

**Agenda supplement:
Internal Audit report - Payroll
for
Audit and Governance Committee -
Wednesday 14 December 2016**

Agenda item 9b) Payroll (Pages 3 - 26)

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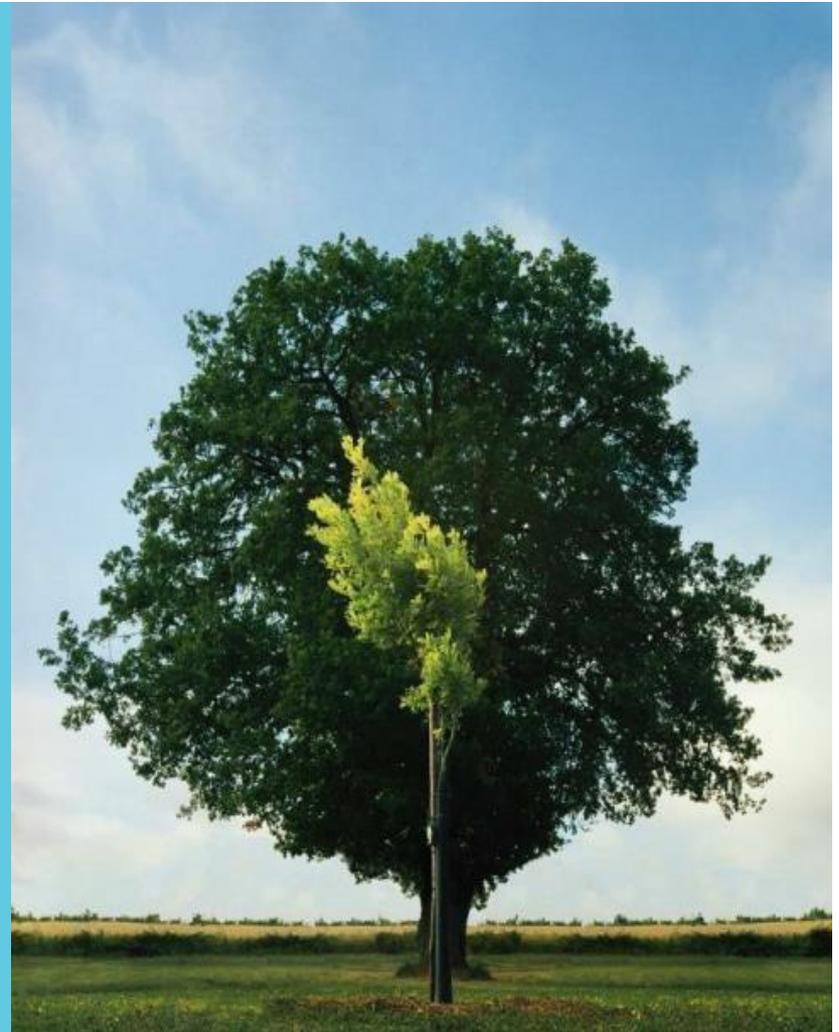
Oxford City Council

INTERNAL AUDIT REPORT

ω Audit 11. Payroll

December 2016

LEVEL OF ASSURANCE	
Design	Operational Effectiveness
Moderate	Limited



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REPORT STATUS

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Dates work performed:	26 September - 6 October, 2016
Closing Meeting:	06 Oct 2016 - attended by Justin Thorne and Kerry Lin
Draft report issued:	30 November 2016
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Restrictions of use

The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

EXECUTIVE SUMMARY

OXFORD CITY COUNCIL CORPROATE OBJECTIVE			SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II FOR DEFINITIONS)	
Efficient, Effective Council: A flexible and accessible organisation, delivering high-quality, value-for-money services			High	 4
LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS)			Medium	0
Design	Moderate	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	Low	 3
Effectiveness	Limited	Non-compliance with key procedures and controls places the system objectives at risk.	Total number of recommendations: 7	

OVERVIEW: PAYROLL

Oxford City Council’s (the Council’s) HR and Payroll utilise iTrent, a software developed by MHR (formerly known as MidlandHR). iTrent is a platform that delivers end-to-end HR and payroll processing. All overtime, travel and subsistence transactions are submitted through the I-Trent system and are approved by the individual’s line manager prior to payment. A reason for the overtime is required within the I-Trent system and is reviewed by the line manager prior to approval.

The purpose of this audit is to review and assess the design and effectiveness of controls in relation to payroll activity to provide assurance over the accuracy, completeness and timeliness of transactions undertaken.

From our review, we noted the following areas of good practice:

- The parameters for different payroll taxes and adjustments are uploaded to the payroll system automatically
- Adequate process is in place to manage the current monthly reconciliations undertaken
- Sufficient evidence to support expense claims
- Deadlines and task checklist are in place to transact payroll runs to ensure accurate, complete and timely payments are made.

However, we also noted the following areas of improvement:

- From a sample of 30 overtime payments we found, 12/30 overtime payments did not have supporting evidence for claiming the overtime (Detailed Finding 1 - High)
- There is not a consistent protocol to follow for both line management and individuals within the Council prior to the submission and completion of overtime (Detailed Finding 1- High)
- Payroll does not have a reporting mechanism that allows payroll management to compare the overtime expenditure from one month to previous months. It should be noted that management can access this data themselves from Agresso (Detailed Finding 5 - High)
- The Council do not have a centralised timesheet submission system, which limits the ability to make significant comparisons in relation to overtime payments (Detailed Finding 6 - High)
- Through a series of data analytics we found that the Licensing Department accounted for 23% of overtime claimed within 2015. (Detailed Finding 7 - High).

