Oxford City Council

Key Financial Systems Report

FINAL

Internal Audit Report
2012/2013
January 2013

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Distribution List

For action

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Denise Sheppard (Payments Team Leader)
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For information

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Peter Sloman (Chief Executive)

1. Executive summary

Risks Heat Map – Financial Systems

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Creditors

Report classification	Trend
🟡 Medium risk (9 points)	Performance in this area has improved since the last review performed.

Total number of findings

	Critical	High	Medium	Low	Advisory
Control design	0	0	0	0	0
Operating effectiveness	0	0	2	3	0
Total	**0**	**0**	**2**	**3**	**0**
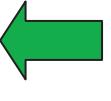
Creditors performance has significantly improved since the 2011/12 audit. No control design issues were noted this year but the Council need to ensure they adhere to processes in place to ensure these controls operate effectively. The implementation of P2P should ensure that the majority of these issues are addressed (authorisation, date stamping, raising of POs and documenting goods receipt checks) however the findings noted will remain risks for any invoices processed outside of the P2P process.

Debtors

Report classification	Trend
🟡 Medium risk (7 points)	Performance in this area has reduced since the last review performed.

Total number of findings

	Critical	High	Medium	Low	Advisory
Control design	0	0	0	1	0
Operating effectiveness	0	0	2	0	0
Total	**0**	**0**	**2**	**1**	**0**

The overall control environment within the Debtors function is strong - the issues identified largely relate to non-compliance by other departments across the organisation. For example, authorisation of sales orders and timeliness of invoice processing. The Debtors function should ensure departments are reminded of their responsibility to comply with these procedures to maintain good performance.

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General Ledger

Report classification	Trend
🟢 Low risk (4 points)	(green arrow) Performance in this area has improved since the last review performed.

Total number of findings

	Critical	High	Medium	Low	Advisory
Control design	0	0	0	0	0
Operating effectiveness	0	0	1	1	1
Total	**0**	**0**	**1**	**1**	**0**

The Council has continued to improve controls relating to general ledger processing. No control design issues were noted this year and only one medium risk issue has been identified relating to the authorisation of journals. One low risk issue has been raised regarding timely performance of reconciliations.

Payroll

Report classification	Trend
🟢 Low risk (3 points)	(yellow arrow) Performance in this area is comparable to the last review performed.

Total number of findings

	Critical	High	Medium	Low	Advisory
Control design	0	0	0	0	0
Operating effectiveness	0	0	1	0	0
Total	**0**	**0**	**1**	**0**	**0**

Payroll performance continues to be strong. Only one issue has been noted: we identified one member of staff was paid for two months after their leave date, this was due to the leaver form not being forwarded to Payroll at the time the employee left; and, that one leaver had exceeded their annual leave entitlement and no adjusting calculation was made.

2. Background and scope

Background

The key financial system reviews have been undertaken as part of our value protection, cross-cutting audit work included within the 2012/13 Internal Audit Plan. Our report outlines findings from reviews of controls and processes in place relating to debtors, creditors, payroll and general ledger as at the time of our internal audit fieldwork (November 2012).

Scope and limitations of scope

We have reviewed the design and operating effectiveness of key controls in place relating to the four key financial systems during the period 2012/13. The scope was limited to the areas identified in the terms of reference s (Appendix 2).

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3. Detailed current year findings

Creditors

1. Goods receipt checks – Operating Effectiveness

Finding
It is the responsibility of individual departments to ensure that the price and quality of goods received agree to original purchase orders raised. Goods receipt checks are evidenced on a creditor payment form which is completed by the department and sent to Finance to authorise payment. For Fleetplan, goods receipts checks are documented on the system against the order. The following issues were noted when testing invoices paid in year: • 1/25 invoices did not have evidence of goods receipts checks being performed. This related to an Agresso invoice.

Risks
Goods received are inappropriate or incomplete.

