on the individual systems reviewed during the year. Our conclusion is either that the system is good, satisfactory, weak or unacceptable. However, in giving our conclusion, it should be acknowledged that our work is designed to enable us to form an opinion on the quality of the systems examined based upon the work undertaken during our current review. It should not be relied upon to disclose all weaknesses that may exist and therefore the conclusion is not a guarantee that all aspects of the systems reviewed are adequate and effective.

From the work performed on the Authority's local taxation system, we consider that there is an adequate and effective system of risk management, control and governance to address the risk that objectives are not fully achieved. As a result, we have graded this system as good.

We have made 1 recommendation, which will address the identified weaknesses. The implementation of our recommendations should enhance the control environment and provide an increased level of assurance to the Authority and management from the date of implementation.

Context

As part of internal audit's review of the general control environment within Oxford City Council ("the Authority") a review of the Local Taxation system was undertaken. This was completed as part of the internal audit plan for 2008/2009. The objective of the audit was to provide management with information as to the adequacy and effectiveness of the controls in place over the local taxation system which ensures completeness and accuracy within the setting and collection of council tax and business rates. Our 2007/8 review of Council Tax and NNDR system rated the control arrangements as good. Consequently, we have adopted a cyclical approach to the review of financial systems and this year we have carried out walkthrough testing to confirm that the previous controls remain in place by use of reduced compliance testing.

Council Tax

Oxford City Council expects to collect a net council debit of £67 million this year. The Authority collects on behalf of the County Council, Thames Valley Police and 4 local parishes.

The Academy system is used in the collecting, recording and monitoring of the Council Tax and NNDR debits. The CIS cash receipting system is used to record the cash receipts, with all data being transferred onto the Agresso General Ledger system.

The Council Tax increase for 2008/9, applied to band D rates was 3.9% in relation to the County Council and 4% in respect of the Police and City Council.

In order to help monitor the collection of the council tax debit, the BVPI 9 performance measure is used. Monthly reports are produced and reviewed by management and included in the Red and Blue books for Members.

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

1. Executive summary (cont'd)

Context

The performance of the 8 months from April to November is detailed below:

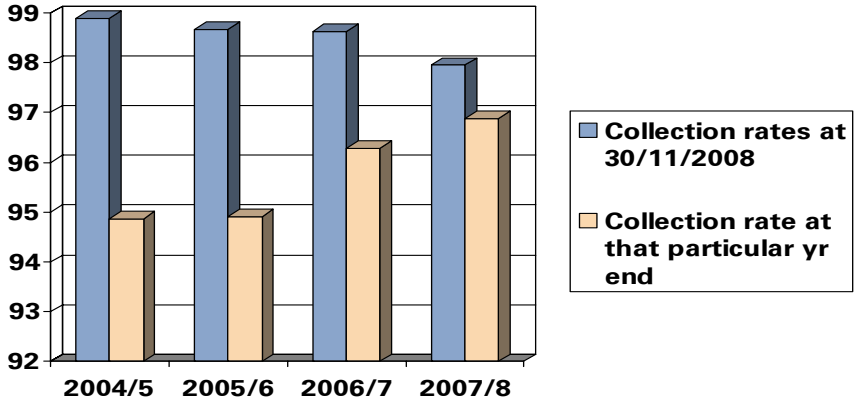
BVPI	Description	Actual 2007/08	Target 2008/09	Actual to 30/11/07	Actual to 30/11/08	Position on prior year
9	Percentage of current year council tax collected	96.88%	97.3%	75.24%	75.25%	+0.01 percentage point

Total collection rates for previous years as at 30th November 2008 is detailed below:

The chart (right) highlights that after the year end, the recovery processes are still on going, and as such, leads to an increase in the collection rates.

As expected, older collection rates are higher. For example, the collection for 2004/5 was at 98.89%, as the Authority has continued to recover those debts for over 3 years.

The chart also highlights that the BVPI for each year has increased with 2007/08 being the best performing year for the Authority in respect of its council tax collection.



© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

1. Executive summary (cont'd)

Context

NNDR

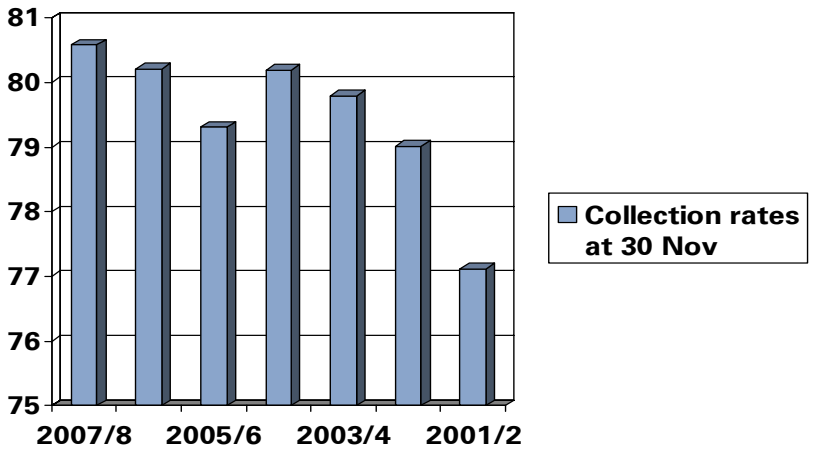
The Non Domestic Rates relate to business properties within the Oxford City Council area. There are over 4,000 properties from which rates are collected amounting to approximately £78m for 2008/09. These funds are paid over to central government and redistributed depending on the population sizes of local authorities. The Authority merely acts as a collecting agent.

BVPI 10 is used to monitor the NNDR collection rate. The table below highlights performance of the last 8 months.

BVPI	Description	Actual 2007/08	Target 2008/09	Actual to 30/11/07	Actual to 30/11/08	Position on prior year
10	Percentage of current year NNDR collected	99.08%	99.20%	80.58%	80.05%	-0.53 Percentage point

The slight deterioration in collection rates could be attributed to the challenging economic climate. However, further analysis of collection rates over recent years, depicted in the chart (right), actually highlights that collection rates have gradually improved year on year.

Collection rates at November for the past seven years



© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

1. Executive summary (cont'd)

Acknowledgement

We would like to take this opportunity to thank all members of staff whom we contacted over the course of this review for their time and assistance.

This table below highlights the main findings of our review. Further details, together with our recommendations, is included in the 'detailed findings and recommendations section' of the report which can be found from page 8.

Areas of good practice

- ✓ The Authority has procedure notes over the NNDR and Council Tax processes available to all staff via the intranet.
- ✓ Monitoring of performance measures is undertaken on a monthly basis. The monitoring reports are comprehensive and detail an array of information from collection rates, arrears levels, exemptions and movement on tax bases.
- ✓ Refund reconciliations are undertaken on a monthly basis, with reconciling items investigated and documented
- ✓ Reconciliations of cash postings are clear, easy to follow, and subject to review.
- ✓ The vast majority of supporting documentation and correspondence could be located via the DIPS system.
- ✓ There is separation of duties in the processing, authorising and payment of refunds.
- ✓ Write offs tested were authorised in line with authorisation levels.

Areas for further development

- Procedure notes should be developed for the council tax base setting calculation.
- In relation to our previous recommendation, the Authority should obtain a date from the Audit Commission as to when it will receive the results of the National Fraud Initiative matching exercise in order to plan resources to review any erroneous discounts and exemptions as previously reported.