EXECUTIVE SUMMARY

OVERVIEW: PAYROLL AND OVERTIME

Continued:

Conclusion

We have issued three low and four high recommendations.

Payroll

We identified good design of controls to manage both the day-to-day operation of finance systems and management oversight. Furthermore, from our testing and observation of the control environments we did not identify any high recommendations or significant instances of non-compliance of controls in place.

Overtime

We identified that whilst the design of the I-Trent system is reasonable, that procedures and expectations around the detail on the I-Trent system required to validate an overtime claim are inadequate. Furthermore the analysis and scrutiny of overtime claims is insufficient.

DETAILED FINDINGS AND RECOMMENDATIONS

RISK: Inadequate policies and procedures are in place which weakens the framework to support accurate, complete and timely transactions			
Ref.	Finding	Sig.	Recommendation
1	<p>We have obtained and reviewed the payroll procedures and expense policy. It is noted that both documents were last updated in November 2015.</p> <p>Although it is updated within the last 12 months, the payroll procedure does not fully reflect the current situation, as there have been process and personnel changes since November 2015, such as the Care Statement and change of Payroll Manager.</p> <p>The expense policy does not contain adequate detail as it is mainly focused on travel expenses.</p> <p>We have selected 15 samples from April to September 2016 for expense testing and it is noted that there are 2 categorisation errors:</p> <ul style="list-style-type: none"> • 1 hotel receipt is classified as parking expense • 1 lunch receipt is classified as office stationary expense. <p>The above mentioned hotel receipt is in Euros. The original amount is €198.5 and the exchange rate used is 1.2372, hence a total of £160.43 was claimed. However, we have noted if the exchange rate on the date of invoice (1.249) had been used, £158.93 should have been claimed instead.</p> <p>Moreover, we have also noted that 1 claim was not made until 113 days after day of receipt.</p> <p>We have discussed the findings with the Payroll Manager and noted the Council does not have policy on Foreign Exchange.</p> <p>The absence of adequate policies and procedures can lead to error, inefficiency and impeded the accuracy of management information.</p>	Low	We recommend the Council review and update the payroll procedures and expense policy after MHR have completed their audit on the use of the payroll system. Please see Observation 1 for further information.
MANAGEMENT RESPONSE			RESPONSIBILITY AND IMPLEMENTATION DATE
<p>Agreed. We will utilise the HR Matters circular (or a separate issue focussing specifically on this) to re-educate staff on expectations. We will consider updating the policy regarding foreign exchange however, this type of transaction is exceptionally rare and therefore a short instruction to liaise with payroll on these types of transactions may be sufficient.</p>			<p><i>Responsible Officers: Justin Thorne</i></p> <p><i>Implementation Date: March 2017</i></p>

DETAILED FINDINGS AND RECOMMENDATIONS

RISK: Insufficient evidence to support expense claims and/or approval procedures are unclear and not followed			
Ref.	Finding	Sig.	Recommendation
2	<p>The Council has a self service system which the employee uses to upload their expense claim. Once submitted, the claim needs to be approved by his/her manager prior being sent to Payroll for payment.</p> <p>We selected 5 mileage claims and 10 other expense claims from April to September 2016 for testing.</p> <p>During our testing, we have noted the following:</p> <ul style="list-style-type: none"> • 1 out of the 5 mileage claims does not contain sufficient description as the claimant stated 'Consultancy' as the reason of expense • 5 out of 15 expense claims took longer than 2 weeks to approve. <p>The delay in authorisation could lead to delay in payment may be attributable to the lack of relevant information in the expense policy (See Finding 1).</p> <p>The lack of insufficient description can indicate a potential risk of the Council paying for expenses that are not incurred wholly for work purposes.</p> <p>During our testing, we also noted 1 expense claim was not submitted and approved per the normal procedure via the self service system. This was because one person has paid for 2 other people and iTrent does not allow an individual to claim more than one person's allowance. Therefore, the physical receipt of the expense was given to Payroll and an authorisation email from the appropriate authoriser was also sent to Payroll. We have discussed the finding with the Payroll Manager and the HR Manager and noted that as the Council is moving towards a paperless system, the Council does not have a process and paper form claims where one person can claim 2 people's allowance.</p>	Low	<p>We recommend the Council remind all staff that they need to input sufficient detail in the expense claim and the manager should approve expense in a timely way.</p> <p>As it is not possible for an individual to claim 2 people's allowance, we also recommend the Council create a process which will allow this to happen. The Council should then formalise it by including the process in the expense policy.</p>
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
Agreed. We will utilise the HR Matters circular (or a separate issue focussing specifically on this) to re-educate staff on expectations and processes.		<p><i>Responsible Officers: Justin Thorne</i></p> <p><i>Implementation Date: March 2017</i></p>	