Recommendations	High	Medium	Low	Total
Made	-	-	1	1
Accepted	-	-	1	1

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

2. Results of compliance testing

Results of compliance testing

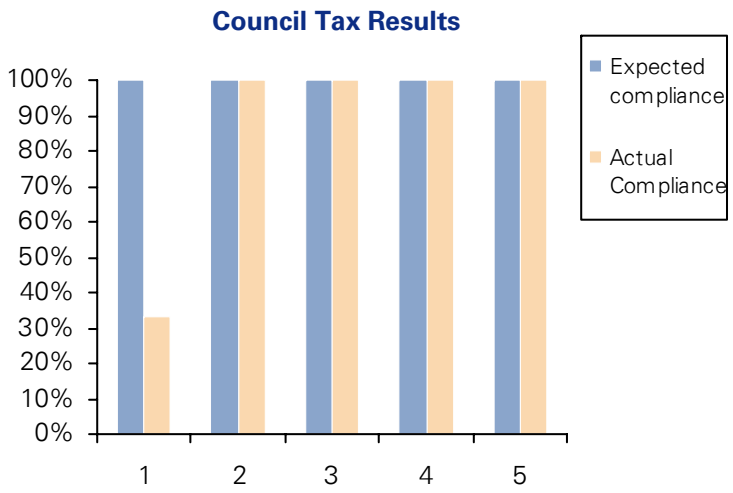
As well as documenting the systems in place, undertaking walkthrough testing and holding discussions, we sample tested compliance with expected controls. The results are as follows:

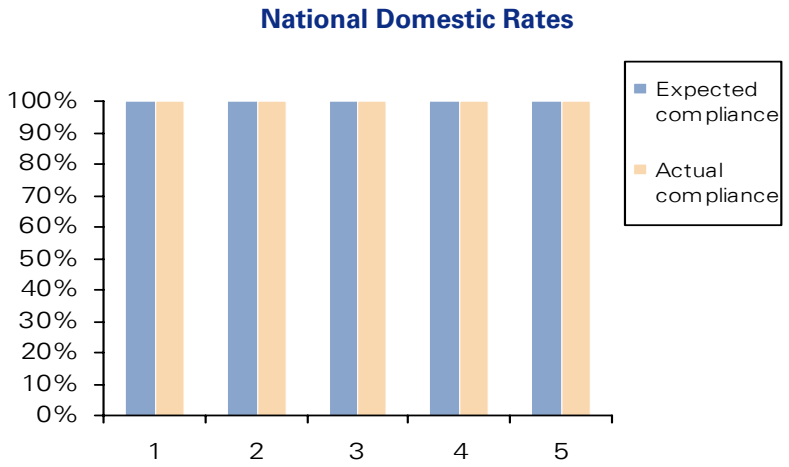
Council Tax Compliance Testing

1. 33% of discounts and exemption met all of the testing criteria. 8 out of 15 cases did not have a Single Persons Discount application form on the DIPS system. 4 out of 11 did not show signs of review.
2. 100% of arrears were processed in line with procedures.
3. 100% of VO amendments were processed in line with procedures.
4. 100% of write off tested were authorised appropriately.
5. 100% of cash reconciliations tested had been subject to management review.

NNDR Compliance Testing

1. 100% of discounts and exemptions tested met all the testing requirement.
2. 100% of arrears tested was processed in a timely manner, with relevant notes made on the system detailing action.
3. 100% of VO amendments tested were made in a timely manner and passed all testing requirements.
4. 100% of write off tested were actioned appropriately.
5. 100% of cash reconciliation tested had been subject to management review.





© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Appendix A: Summary of objectives, work done and risks reviewed

Summary of work done and risks reviewed

The following table summarises the work done and detailed risks considered as part of our audit.

Local Taxation		
Objective	**Summary of work done**	**Detailed risks considered**
The objective of this review was to assess the adequacy of controls in place which ensure that the local taxation system is operating effectively.	• Meetings and Interviews were held with the NNDR Manager and Council Tax Manager and support staff to establish the system processes and controls. • Documentation of the system process and controls • Review of annual debit calculation and upload into the Academy system. • Walkthrough and sample testing of cases for both NNDR and Council Tax were undertaken in the following areas: - Application of reliefs and discounts - Processing of refunds - Processing of write offs - Arrears recovery action - Processing of valuation office amendments - Completion of cash receipts reconciliations - Completion of cash refunds reconciliations • Review of compilation of monthly performance reporting. • Establishing if staff awareness existed over potential money laundering risks in handling refunds and cash payments.	• Unauthorised/inappropriate granting of reliefs; • Unidentified discrepancies between the general ledger and the local taxation systems; • Unidentified discrepancies between the Valuation Office data and the local taxation systems; and • High levels of arrears which are not pursued in an effective and timely manner.

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

KPMG

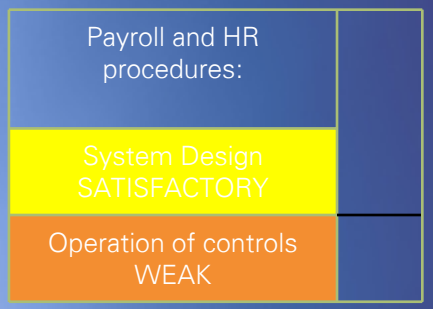
INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

Internal Audit Report 2008/09

Oxford City Council

Payroll

13 January 2009



Report status	
Date of debrief	5th December 2008
Discussion draft issued	22nd December 2008
Management responses received	13th January 2009
Final report issued	13th January 2009
Presented to Audit and Governance Committee	27th January 2009

Distribution for action	Distribution for information
Sean Hoskin - Payroll Manager	Simon Howick – Head of Human Resources Penny Gardner / Sarah Fogden - Head of Finance Andy Brooks – Chief Technical Accountant

AUDIT ▪ TAX ▪ ADVISORY

1. Executive summary

Conclusion

As internal auditors of Oxford City Council ("the Authority") we are required to give an annual overview of the system of internal control. In arriving at this overview, we give a conclusion on the individual systems reviewed during the year. Our conclusion is either that the system is good, satisfactory, weak or unacceptable. These are the conclusions used by the Government Internal Audit Standards. However, in giving our conclusion, it should be acknowledged that our work is designed to enable us to form an opinion on the quality of the systems examined based upon the work undertaken during our current review. It should not be relied upon to disclose all weaknesses that may exist and therefore the conclusion is not a guarantee that all aspects of the systems reviewed are adequate and effective.

We have concluded that the design of the system in terms of the controls already in place and those suggested provide for a satisfactory control environment. However, we have concluded that HR related procedures are weak in that qualifications of new staff are not always checked upon appointment. In addition, we identified that for 125 starters in the year, the HR team are awaiting further information to support the starter process for 90 employees. At Appendix A, we have documented the level of outstanding information which related to our sample.

Further we believe that general payroll procedures are weak as we identified that there was insufficient evidence of authorisation to support amendments to payroll information, and the processing of leaver payments was not always supported by appropriate records to confirm final salary payments. The details of this testing is shown in Appendix B.

We have made 7 recommendations, which will address the identified weaknesses. The implementation of these recommendations should enhance the control environment in relation to the system reviewed and provide an increased level of assurance to the Authority and management from the date of implementation.

Context

As part of internal audit's review of the general control environment within Oxford City Council ("the Authority") a review of Payroll was undertaken. This was completed as part of the internal audit plan for 2008/09. The objective of the audit was to assess the adequacy and effectiveness of the controls in place which ensures that only bona fide employees are paid the right amount at the right time.