DETAILED FINDINGS AND RECOMMENDATIONS

RISK: Starters, leavers and variations to contracts are processed incorrectly resulting in inaccurate and/or incomplete payroll transactions			
Ref.	Finding	Sig.	Recommendation
3	<p>Starters, leavers and variation to contracts follows a similar procedure. Line managers should complete and sign the appropriate paperwork. This is then passed to HR who will amend the HR record on iTrent and sign the paperwork. After this, the documents are sent to payroll for amending payroll information on iTrent.</p> <p>A sample of 15 starters and leavers (8 starters and 7 leavers), and a sample of 10 variations to contracts (5 changes in grade and 5 changes in work hours) from April to September 2016 have been tested.</p> <p>All but 1 sample have the relevant paper work and the payslip are all calculated correctly per the Council's pay scales. The exception was found in the change of grade testing. The individual had a new pay scale of Grade 11 SCP 56 for financial year 16/17. However, this is not formalised until 13/06/2016, as Payroll was not notified until June. Therefore the person's pay was under a lower SCP for April and May 2016. It is verified that an extra backdated payment of £1311.84 in June 2016 was used to reimburse the underpayment for those 2 months.</p> <p>In addition, during our testing, we have noted that:</p> <ul style="list-style-type: none"> • 1 starter form was not fully completed by the manager as the pay scales box has been left empty • 1 contract variation form did not have a signature from the relevant Line Manager/Head of Service (both of which are the same person). The manager's name is printed in the box but there was no other information attached, such as the email trail of approval. <p>Despite that all the information relating to the samples exist on the system, the use of electronic signature without supporting information and incomplete forms could result in inaccurate and/or incomplete payroll transaction.</p>	Low	<p>We recommend the Council to remind HR, Payroll, Line Managers and Heads of Service that the paperwork should be completed in full and when using electronic signature, an email must be kept with the personal file.</p> <p>The Council should also remind Line Managers that they should notify Payroll of any changes of salary in a timely manner.</p>
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
<p>Agreed. We will utilise the HR Matters circular (or a separate issue focussing specifically on this) to re-educate staff on expectations. We will remind staff to keep a copy of the approval email with the individuals file or if an email has not been provided to not authorise the request.</p>		<p><i>Responsible Officers: Justin Thorne</i></p> <p><i>Implementation Date: January 2017</i></p>	

DETAILED FINDINGS AND RECOMMENDATIONS

RISK: Starters, leavers and variations to contracts are processed incorrectly resulting in inaccurate and/or incomplete payroll transactions

Ref.	Finding	Sig.	Recommendation
4	<p>All overtime claims are submitted and processed through the I-Trent system; see Appendix II which sets out the routes by which overtime claims can be submitted onto I-Trent. The I-Trent system allows individuals to log an overtime claim and submit free text to describe the reason for claiming overtime. A claim is required to be made for each day of overtime completed.</p> <p>Once the claim is submitted by the individual, the line manager is required to review and authorise the overtime claim ensuring that there is valid reason for completing the overtime. A reason for claiming overtime can be placed in a non- mandatory free-text field on the system.</p> <p>We would expect all individuals who have submitted overtime claims to state a valid reason for the overtime claimed sufficient to allow the line manager to authorise the claim. The I-Trent system does not allow evidence to be uploaded as part of the verification process however, we would expect the free-text box to refer to evidence, which could be easily accessed, to validate the reason for overtime payment.</p> <p>As part of this review we sample tested 30 paid overtime claims for the period 1 April 2015 to 30 April 2016; this was split as 12 for self-service, 6 for parks and 12 for direct services:</p> <p>From 11 out of 30 paid overtime claims there was no reasonable evidence held by line management to support the purpose for claiming overtime. These included four claims made by employees using self-service, three in direct services and four in park services - therefore this concern applies throughout the Council. For cases where evidence was considered reasonable to validate the overtime claim we received minutes from meetings or email exchanges.</p>	High	<p>The Council should implement a formal protocol which sets out the expectations for both line management and staff within the Council on the level of evidence that is required to submit and authorise overtime claims.</p> <p>All line management should ensure that sufficient documentation is held to evidence the reason for an individual to claim overtime. This level of documentation should be attached to the I-Trent system for payment approval</p> <p>The field marked as ‘reason for overtime’ should be marked as a mandatory field within the I-Trent system. An individual should not be allowed to submit the claim without completing this field</p> <p>Payroll, alongside IT, must investigate the ‘glitch’ to identify whether I-Trent allows the authorisation process to be overridden and to correct this so authorisation is mandated</p> <p>Spot checks should be completed by the Payroll Team for three overtime claims per month and evidence should be obtained to substantiate overtime claimed.</p>
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
<p>Agreed. Communication will be issued to staff and clarity on protocols set out.</p> <p>Reason for overtime field is already mandatory on the system</p>		<p><i>Responsible Officers: Justin Thorne</i></p> <p><i>Implementation Date: January 2017</i></p>	

DETAILED FINDINGS AND RECOMMENDATIONS

RISK: Starters, leavers and variations to contracts are processed incorrectly resulting in inaccurate and/or incomplete payroll transactions

Ref.	Finding	Sig.	Recommendation
4	<p>Continued:</p> <ul style="list-style-type: none"> In addition four out of 30 overtime claims related to same individual. For one out of 30 overtime claims we found that a reason was not provided as to why overtime was claimed i.e. the free text box was blank on I-Trent. Through further discussions with the Payroll Manager it was found that this overtime claim appears to have been paid without line manager approval. From our review we have no evidence to suggest that this ability to override control is wide-spread and it appears to be a one-off case Through discussions with line managers it was apparent that they were not clear on the level of information that should be maintained to validate an overtime claim whether this be minimum standards for completing the free-text box in I-Trent or evidence to substantiate overtime claims outside of I-Trent. <p>If evidence to support overtime claims is not accessible by line management there is a risk that individuals are submitting overtime claims without a valid reason and that overtime claims are subject to insufficient scrutiny. This results in overpayments of overtime which may be due to staff override of control and/or malpractice.</p>	High	

MANAGEMENT RESPONSE

Agreed. Communication will be issued to staff and clarity on protocols set out.