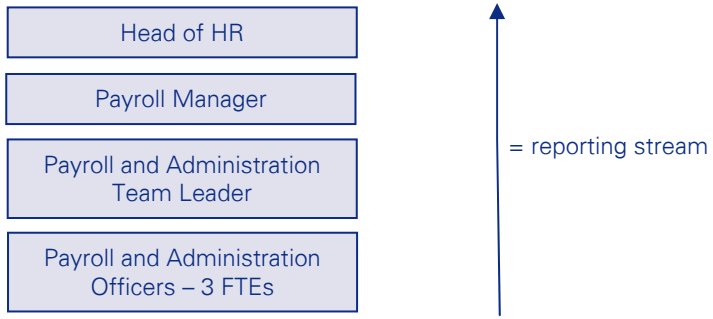
The Authority has budgeted £34.45m for salaries in 2008/09. There have been 125 New Starters and 150 Leavers in the period 1st April 2008 to 30th November 2008.

The payroll system is operated by the payroll and HR team who are managed by the Payroll Manager reporting to the Head of HR. The reporting structure is shown overleaf.

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

1. Executive summary (cont'd)

The Payroll and HR team structure is shown below.



Payroll payments are completed through the Authority's payroll system, Agresso. It is noted that the Agresso payroll module and the human resources system (COMPEL) are not integrated. The Authority's general ledger system is another module within Agresso. As a result, payroll transactions are uploaded from the payroll module to the general ledger module after each payroll run.

We understand that the Authority is considering the implementation of either a new integrated HR/payroll system or a new payroll module in the not too distant future. As a consequence, at Appendix C we have documented some areas where we believe the Authority could achieve efficiency savings. In addition, at Appendix D we have documented key controls which should be in operation in a payroll system. We have benchmarked current procedures against these controls. The Authority should review the details contained in these appendices when considering the revised payroll and HR arrangements.

Acknowledgement

We would like to take this opportunity to thank all members of staff whom we contacted over the course of this review for their time and assistance.

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

1. Executive summary (cont'd)

This section of the report highlights the main findings of our review. Further details, together with our recommendations, is included in the 'detailed findings and recommendations section' of the report which can be found on page 6.

Areas of good practice	Areas for further development
Our review identified the following areas of good practice in respect of the Authority's Payroll system: ✓ The proposed payroll run is reviewed and authorised each month; ✓ A central location for storing personnel files has been adopted during the year to facilitate improved access to files; ✓ Payroll transactions are uploaded onto the general ledger and a reconciliation is completed to ensure the transfer is accurate; and ✓ Payroll expenditure is monitored against budget at a cost centre, Business Unit and Authority-wide level.	Our work has also identified the following areas where controls could be further strengthened: • The Payroll Manager should carry out sample checking in respect of new starter documentation to ensure that procedures as required by the checklist are being adhered to. • Access to payroll information should be restricted through the use of physical controls, such as locked doors and locked cabinets. • The Payroll Manager and System Administrator should customise the profiles of the super users for the payroll system to ensure that appropriate separation of duties is created. • The amendment form should be enhanced so that it requires the signature of the employee's line manager before the amendment is processed by the payroll team. • Line Managers should be reminded of the importance of fully completing leaver detail forms (including annual leave data) and submitting them to the Payroll team on a timely basis. • All documentation relevant to an employee leaving the Authority should be documented on the personnel file. HR should ensure that all necessary notifications are received and filed appropriately. • The Authority should develop a report to track the number of miles claimed per employee during the year in order to prevent any overpayments.

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

2. Detailed findings and recommendations

We have assessed each finding in our report and assigned to it a priority, as follows:

High	Medium	Low
Issues arising referring to important matters that are fundamental and material to the system of internal control. We believe that the matters observed might cause a system objective not to be met or leave a risk unmitigated and need to be addressed as a matter of urgency.	Issues arising that have an important effect on the controls but do not require immediate action. A system objective may still be met in full or in part or a risk adequately mitigated but the weakness represents a deficiency in the system.	Issues arising that would, if corrected, improve the internal control in general but are not vital to the overall system of internal control.

The table below details the number of recommendations made, the priority assigned and those accepted by management.

Recommendations	High	Medium	Low	Total
Made	1	5	1	7
Accepted	1	5	1	7

Our previous internal audit report on Payroll was issued in March 2008. We made seven recommendations which have been followed up as part of this review. The table below shows progress in implementing these recommendations. Further details are included within Section 3.

Previous recommendations	High	Medium	Low	Total
Made	1	4	2	7
Implemented, but not operating consistently	1	2	-	3
In progress	-	1	-	1
Not Implemented	-	1	2	3

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

2. Detailed findings and recommendations (cont'd)

	Observation and priority	Risk	Recommendation	Management Response Officer Responsible/ Implementation Date
1	**New Starter Document Management** We sampled 20 personnel files for new starters, and reviewed the documentation held on the file against the documentation checklist developed by the Payroll Manager in response to Recommendation 1 in our 2007/08 report as detailed in Appendix B. We found that there was no evidence on file to support: • Qualifications for 64% of the sample where a qualification was deemed relevant; • Two references being obtained for 52% of new starters sampled; • Identification Checks to confirm eligibility to work in the United Kingdom for 24% of new starters sampled; • P45 or P46 form being held on file for 30% of new starters sampled; • Occupational Health Forms being held on file for 24% of new starters sampled; • A contract of employment signed by the employee being held on file for 12% of new starters sampled; • Bank details being held on file for 12% of new starters sampled; and • Criminal Record Check being received from the Bureau for 20% of new starters where a criminal record check was required. **Continued overleaf**	The Authority may not identified employment issues in a timely manner.	The Payroll Manager should carry out sample checking in respect of new starter documentation to ensure that procedures as required by the checklist are being adhered to.	Payroll & HR Administration Manager - Agreed and to be implemented immediately on a quarterly basis. All personnel files that have any missing documentation are segregated in order to track/identify these. Lack of resources has made it difficult to regularly track the outstanding information although we have now introduced a system that will greatly assist the process. Staff do not start without a cleared CRB (where applicable) and copy of eligibility to work in UK. A copy of the latter is taken at interview. There are instances where an employee CRB check is pending, but they are not permitted to commence duties.

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

2. Detailed findings and recommendations (cont'd)

	Observation and priority	Risk	Recommendation	Management Response Officer Responsible/ Implementation Date
	We note that when personnel files are created for new employees they are stored in a pending filing cabinet until all the documents required for the new starter are obtained. However, starters are entered onto the HR and payroll systems and paid without all information being received. At Appendix C we have broken down the missing documents into those stored in the pending file and those considered complete by the payroll team. There were 90 files in the pending cabinet at the time of our review. This compares to 125 new starters in the year to date. The Payroll Manager confirmed that new employees are set up on the payroll system on the premise that all documents will be forwarded at a later date by relevant officers. However due to a lack of resources in the payroll team to chase outstanding documentation there was a significantly high proportion of pending information. **High** ●			We will review the person specification references to qualifications and acquire copies as part of the pre-employment check The change in health clearance form, which will now see a self-certificate completed by the employee prior to interview, will reduce the chasing of this form from Occupational Health.

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

2. Detailed findings and recommendations (cont'd)

	Observation and priority	Risk	Recommendation	Management Response Officer Responsible/ Implementation Date
2	**Payroll Data Security** We observed that throughout our time on site in the Payroll Office, access was at no point restricted. We confirmed with the Payroll Manager that the Payroll Office is never locked, including outside working hours. This leaves the office accessible to members of the public passing the Town Hall. The Payroll Manager also confirmed that last year a member of the public had accessed the Payroll Office simply by walking in from the street. We note that the majority of personnel files are locked in secure filing cabinets, but bank details and other personal information are separately filed on a shelf in the office. **Medium**	The Data Security arrangements at the Authority may not be sufficient to meet its obligations for Data Protection in respect of its employees.	Access to payroll information should be restricted through the use of physical controls, such as locked doors and locked cabinets.	Payroll & HR Administration Manager - Agreed and to be implemented immediately. Quotes for swipe card access to the double doors outside the payroll office to the stairs have been requested.
3	**Payroll System Access** We reviewed the access rights for the Payroll System as part of our audit. We noted that: • There are 3 Super Users for the Payroll System. They are Sean Hoskins (Payroll Manager), Wanda Thorne (Payroll Team Leader) and Ralph Palmer (System Administrator). These users are able to perform all functions within the Payroll System. This includes setting up new employees and entering and amending salary details. • There has not been a formal review of the user access rights for the Payroll system. As part of our review it was identified that the Payroll Team Leader has 4 profiles that she could use. **Medium**	There may be inadequate separation of duties on the payroll system.	The Payroll Manager and System Administrator should customise the profiles of the super users for the payroll system to ensure that appropriate separation of duties is created. In addition, an annual review should be carried out of user profiles to ensure that any unused profiles are deleted, access rights are appropriate, and that all users only have one profile.	Payroll & HR Administration Manager – agreed and to be implemented as part of the new HR system project. This new system is due to be implemented from March 2009 and will have this functionality. Systems administration on the new system will also include an annual review of users and profiles as per the recommendation.

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

2. Detailed findings and recommendations (cont'd)

	Observation and priority	Risk	Recommendation	Management Response Officer Responsible/ Implementation Date
4	**Amendments** We sampled 20 amendments to payroll data and identified that in 13 cases, there was no documentation from the employees' line manager to support the amendment. • In 7 cases the amendment was a change in the employee's salary. • In 5 cases the amendment was a non recurring reward payment to an employee. • In 1 case the amendment was a change in the employee's hours. In all cases an amendment form had been completed and signed by HR and Payroll, but the amendment form was not signed by the employee's manager. The Authority's policy is to attach authorisation from the employees manger in all cases. **Medium**	Inappropriate and unauthorised payments may be made.	The amendment form should be enhanced so that it requires the signature of the employee's line manager before the amendment is processed by the payroll team. The Payroll Manager should check a sample of amendments each month to ensure all appropriate documentation is in place.	Payroll & HR Administration Manager – Agreed and to be implemented immediately. Managers will be reminded of the need to authorise amendments to employee data and any instructions without authority will be returned. Managers will be advised that e-mails are acceptable sources of information to inform HR of temporary or permanent amendments to employee data, but not in the case of new starters, leavers or where there is an existing claim form in place.

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

2. Detailed findings and recommendations (cont'd)

	Observation and priority	Risk	Recommendation	Management Response Officer Responsible/ Implementation Date
5	**Leavers – Annual Leave Payments** The Authority's leavers procedure requires a leaver's annual leave entitlement to be calculated at the estimated leave date. The annual leave entitlement should then be included within the leaver's final pay packet. We sampled 20 leavers and identified that in 12 cases there was no confirmation of annual leave from line managers on file. In 1 instance it was identified that an overpayment had been made to an employee that had left the authority following the completion of student placement. This had not been chased. In 2 instances we could not agree the final payment made to the notification forms received by Payroll from individual Business Units. It was further noted that for both employees the leaver forms were authorised after the employee had left the Authority. It was identified through discussion with the Payroll Manager that annual leave confirmation is rarely received in a timely manner prior to an employee being closed on the payroll system upon their leave date. When it is subsequently received, a second notification is processed and a cheque is issued to make payment. This does not appear to be efficient use of payroll staff time. **Medium** ●	Officer final salary payments may be miscalculated. Overpayments may be made due to information not being received in a timely manner.	Line Managers should be reminded of the importance of fully completing leaver detail forms (including annual leave data) and submitting them to the Payroll team on a timely basis. The Payroll Manager should check a sample of leavers calculations each month to ensure that payments made are accurate. Where overpayments have been made the Authority should implement procedures to recovery the overpayment.	Payroll & HR Administration Manager – Agreed and to be implemented with effect from 1 April 2009 in the following context - managers generally do not complete leaver forms, they simply email HR officers when someone is leaving. The leaver form will be redesigned and should be completed by manager in first instance and then by HR for authorisation. HR Officers will be reminded that they need to inform Payroll immediately in the event of receiving notification of a leaver in addition to a general notification reminding managers of their obligations. Regarding calculation of leavers, and overpayments, recommendations agreed.

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

2. Detailed findings and recommendations (cont'd)

	Observation and priority	Risk	Recommendation	Management Response Officer Responsible/ Implementation Date
6	**Leaver Documentation** The Authority's leavers procedure requires that adequate documentation is kept on file during the leaver process. As a consequence a central file for all leavers documentation is maintained. This should include notification of termination of employment, employer acceptance of the termination and employee acceptance of the termination, for example in the form of a resignation letter and employer acceptance of that letter. We sampled 20 leavers in the 2008/09 year and found that in 10 cases there was no notification of termination of employment or evidence of employer / employee acceptance of the termination. **Medium**	Procedures designed to ensure that key processes are followed are not operating on a consistent basis which could lead to errors.	All documentation relevant to an employee leaving the Authority should be documented on the personnel file. HR should ensure that all necessary notifications are received and filed appropriately. The Payroll Manager should check a sample of leavers each month to ensure all appropriate documentation is in place.	Payroll & HR Administration Manager – Agreed and to be implemented during spring 2009 as part of a data cleansing exercise where the objective is to store data once and once only centrally.
7	**Mileage Expenditure** We tested 10 mileage claims presented to Payroll to ensure that they were supported by evidence and paid correctly. We noted that the Authority has implemented a new spreadsheet for employees to submit mileage claims which has reduced the need for manual calculations by payroll staff. However, the automated spreadsheet has no capability to monitor the 8,500 mile threshold at which rates claimed significantly reduce. We note that very few employees generate mileage in excess of 8,500 miles each year. **Low**	Employees could be overpaid for any mileage they claim after they have driven more than 8,500 miles on behalf of the Authority.	The Authority should develop a report to track the number of miles claimed per employee during the year in order to prevent any overpayments.	Payroll & HR Administration Manager – Agreed and to be implemented as part of the development of the new HR system and suite of regular reports.

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

3. Follow up of previous recommendations

Recommendation/Priority	Management Response	Position at December 2008
1. Qualification verification (HR/Payroll files) – New Starters The Authority should develop the procedure for new starters to include the requirement that copies of qualifications are maintained/viewed for all relevant positions. **High** ●	Our 'New Starter Checklist' has been reviewed. Copies of qualifications are now kept on file where applicable to the post.	**Implemented but not operating consistently** From our sampling of new starters it was identified that 11 positions filled by new starters required qualifications. In 7 cases there was no evidence of qualifications being held on file. In 3 of the 7 cases the new starters had passed through to the central storage of files. Therefore, the new starter checklist has not been effective. The Payroll Manager confirmed that due to a lack of resources the fortnightly reviews had not been completed regularly. See new recommendation 3
2. Annual leave payments - leavers The 'Payroll & HR Admin' department review all cases during the financial year 2007/08 where a member of staff has left after being on Statutory Maternity Pay. This review should ensure that the correct annual leave entitlement has been paid, with re-imbursements being made where required. Line Managers should be reminded of the importance of completing leaver detail forms (including annual leave data) and submitting them to the Payroll team on a timely basis. Where the information has not been received by Payroll prior to the last date of employment, the issue should be elevated to the relevant Business Unit Manager. The Authority should also consider reviewing payroll systems that include annual leave modules, when reviewing the possibilities for a new payroll/HR system. **Medium** ●	Agreed. It is noted that the Authority already have a maternity leave checklist and that manual error caused the issues identified within the audit. The Payroll Manager shall re-enforce the importance of full completion of the maternity leave checklists by the Payroll team.	**Implemented, but not operating consistently** In 100% of cases tested relating to Statutory Maternity Pay we identified that these were fully supported by authorisation forms. As part of our testing of 20 leavers, we identified several instances where payroll had been provided with incomplete leaver forms that did not consider annual leave entitlement. Our discussions with the Payroll Team Leader identified that the Payroll team regularly receive amended leaver forms for revised annual leave. See new recommendation 6