RESPONSIBILITY AND IMPLEMENTATION DATE

Responsible Officers: Justin Thorne

Implementation Date: January 2017

DETAILED FINDINGS AND RECOMMENDATIONS

RISK: Starters, leavers and variations to contracts are processed incorrectly resulting in inaccurate and/or incomplete payroll transactions

Ref.	Finding	Sig.	Recommendation
5.	<p>The Payroll function produce a series of reports in relation to overtime claims at each month end which outline the following:</p> <p>Payments made over £2,500 net - this report outlines all individuals within the Council who have been paid above £2,500 net in a given month (total of base pay and overtime). The report is used by Payroll to assess whether those individuals earning over this value are expected to be on the report based on the knowledge of what their base salary is. Each line in the report is checked and initialled/dated by the Payroll Manager to confirm they are content the payment made is within expectations.</p> <p>Payroll difference report - this report details a month on month comparison of payments made to every individual on the Council's payroll which is inclusive of overtime payments. The report identifies all payment differences based on the previous month even if the difference is one pence. Where differences occur these are investigated by the Payroll Team; each line in the report is checked and initialled/dated by the Payroll Manager to confirm they are content the payment made is within expectations.</p> <p>We would expect there to be robust reporting functions in place which would allow the Payroll Team to be able to produce trend analysis on the level of overtime that has been paid month on month and enable management to understand where the highest levels of overtime are occurring. We would also expect reports to produce data which allows management to compare the level of overtime completed by a single individual in comparison to their base salary to assess whether claims paid are reasonable.</p> <p>We reviewed the effectiveness of the reports produced in relation to overtime for the months of June and July 2015. We found that although a report is produced outlining the differences for a given individual from the current month to the previous month, Payroll are unable to identify if an individual is claiming excessive amounts of overtime payments.</p>	High	<p>The reporting functions must include a comparison of an individual's payment for a given month to their base salary. Where payments exceed a set threshold (eg £500 in the month or £1000 in a year) then discussions with the relevant managers should take place to ascertain if the additional payment was appropriate. Please note that the scrutiny and investigation applied must be sufficient to obtain full assurance that the payments made are valid, substantiated and reasonable.</p> <p>Please see appendix II - Data Analytics on Overtime Payments in 2015- 16 which sets out the results of our analysis conducted.</p>

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DETAILED FINDINGS AND RECOMMENDATIONS

RISK: Starters, leavers and variations to contracts are processed incorrectly resulting in inaccurate and/or incomplete payroll transactions

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Ref.	Finding	Sig.	Recommendation
5.	<p>Continued:</p> <p>For example a member of the Licensing team obtained a payment of £3283.88 in June 2015 and £3613.74 in July 2015 (an increase of £330.85). The Payroll difference report recognised that there was a month on month difference however, the report did not identify how much this difference was above the base salary. As a result Payroll identified the reason as ‘overtime payment’ without further scrutiny being applied. If Payroll scrutinised this further it would have been identified that the amount of overtime paid in June and July 2015 was £1,261.04 and £1,442.94 respectively. As this difference was signed off with the reason given as ‘overtime payment’ and this was accepted, our conclusion is that this is an inadequate level of scrutiny applied given the excessive level of overtime payment made.</p> <p>If adequate reporting functions are not maintained there is a risk that excessive levels of overtime will not be identified resulting in a detrimental financial impact on the Council.</p>	High	
MANAGEMENT RESPONSE			RESPONSIBILITY AND IMPLEMENTATION DATE
<p>Agreed. We can confirm that reporting can be produced directly from Agresso which is available online to all Managers. Therefore the ownership should be on them to use this functionality to monitor spending in their respective areas.</p> <p>Furthermore, we will consider building a report to identify those who are making large overtime claims or reach set thresholds. We will review management information we can obtain and ensure we capture the various risks identified here and report/escalate these appropriately.</p>			<p><i>Responsible Officers: Justin Thorne</i></p> <p><i>Implementation Date: June 2017</i></p>

DETAILED FINDINGS AND RECOMMENDATIONS

RISK: Starters, leavers and variations to contracts are processed incorrectly resulting in inaccurate and/or incomplete payroll transactions