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

3. Follow up of previous recommendations (cont'd)

Recommendation/Priority	Management Response	Position at December 2008
3. Reference verification (HR/Payroll files) – new starters The Authority should ensure that references are obtained for all successful interview candidates and then retained on the Personnel files. The Payroll Manager should ensure that when references have not been received prior to start date, that they are logged onto the outstanding references spreadsheet. The spreadsheet should then be reviewed by the Payroll Manager on a monthly basis. **Medium**	New procedure implemented in Feb 2008. Reference forms part of the standard 'New employee checklist'. Employee personnel files are held in a separate filing cabinet until all employment documentation is returned. There is therefore a more visual indication of personnel files with outstanding documentation which is reviewed on a fortnightly basis.	**Implemented but not operating consistently** From our sampling of new starters we identified that 53% did not have 2 references on file. We observed that the separate filing cabinet is in place but there were 90 files in this cabinet which compares to 125 new starters since April 2008. Our testing identified 4 employees' files in the pending cabinet who had since left. The Payroll Manager confirmed that due to a lack of resources the fortnightly reviews had not been completed regularly. See new recommendation 1
4. Personnel file storage (HR/Payroll files) The Payroll Manager should review cases where files could not be located, to ensure the files are still held by the Authority. The Authority should consider establishing one central location for all Personnel files. The storage system should include a method by which files can be easily located, for example: -Alphabet filing by surname; or -Filing by staff number. **Medium**	This is still an issue due to a number of relocations of the department.	**In progress** The Authority has begun to establish one central location for personnel files. This is a separate room adjoining the Payroll Office where files are kept in alphabetical order. There is also storage of files in a pending cabinet for those new starters for whom all the necessary documents have not been obtained. We were able to locate all the sampled files in the above locations.

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

3. Follow up of previous recommendations (cont'd)

Recommendation/Priority	Management Response	Position at December 2008
5. Payroll cheque authorisation The Payroll Manager should consider developing the process for request and authorisation of payroll cheque payments, to include: -Documentation of why a payroll cheque has been raised; -Segregation of duty within Payroll between raising and authorisation of the payroll cheque request -The signature and date of the officer raising and authorising the payroll cheque. The above could be in the format of a payroll cheque request form. All payroll cheque requests should be retained by Payroll and a copy passed to Finance, prior to the payroll cheques being raised. **Low** ●	**Implemented** Back-up of paperwork is now attached to request form.	**Not Implemented** We noted that the volume and value of payroll cheques is consistent with the previous year. However, there is no formal documentation retained in respect of cheques raised. We selected a sample of 10 cheque payments raised in 2008/09 and found that in the absence of a clear audit trail, explanations had to be sought on a case by case basis from the Payroll Team Leader. Reasonable explanations were received for all cases. **Updated Management response:** Payroll & HR Administration Manager - Only staff where no bank details received are issued with a cheque. There are a few employees who have refused to give bank details who regularly receive cheque payment.
6. Payroll manual The Authority should review and update its procedure manual to reflect the current Payroll system and the officers involved within the process. The developed document should be circulated to all members of the Payroll & HR Administration team to support their procedures knowledge and a process of regular review implemented. A formal training programme for all new starters in the department be devised covering the key areas that would be needed in a team members role. **Low** ●	**Not Implemented** We are looking to implement a new HR/Payroll solution in early 2009 so this will be fully addressed at this time.	**Not Implemented** A Payroll manual has not been produced to reflect the new procedures that were implemented when the Payroll and HR teams merged in early 2008/09. Additionally, no training programme has been developed for new starters in the department, however on the job training is given. **Updated Management response:** Payroll & HR Administration Manager – the payroll procedures manual is not up to date but we are proposing implementing a new system from March 2009 that will result in a new procedures manual being introduced. Comprehensive staff training is carried out on all existing procedures.

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

3. Follow up of previous recommendations (cont'd)

Recommendation/Priority	Management Response	Position at December 2008
7. Systems issues The 'Payroll & HR Admin' department should investigate with Agresso whether it is possible: - For an employee to be marked for removal from the active payroll at the same time as the employee's final pay has been calculated. -To provide additional information on pay slips covering hours worked and pay rates. -To meet the new LGPS annual banding requirements. Where the above is not possible, the Authority consider the limitations of the Agresso payroll system and the benefits of obtaining a new payroll system. **Medium**	**Not Implemented** We will be moving away from Agresso payroll to a new solution due to the limitations of the current payroll system	**Not Implemented** We discussed the Service Level Agreement with the System Administrator who confirmed that Agresso had offered a solution to meet the new LGPS annual banding requirements, but this would have involved notifying staff of changes each month. The Agresso system is not capable of doing this automatically, and as such the system administrator developed an alternative solution. The possibility of providing additional information on payslips and employees being marked for removal from the active payroll has not been pursued as the authority intends to procure a new payroll system. **Updated Management response:** Payroll & HR Administration Manager – the new system is due to be implemented from March 2009 and this will include consideration of the recommendation on LGPS information on payslips

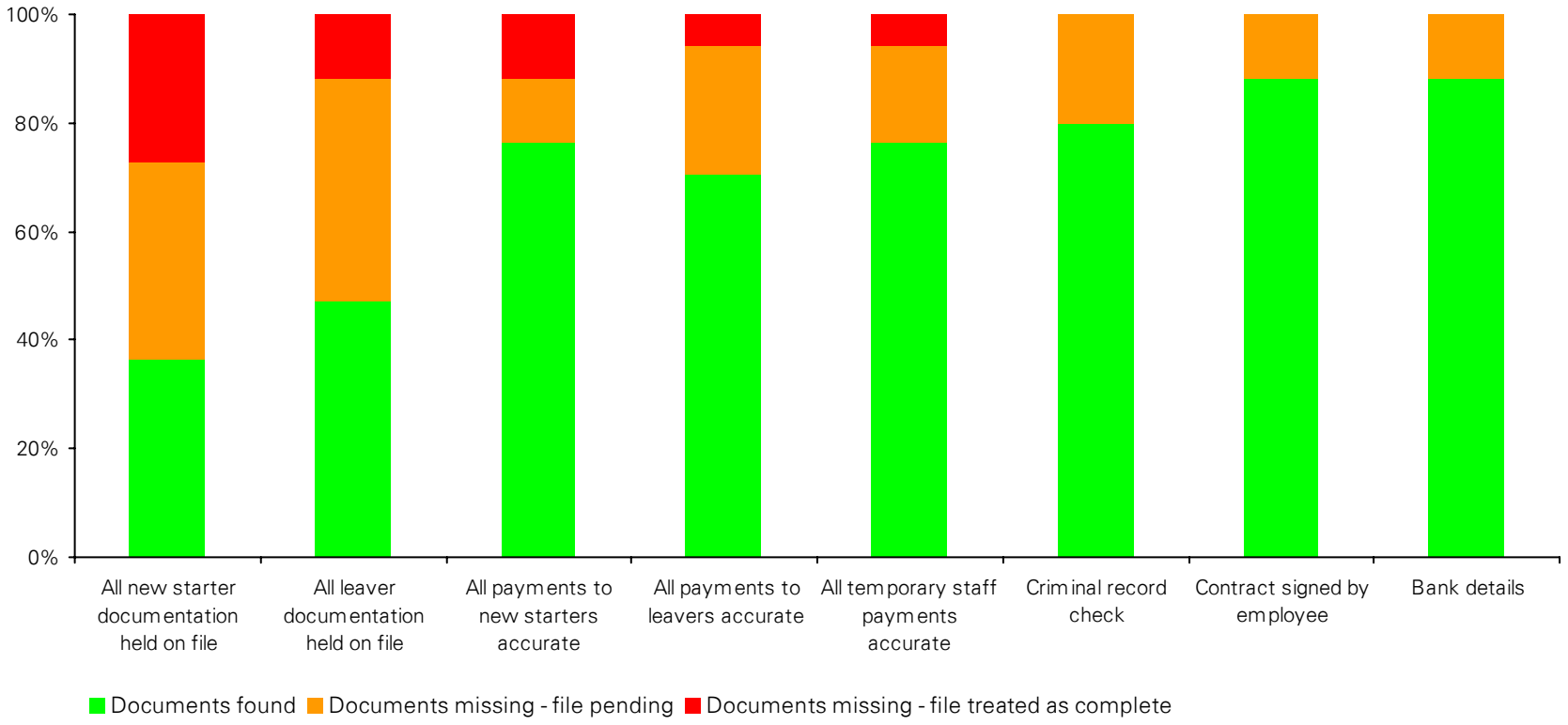
© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Appendix A - Results of new starter compliance testing

In Recommendation 3 we noted that we had sampled 20 personnel files, and identified several instances where documentation was missing from the file, when it should have been obtained.

When personnel files are created for new employees they are stored in a pending filing cabinet until all the documents required for a new starter are obtained. This is monitored through a new starter document checklist which is attached to each file. Once all the documentation has been received it is stored with the personnel files for existing employees.

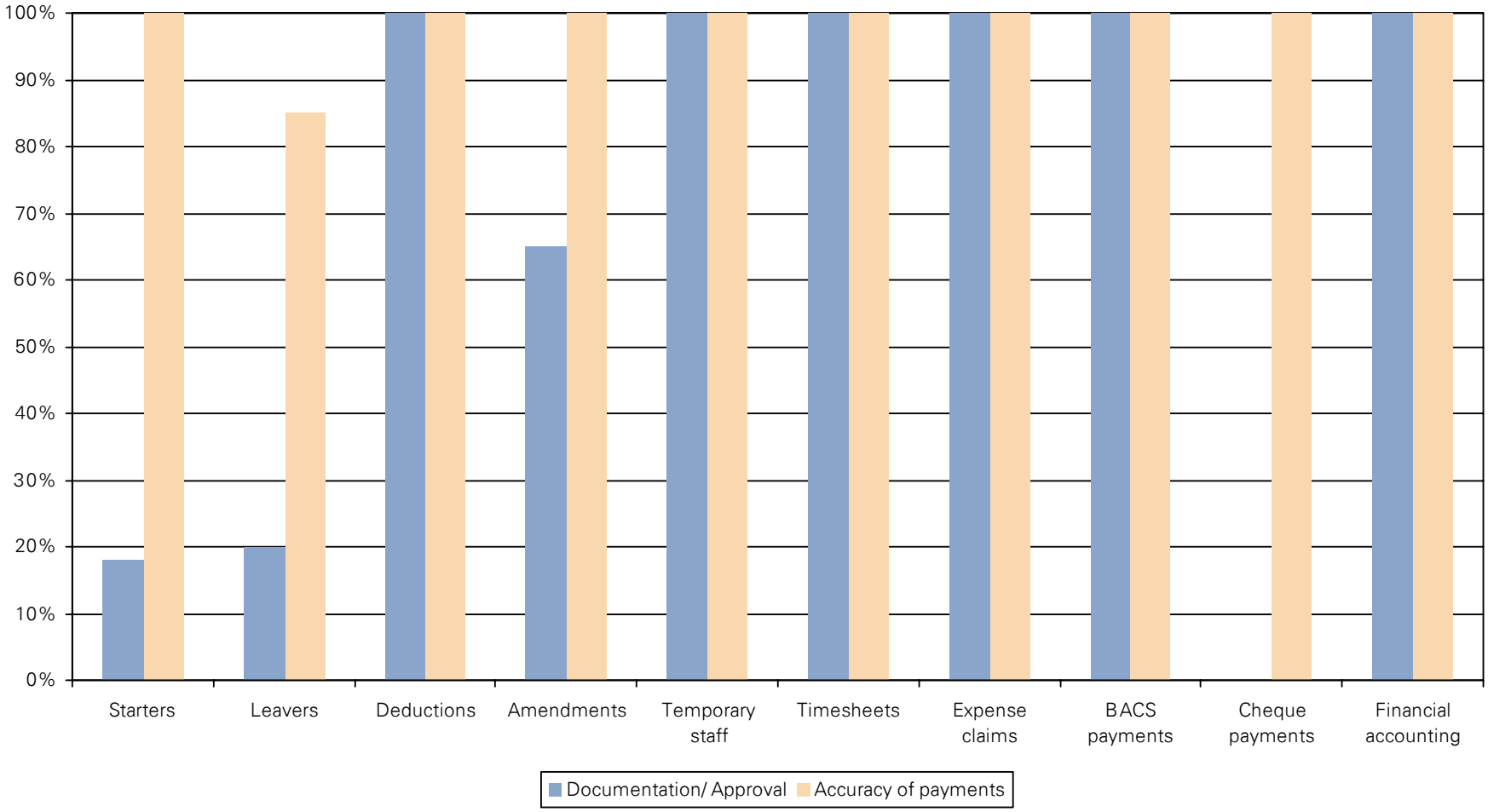
Files in the pending filing cabinet are not complete, and as such may well have documents missing. We have shown on the graph below the percentages where files were missing documents, but were in the pending cabinet and as such weren't consider complete by the Payroll team.



© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Appendix B - Results of compliance testing

During this review we documented the systems in place, undertook system walkthroughs in the areas such as accuracy and authorisation of payments, and approval and documentation of new starters, leavers, and amendments. The results of our testing are detailed below. We have indicated for each area of our audit the percentage of cases sampled that were supported by the necessary documentation, and where the payments were accurate.



© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Appendix C: Potential efficiency gains from a new payroll system

As part of our audit, we have identified areas where the introduction of a new payroll system would produce efficiency savings. We have identified the cost savings based on discussions with staff on the approximate time it takes to process transactions, the hourly rates of the staff involved, and an estimation of the number of starters and leavers for the year based on the eight months to date. Potential savings are given per annum.

For certain issues the benefit of the improvements to either accuracy of information, or reporting and review of payroll information is more important than the cost saving. As such we have detailed the impact of each efficiency alongside the cost savings.

	Issue identified	Possible Improvements identified	Potential cost saving/ Impact
1	**HR/ Payroll system integration** It was identified that the HR and Payroll systems are not currently integrated and as such information has to be entered onto both systems separately.	An integrated HR and Payroll system would mean that it would no longer be necessary to input information separately into the HR system.	There are approximately 190 new starters each year. Entering the information into the HR system takes 10 minutes for each starter including review. This could result in a saving of **31** hours per year. The implementation of this improvement would also guarantee that the payroll records were the same as the HR records.
2	**Pension information** Currently pension information has to be manually entered into the payroll system for new starters in order to ensure the right amount is deducted from their salary.	A more modern payroll system would automatically calculate pension costs using the new starters salary.	There are approximately 190 new starters each year. Entering the information into the payroll system takes approximately 10 minutes for each starter including review. This could result in a saving of **31** hours per year. The implementation of this improvement would also guarantee that pension deductions were calculated correctly.
3	**Payslips** Currently the amount of information that can be displayed on the employees payslips is very limited, and as such a large number of queries are raised with the Payroll Team each month eg. payslips do not display a breakdown of statutory hours and overtime.	A more modern payroll system would be able to provide a full breakdown of the hours employees worked, as well as the relevant hourly rates, and additional payments made.	The Payroll Manager estimated that there are 40, 5 minute calls each month relating to this issue. This could result in a saving of **40** hours per year. This would allow staff to challenge the hours they were being paid for, and create a form of review.