Ref.	Finding	Sig.	Recommendation
6	<p>The Council maintains a spreadsheet system as a means for individuals to complete their timesheets and submit the number of hours completed. All Council staff are required to complete their timesheets on a daily basis and submit these timesheets to their line manager at each month end. Line managers are expected to check timesheets and ensure that the hours completed are in line with the individual's contractual agreements; the onus is on each respective line manager to ensure all timesheets are monitored and completed in line with the Council's Policy.</p> <p>Through discussions and a review of the spreadsheet system maintained within the Council, there is limited comfort gained that all management within the Council are monitoring an individual's timesheet on a monthly basis as timesheets are not required to be submitted into a centralised system. Furthermore, there is no obligation set within the spreadsheet requiring a line manager to report on the level of overtime an individual has completed or the number of hours owed within the month for each individual managed. The Council works on a trust basis that the spreadsheets have been checked and stored on the Council network in a uniform manner.</p> <p>The spreadsheet system limits the Payroll/HR Teams ability to run reports as there is no direct link between the spreadsheet and the I-Trent system; a link between the two would allow comparisons and trend analyses to be made on:</p> <ul style="list-style-type: none"> • Time completed within a given month vs. overtime claimed • Time completed per individual vs. overtime claimed • The highest number of hours completed within a particular department • Identify individuals who are completing excessive time above or below their contractual hours. <p>If there is not a centralised system maintained to record timesheet entries within the Council this can result in the Council authorising time over and above the Council's Policy and the European Union Working Time Directive. This may lead to financial and/or reputational damage to the Council.</p>	High	<p>The Council should consider implementing a centralised system which would allow all individuals within the Council to submit their timesheets on a monthly basis and for management, HR and Payroll to be able to review and run reports through the system when required</p> <p>The Council should consider linking the I-Trent system with the timesheets system as this would allow HR and Payroll to run reports and make significant comparisons and allow for trend analysis on a monthly basis.</p>
MANAGEMENT RESPONSE			RESPONSIBILITY AND IMPLEMENTATION DATE
Agreed. This is not currently possible with the system, other alternatives will be discussed			<p><i>Responsible Officers: Justin Thorne</i> <i>Implementation Date: March 2017</i></p>

DETAILED FINDINGS AND RECOMMENDATIONS

RISK: Starters, leavers and variations to contracts are processed incorrectly resulting in inaccurate and/or incomplete payroll transactions			
Ref.	Finding	Sig.	Recommendation
7	<p>Through the use of data analytics a number of comparisons were identified:</p> <ul style="list-style-type: none"> • 23% of all self-service overtime claimed within 2015-16 was claimed by the Council’s Licensing Department • One member of staff claimed 13% of total self-service overtime paid within 2015-16 accounting for 57% of self-service overtime claimed within 2015-16 for a particular department. This accounted for 45% of this individuals base salary which we consider to be disproportionate • Another individual in a separate team claimed overtime amounting to 29% of their base salary and 7% of the total self- service overtime claimed in 2015-16. <p>Please see Appendix II for a detailed account of the data analytics completed. It was not possible to provide the same level of analysis with Direct Services and Parks due to how the information is extracted from I-Trent. We reviewed this data and did not have the same level of concern, however, the Payroll Team should work with the software to consider how similar analyses could be performed on the Direct Services and Parks data.</p> <p>It may be considered by line managers and claimants that due to the specialist knowledge of staff who incur overtime, it is the right option to ensure services are delivered in this way. Our view is that excessive overtime should be challenged as to whether this indicates that additional resource is required. One individual claiming excessive levels of overtime creates a risk to resilience should they be away, as well as placing significant pressure on the individual to perform additional hours which could be detrimental to them and the Council.</p> <p>If there are excessive levels of overtime being claimed in a given period there is a risk that the Council are not utilising their resources effectively leading to a negative financial impact on the Council.</p>	High	<p>The data analysis results should be discussed amongst the senior staff within the Council including the HR/Payroll Manager and the Section 151 Officer</p> <p>The Council’s Payroll/HR team should complete a series of data analytics on a monthly basis extracting:</p> <ul style="list-style-type: none"> • Highest level of overtime claimed within a particular period • Highest level of overtime completed within a particular department • A comparison of overtime vs. base salary • Trend analysis on overtime claimed • Identify individuals with overtime expenditure greater than 1.2 times the previous year’s overtime expenditure • Employees with overtime payments equal to more than 20% of their base salary within a given month.
MANAGEMENT RESPONSE			RESPONSIBILITY AND IMPLEMENTATION DATE
Agreed. This is the same response as to Finding 5.			<p><i>Responsible Officers: Justin Thorne</i></p> <p><i>Implementation Date: June 2017</i></p>

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OBSERVATIONS

Here we list any observations we have noted during our testing.

1. MHR Audit

It is noted the payroll software provider, MHR, will be conducting an audit on the utilisation of the capabilities of iTrent in the coming months. The Council is waiting for this audit to be completed prior to making any changes to the process of the payroll system.

2. Performance Evaluation Paper Work

During our review, it is noted that only the date of appraisal and the rating is recorded on the iTrent system. This is because iTrent is not able to hold additional information on the appraisal without overloading (and hence crashing the software). Currently, the paperwork is kept by the individual managers. This has been discussed with the Payroll Manager and HR Manager and it is noted that as the evaluation does not impact on change of grade or reference, it is not necessary for HR to keep it.

APPENDIX I - STAFF INTERVIEWED

BDO LLP appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and cooperation.

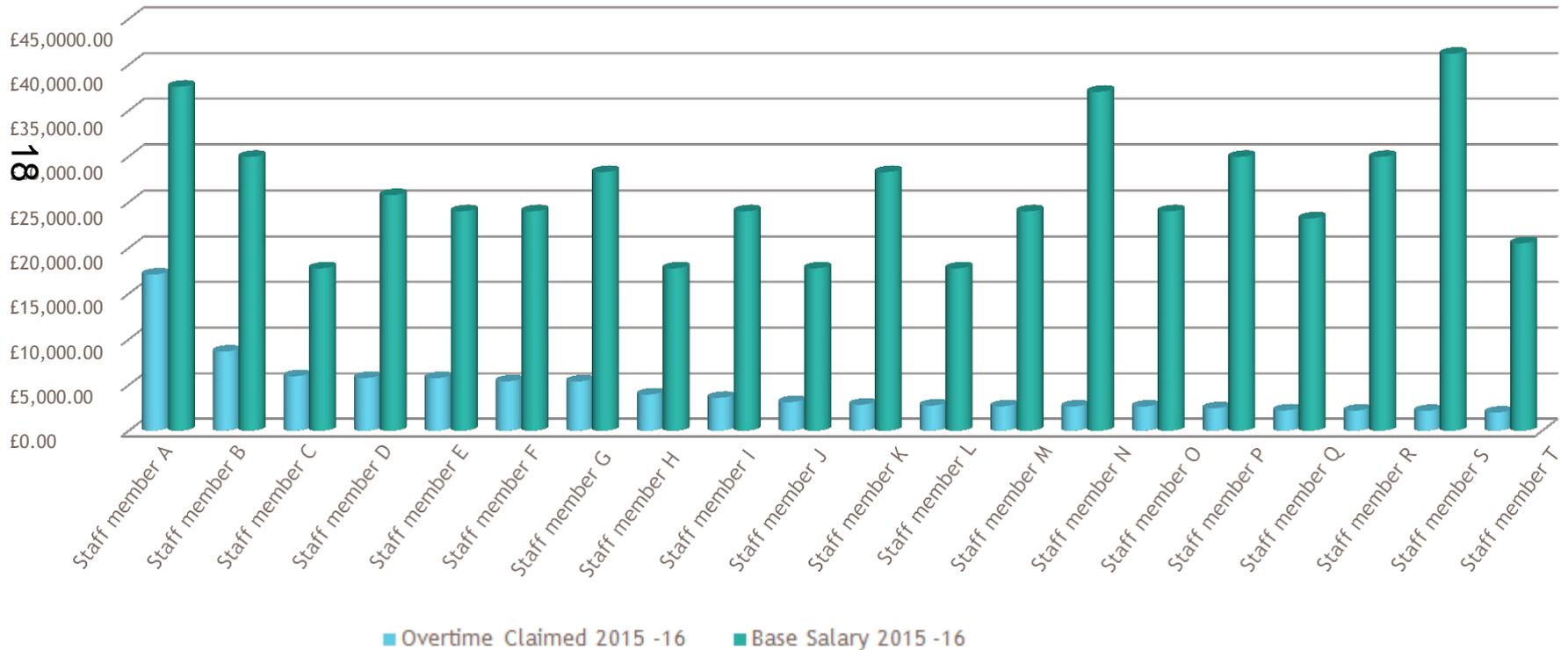
NAME	JOB TITLE
Simon Edginton	Payroll Manager
Steph Rockett	HR Admin Officer
Carena Foster	Payroll Technician
Sian Pearson	HR Advisor
Mike Scott	Finance Technician
Justin Thorne	HR Manager
Tracy Rockett	Service Support Team Leader
Edward Bonr	Parks Support Officer

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APPENDIX II - DATA ANALYTICS ON OVERTIME PAYMENTS 2015-16

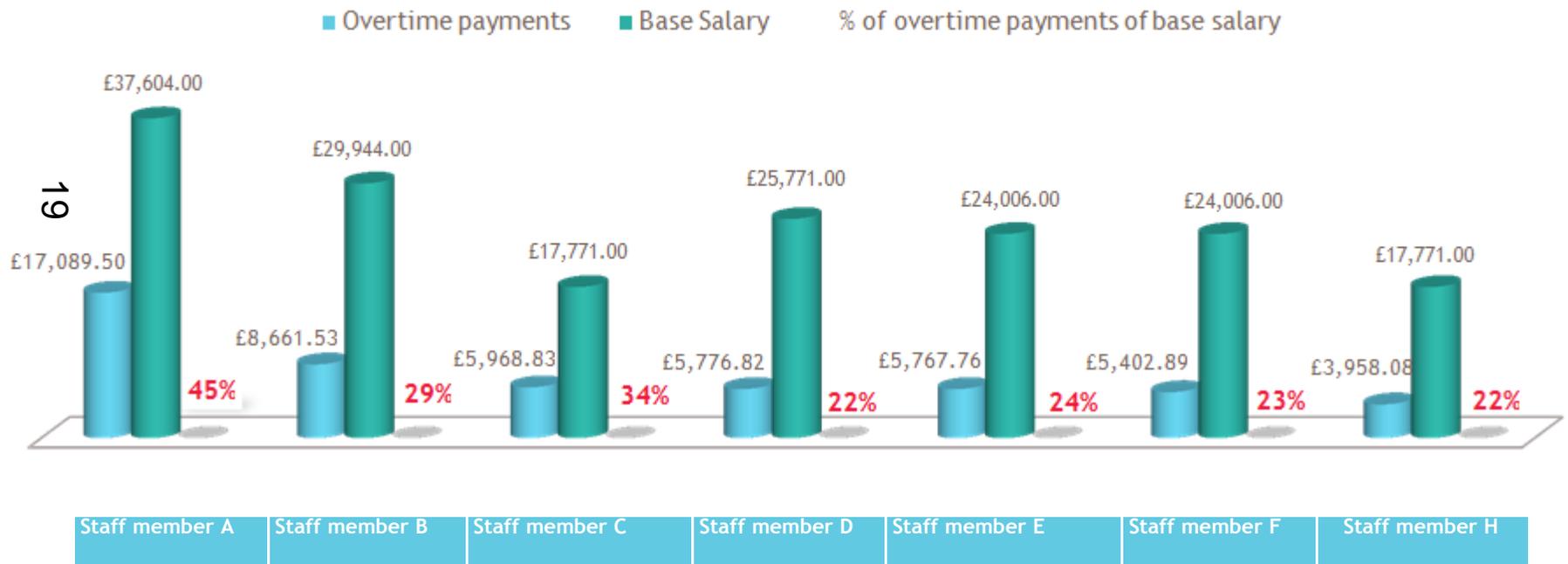
The chart below identifies the top 20 individuals who claimed high levels of overtime payments in excess of their base salary. As detailed within the table below, one member of staff claimed the highest level of overtime payments which accounted for 45% of their base salary.