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Appendix C: Potential efficiency gains from a new payroll system (cont'd)

	Issue identified	Improvements identified	Potential cost saving/ Impact
4	**City Works timesheets** Currently the timesheets for city works are manually entered into the payroll system by the Payroll Team. There is a function within the current payroll system that would import the spreadsheets from City Works automatically, but this has been investigated by the Authority and is currently not activated on the system.	A more modern payroll system would automatically import the timesheets from the City Works managers, removing the necessity to enter the information manually	Currently approximately 2 days a month are spent on administering the City Works timesheets within the Payroll Team. The Payroll Manager anticipates the ability to automatically upload timesheets would reduce this by 40%. This could result in a saving of **67** hours per year. This would ensure that all the timesheets for City Works were approved by the managers, and were entered accurately on the payroll system.
5	**P45 Forms** P45 forms currently have to be written out by the Payroll Team as there is no facility within the payroll system to generate them automatically.	A more modern payroll system would be able to automatically generate P45 slips for employees.	There were 220 leavers this year for the payroll system. Producing a P45 form for each employee takes approximately 5 minutes. This could result in a saving of **18** hours per year. This would ensure that P45 forms would be produced accurately for all leavers.
6	**Part month pay** At the moment, when employees start or leave part of the way through the month the payroll team have to manually calculate their pay entitlement for that month.	A more modern payroll system would automatically calculate pay for part months based on the employees start date and salary. It would also incorporate the amount of remaining annual leave in the final month's pay for leavers.	There are an aggregate of 410 starters and leavers each year at the Authority. In approximately 50% of cases the employee starts or leaves part of the way through the month. Calculating part month pay takes approximately 10 minutes for both starters and leavers. This could result in a saving of **34** hours per year. This would ensure that part month pay was calculated accurately for both starters and leavers.

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Appendix C: Potential efficiency gains from a new payroll system (cont'd)

	Issue identified	Improvements identified	Potential cost saving/ Impact
7	**Leisure assistant timesheets** Leisure assistant timesheets are currently manually entered onto the payroll system by the Payroll Team.	A more modern payroll system would automatically import the timesheets from the leisure centre managers, removing the necessity to enter the information manually.	There 160 leisure assistants across 8 centres. The Payroll Manager suggested that moving to a new payroll system would save 2 days a month. This could result in a saving of **168** hours per year. This would ensure that all the timesheets for leisure staff were approved by the managers, and were entered accurately on the payroll system.
8	**Entering application information onto the HR system** Currently the name, address, contact details, and equal opportunities information has to be entered onto the HR system for each job applicant. Paper records of this information also have to be kept so that they can be used during interviews.	The County Council uses an e-applications system, where the applicants apply for the role using the HR system, and are then monitored through the application process. This would be a feature of most modern payroll systems.	The Payroll Manager estimated from the experience of the County Council that 70% of jobs should be processed using e-applications. There are 190 new starters at the Council each year, with approximately 10 applications to each job. Approximately 10 minutes is spent on each applicant by the Payroll Team. This could result in a saving of **222** hours per year. This would make it easy to manage job applications to the Authority, and ensure that the applicant identity checks.
9	**Absence reporting** Currently absences are monitored through the department managers completing weekly spreadsheets detailing which staff have been absent. These are then used to enter the information onto the HR system.	A more modern HR system would allow managers to access the HR system and input absence details themselves.	The Payroll Manager identified that approximately an hour each month would be saved in absence administration. This could result in a saving of **12** hours per year. This would ensure that all absences are reported to the Payroll Team. The Payroll Manager noted that this wasn't always the case under the current process.

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Appendix C: Potential efficiency gains from a new payroll system (cont'd)

	Issue identified	Improvements identified	Potential cost saving/ Impact
10	**HR reporting** The Payroll system does not have a user friendly reporting package that can be used by the payroll team. As such it is necessary for the Business Systems staff to generate bespoke reports when information is requested by business units.	Most payroll system incorporate a user friendly reporting package that can be used by the Payroll Team to generate reports for business units.	The Business systems staff suggested that 70 hours each year are spent generating payroll reports for business areas. This could result in a saving of **70** hours per year. This would allow Payroll reports to produced quickly and cost effective. Both the Business System staff and Payroll staff identified this as an issue .
11	**LGPS Solution** The Business System staff had to produce a bespoke solution to the introduction of LGPS pension banding requirements due to the solution being offered by Agresso being inadequate for the Authority. The SLA in place for the Agresso system did not cover the production of the Authority's required solution.	The introduction of a new payroll system would include a more comprehensive SLA. This would make it the system providers responsibility to provide system solutions in response to new legislation.	The Business Systems staff suggested that 2 weeks were spent on developing a solution this year. It was also noted that similar exercises would be necessary each year. This could result in a saving of **70** hours per year. This would move elements of the risks and costs associated with legislation changes to the payroll system provider.

The aggregate of these possible savings is **763** hours per year.

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Appendix D: Expected key controls over payroll process

We have detailed below the key controls we would expect to see in a well designed payroll system. We have reviewed the Authorities arrangements in respect of these key controls, and documented in our recommendations in section 2 of this report areas where improvements are required.

Controls over the recruitment, documentation, processing and review of new employees

Key Risks	*Key Controls Expected*	*Current Compliance*
Staff employed do not meet standards required for the role as expected by the Authority	1) Starters are authorised by appropriate personnel. 2) Checks on individuals are undertaken on employment including review of references, medical status and qualifications.	1) Implemented 2) Not implemented (See recommendation 3)
New employees are not accurately recorded on the payroll system	3) Payroll records are updated with contract details including start date, salary agreed, etc. 4) Checks are made on initial salary payments to ensure calculated correctly. 5) Segregation of duties exist between the authorisation of a new starter and setting them up on the payroll. 6) Exception reports are produced on new starters and reviewed by an independent officer.	3) Implemented 4) Implemented 5) Implemented 6) Implemented
Ghost employees are set up on the payroll system	7) A review of the payroll establishment is undertaken by budget holders independently of the payroll function.	7) Implemented

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Appendix D: Expected key controls over payroll process (cont'd)

Controls over updates and amendments to employee standing data

Key Risks	*Key Controls Expected*	*Current Compliance*
Unauthorised amendments to employee standing data take place.	1) Amendments to payroll standing data are supported by appropriate documentation and signed by the employee where appropriate. 2) Amendments made to the system are reviewed and authorised by an officer independent of the imputer. 3) Checks are made on all changes made to ensure that they have been processed accurately. 4) Exception reports are produced on amendments and reviewed by an independent officer on a monthly basis. 5) A documented procedure for the processing of the annual pay uplift exists, and compliance with this is reviewed by an appropriate officer post-implementation.	1) Not Implemented (See recommendation 4) 2) Implemented 3) Implemented 4) Implemented 5) Implemented

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Appendix D: Expected key controls over payroll process (cont'd)

Controls over the initiation, authorisation, processing and review of payroll payments

Key Risks	*Key Controls Expected*	*Current Compliance*
Unauthorised or inappropriate payments take place	1) Additional payments such as overtime and allowances are supported by appropriate documentation.	1) Implemented
	2) Additional payments are authorised appropriately.	2) Implemented
	3) Payments made on the payroll are authorised by an officer independent of the imputer.	3) Implemented
	4) A list of payments to be made to employees is produced prior to the final pay run which is checked for appropriateness.	4) Implemented
	5) The above list is reviewed for new starters, leavers and exceptional items.	5) Implemented
	6) Appropriate approval of the "dummy" pay run is undertaken prior to the actual pay run.	6) Implemented
	7) Appropriate and relevant exception reports are run and reviewed on a monthly basis. Exceptions are followed up and signed-off when appropriately resolved.	7) Implemented

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Appendix D: Expected key controls over payroll process (cont'd)

Controls over the security and integrity of payroll systems

Key Risks	*Key Controls Expected*	*Current Compliance*
The security and integrity of payroll data is not adequately maintained	1) Access to the payroll system is controlled via user id and password.	1) Implemented
	2) Passwords are required to be strong (i.e. a minimum of 8 characters.	2) Implemented
	3) Passwords are force-changed at least every 90 days (preferably 30 days) and a minimum of the last 5 passwords cannot be re-used.	3) Implemented
	4) Access to the payroll system is reviewed at least annually on a user by user basis.	4) Not Implemented (See recommendation 2)
	5) Superuser / System Administrator access is restricted to a small number of senior individuals and all activity is logged.	5) Not Implemented (See recommendation 2)
	6) Access to the server containing the payroll system is restricted both physically and logical (via password).	6) Implemented
	7) Users are assigned different levels of access based on their job role.	7) Partially Implemented (See recommendation 2)
	8) Employee files and associated documentation is held securely and access to this information is appropriately restricted.	8) Not Implemented (See recommendation 2)

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Appendix D: Expected key controls over payroll process (cont'd)

Controls over the documentation, processing and review of leavers

Key Risks	*Key Controls Expected*	*Current Compliance*
Staff leaving remain on the payroll after they have left	1) Payroll personnel are informed on a timely basis by HR/Line managers of staff leaving. 2) Payroll update the payroll system with appropriate leaving date.	1) Implemented 2) Implemented
Staff leaving the Authority are paid inaccurately	3) Appropriate documentation of the amount of annual leave remaining for the employee is held on file. 4) Final salary payments are accurately calculated, on a pro-rata basis. 5) Final payments are reviewed and authorised on the payroll system by an independent officer to imputer. 6) Exception reports are produced on leavers and reviewed by an independent officer.	3) Not Implemented (See recommendation 6) 4) Not Implemented (See recommendation 5) 5) Implemented 6) Implemented

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Appendix D: Expected key controls over payroll process (cont'd)

Key control documents to be retained on personnel files

New Starters

- Recruitment of staff is subject to appropriate, documented authorisation. Posts are coded / numbered to ensure that staff are only recruited to vacant posts and evidence of this retained on file;
- A contract of employment signed by the employee and a representative of the Authority is held (either in paper form or electronically);
- Details of new starters are documented and authorised by the employee's line manager and budget holder, including start date, salary, hours of work, job title, post number and cost centre etc; and,
- Documents are held that confirm the identify of the employee using passport / driving licence and the suitability of the individual for the role e.g. CRB checks, confirmation of qualifications by reference to original certificates and obtaining confirmation from awarding bodies that certificates are valid, and references.

Leavers

- Resignations, notification of redundancy and termination of employment contracts are documented and forwarded to HR/Payroll on a timely basis;
- Leavers forms are completed and authorised by employee's line managers, recording the individual's last working day, holiday balance, flexi-time balance, any company property held by the individual etc; and,
- Any manual calculations required to process final leaver pay should be documented and subject to an independent documented check.

Amendments

- Contractual changes are documented and authorised e.g. change of working hours/ promotion/salary increases/details; and
- Overtime and call out charges are documented, supported by evidence where necessary and authorised by the employee's line manager / budget holder.

We have detailed below the **key exception reports** that we would expect to be produced and review monthly. These exception reports identify transactions that breach "normal parameters". The purpose of review of these exceptions reports is to identify any errors or irregularity.

- Overtime exceeding £X
- Allowances exceeding £X
- Gross pay exceeding £X
- Employees receiving nil pay
- Duplicate NI numbers

- Emergency tax code has been used for longer than 6 months
- Net pay is x% greater then previous month
- Changes to bank details made in the month

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Appendix E: Summary of work completed and risks reviewed

Our work involved:

- Identifying and documenting controls in place through discussion with staff;
- Testing key underlying controls to confirm that they have operated;
- Evaluating the adequacy of existing processes and controls; and
- Highlighting areas for improvement and / or streamlining.

Work undertaken		Risks reviewed
We have reviewed the controls in place which ensure:		
• New starters which are set up on the payroll are accurate and appropriately authorised;	➔	• Ghost employees are set up on the payroll system;
• Amendments to the payroll master-file are correctly processed, including changes of bank details;	➔	• Unauthorised/inaccurate payments made to staff and members;
• Temporary amendments to payroll data are appropriately authorised and calculated correctly;	➔	
• Deductions from salary are approved and paid over to third parties accurately and timely;	➔	• Errors are not identified in a timely manner;
• Leavers are actioned on a timely basis and final payments are correctly calculated;	➔	• Insufficient personnel data held on employees;
• Temporary staff are only used where necessary and payments made to them are accurate;	➔	• Payroll legislation is not complied with;
• Timesheets are subject to review and authorisation;	➔	• Unauthorised changes to standing data; and
• Expense Claims are subject to authorisation, with evidence to support that expenditure incurred is reviewed;	➔	• Amounts are not accurately recorded on the financial ledger.
• Appropriate authorisation of the overall payroll and BACS payments made;		
• Cheque payments are only made in exceptional circumstances and are appropriately authorised;		
• Payments are correctly recorded in the accounts of the Authority; and		
• The effectiveness of budgetary control arrangements in relation to payroll.		

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Performance Information

Performance indicators

We have documented below the performance against the indicators included in the Protocol for the routine internal audit reviews:

Performance Area	**Performance Target**	**2008/09 Performance to date**
Issue Terms of Reference	15 days before start on site (target 100%)	100% (17 out of 17) ☺
Issue Draft Report	Within 15 days of final debrief (target 100%)	80% (8 out of 10) ☺
Management response to routine audit reports	Within 15 days of draft report (target 100%)	57% (4 out of 7) ☹
Issue Final Report	Within 10 days of management responses (target 100%)	100% (7 out of 7) ☺

We have documented prior year performance below for information:

Performance Area	Performance Target	2007/08 Performance	2006/07 Performance	2005/06 Performance
Issue Terms of Reference	15 days before start on site (target 100%)	88.9% ☺	88.9% ☺	66.6% ☹
Issue Draft Report	Within 15 days of final debrief (target 100%)	64.7 % ☹	83.3% ☺	83.8% ☺
Management response to routine audit reports	Within 10 days of draft report (target 100%)	23.53% ☹	55.5% ☹	50% ☹
Issue Final Report	Within 10 days of management responses (target 100%)	100% ☺	100% ☺	100% ☺

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Audit and Governance Committee reporting schedule

Audit and Governance Committee Date	Proposed reports	
25th June 2008	•Progress report 1	
24th July 2008	•Progress update	
23th September 2008	•Progress report 2	•Taxi Licensing •Car Parking
25th November 2008	•Progress report 3	•Business Continuity/Disaster Recovery •Data Security
27th January 2009	•Progress report 4 •Payroll •Treasury management	•Benefits •Local Taxation
24th March 2009	•Progress report 5 •Equality and Diversity •Local Financial Systems •Housing Repairs •Core Financial Systems (AR/AP/MAS) •Building Control/Planning/Enforcement	•Single Status Model •Health and Safety Follow up
28th April 2009	•Corporate Governance •Leaseholders	•Annual report

© 2009 KPMG LLP, the U.K. member firm of KPMG International, a Swiss cooperative. All rights reserved. This document is confidential and its circulation and use are restricted.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.