TOP 20 SELF-SERVICE OVERTIME PAYMENTS VS BASE SALARY 2015-16



APPENDIX II - DATA ANALYTICS ON OVERTIME PAYMENTS 2015-16

EMPLOYEES WITH TOTAL SELF-SERVICE OVERTIME PAYMENT EQUAL TO OR GREATER THAN 20% OF THEIR BASE SALARY 2015-6



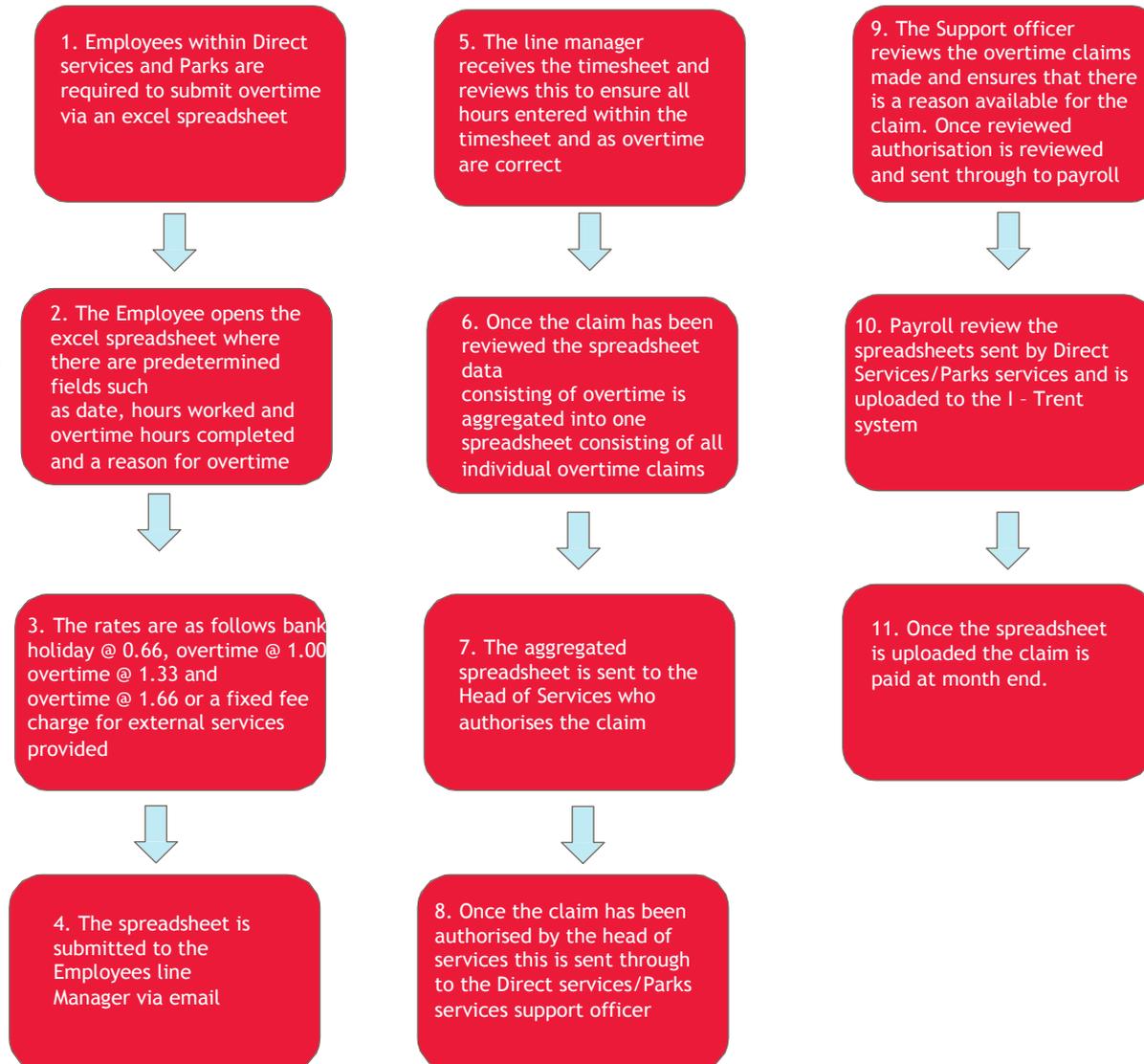
APPENDIX II - ROUTES FOR SUBMITTING OVERTIME PAYMENTS - SELF-SERVICE

The flow chart below describes the process Self Service employees use when submitting their overtime claims through the I - Trent system for overtime payments.



APPENDIX II - ROUTES FOR SUBMITTING OVERTIME PAYMENTS - DIRECT SERVICES AND PARKS SERVICES

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APPENDIX III - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

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Recommendation Significance	
High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

APPENDIX IV - TERMS OF REFERENCE

BACKGROUND



The Council's main financial system is Agresso within which fixed asset, general ledger and payroll transactions are recorded. In December 2015 the Council will be upgrading their Agresso financial system part of which is the General Ledger. This change will impact the functionality for parts of the system.

The Council process a payroll for c.1200 staff per month via their iTrent system. The payroll team is led by the Payroll Manager who is supported by two Payroll Technicians and one System Administrator. There is a Human Resources (HR) team who are led by the HR Manager who process new starters, leavers and variations to employee contracts. These details are passed onto the payroll team for processing to ensure correct payments are made as per the employees contract.

The payroll team also manage the process around Care Statements which are sent to Oxfordshire County Council. Care Statements reconcile the pension position for Council staff to data held by the local pensions administering authority. The Council have identified issues with the monthly reconciliation process in 2015-16 and therefore underwent a process to review the backlog of submissions made and then made amendments to future submissions to rectify any historic issues.

PURPOSE OF REVIEW



To review the design and effectiveness of controls in relation to payroll activity to provide assurance over the accuracy, completeness and timeliness of transactions undertaken.

SCOPE OF REVIEW



The scope will cover the Key Risks set out overleaf.

EXCLUSIONS



This review will not include considerations around overtime which will be reported separately.

APPROACH



Our approach will be to conduct interviews to establish the controls in operation for each of our areas of audit work. We will then seek documentary evidence that these controls are designed as described. We will evaluate these controls to identify whether they adequately address the risks. Any opportunities identified to improve arrangements will be offered for consideration alongside recommendations to resolve any weakness in controls.

APPENDIX III - TERMS OF REFERENCE

KEY RISKS

Based on the risk assessment carried out during the creation of the internal audit operational plan, our discussions with management, and our collective audit knowledge and understanding, the key risks associated with the area under review are:

- Inadequate policies and procedures are in place which weakens the framework to support accurate, complete and timely transactions
- Access to systems and data is not effectively managed extending the risk that data may be amended or deleted without appropriate approval
- Monthly reconciliation procedures are ineffective to ensure the accuracy and completeness of transactions undertaken in the period
- Inadequate arrangements are in place to prepare for any changes to the Agresso software
- Starters, leavers and variations to contracts are processed incorrectly resulting in inaccurate and/or incomplete payroll transactions
- Insufficient procedures are in place to record the correct transition of temporary to permanent staff
- Insufficient evidence to support expense claims and/or approval procedures are unclear and not followed
- Parameters placed into the Agresso system which impact the classification and value of payroll costs i.e. income tax-free threshold, are incorrect and/or payroll transactions are not applied to the correct parameter at the time of the transaction
- Ineffective procedures are in place to transact payroll runs to ensure accurate, complete and timely payments are made
- Inadequate procedures in place to manage historic errors with Care Statements and/or current monthly reconciliations undertaken.

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DOCUMENTATION REQUEST

Where available, please ensure that electronic copies of the following documents have been forwarded to us in advance of the review:

- The latest Financial Regulations pertaining to the Council
- The latest Delegated Authority list
- A listing of all starters, leavers and contract variations for the period 1 April 2016 to 9 September 2016
- Once a sample of starters, leavers and contract variations has been selected we will require:
 - Evidence from the contract to confirm the current employment position along with any approval form for the change
- A listing of all processed expense claims for the period 1 April 2016 to 9 September 2016
- Once a sample of expenses has been selected we will require:
 - A copy of the expense form along with any approval form for the expense claim
- A listing of monthly evidence for Care Statements for the period 1 April 2016 to 31 August 2016.

These documents will assist the timely completion of our fieldwork, however this list does not necessarily constitute a complete list of all documentation and evidence that we may need as part of our review.

APPENDIX IV - TERMS OF REFERENCE

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TIMETABLE

Audit Stage	Date
Commence fieldwork	26 September 2016
Number of audit days planned	7 (adjusted from 10 days from the original days approved by Audit Committee)
Planned date for closing meeting	4 October 2016
Planned date for issue of the draft report	21 October 2016
Planned date for receipt of management responses	4 November 2016
Planned date for issue of proposed final report	7 November 2016
Planned date for Section 151 and Executive Director review	14 and 21 November 2016 respectively
Papers deadline	5 December 2016
Planned Audit Committee date for presentation of report	14 December 2016

KEY CONTACTS

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SIGN OFF

On behalf of BDO LLP:		On behalf of Oxford City Council:	
Signature:		Signature:	Helen Bishop
Title:	HEAD OF INTERNAL AUDIT	Title:	Head of Business Development
Date:	20 June 2016	Date:	21 June 2016

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