Action plan		
Finding rating	**Agreed action**	**Responsible person / title**
Low	The Agresso invoice is an isolated issue. Staff will be reminded of the need to complete creditor payment forms fully to evidence this check.	Andrew Woodward (Interim Revenues Manager) **Target date:** With immediate effect

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2. Invoice receipt – Operating Effectiveness

Finding

The following exceptions were noted when testing 25 invoices paid during the year:

- 2/25 invoices were supported by a creditor payment form which had not been stamped by finance;
- 2/25 invoices had not been date stamped by the ordering department;
- Goods receipts checks are recorded on the Fleetplan system. We noted that 100% of Fleetplan invoices tested (8/25) had been stamped by the department. 7 stamps were incomplete. This is not consistent with Council procedures.

Risks

Lack of invoice stamps may make it difficult to monitor timeliness of invoice processing.

Action plan

Finding rating	Agreed action	Responsible person / title
Low	Creditor payment forms should be stamped. Procedures will be reiterated to the processing team to reduce exception levels. Non-compliance issues cause by ordering departments will be raised with relevant departments. Goods receipt checks for Fleetplan invoices should be completed on the system against the order. We have advised departments to stop using stamps. Staff will be reminded of this procedure.	Andrew Woodward (Interim Revenues Manager) **Target date:** With immediate effect

3. Authorisation – Operating Effectiveness

Finding

We noted the following exceptions relating to authorisation:

- 2/25 purchase orders had not been authorised;
- In 4/25 instances, we could not confirm is goods receipt checks had been approved by an appropriate member of staff as the signatory was not on the authorised signatory listing (ASL);
- 3/25 invoices had not been authorised appropriately: the creditor payment form had not been signed (Servitor invoices).

This meant we could not approve segregation of duties for these transactions.

Risks

Orders may be made incorrectly or inappropriately. This could mean the Council incurs unnecessary expenditure on goods / services which are not needed.

Action plan

Finding rating	Agreed action	Responsible person / title
Medium	Procedures will be reiterated to the processing team to reduce exception levels.	Andrew Woodward (Interim Revenues Manager)
	We do not have signatory listings for goods receipts checks, however the authorised signatory uses this to ensure they are happy for the invoice to be paid; they will ensure that they are satisfied that the member of staff can sign for the goods or service.	**Target date:**
	Hard copy ASLs will be updated to ensure they are accurate and complete. A standard ASL is being introduced with the implementation of P2P which is due to go live in January.	31/01/2013
	The implementation of P2P will also introduce segregation of duties within the creditors process.	

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4. Purchase Orders – Operating Effectiveness

Finding

The following exceptions were noted during testing of purchase orders:

- 2/25 invoices did not have a purchase order;
- 1 purchase order had been raised retrospectively after invoice receipt.

Risks

Orders may be made incorrectly or inappropriately. This could mean the Council incurs unnecessary expenditure on goods / services which are not needed.

Action plan

Finding rating	Agreed action	Responsible person / title
Medium 50	Procedures will be reiterated to the processing team to reduce exception levels. The implementation of P2P will require purchase orders to be raised unless it is on the specified purchase order exemption list.	Andrew Woodward (Interim Revenues Manager) **Target date:** With immediate effect

5. Investigation of differences – Operating Effectiveness

Finding

The details on 2/25 invoices sample did not match the details on the purchase order. There was no supporting documentation to explain differences prior to authorisation.

Risks

Inadequate documentation means it is not possible to validate management decisions made and ensure that decisions were appropriate.

Action plan

Finding rating	Agreed action	Responsible person / title
Low	This should be documented. Staff will be reminded to document rationale for approval of differences so that an audit trail is maintained.	Andrew Woodward (Interim Revenues Manager)
51		**Target date:**
		With immediate effect

Debtors

1. Timely raising of invoices - Operating effectiveness

Finding

We tested a sample of 25 invoices and 15 credit notes to ensure these the Council's policies and procedures were being adhered to. Testing noted that:

- 3/25 invoice request forms tested were dated 2 months after the service had been provided;
- 3/25 invoice request forms took more than a week to be approved and passed onto the income department; and
- 1/25 invoices were raised over 5 working days after being received by the income department.

Risks

Debtors not finalised/chased in a timely fashion, and may lead to increasing number of write-offs.

Action plan

Finding rating	Agreed action	Responsible person / title
Medium	The majority of these delays were caused by Departments not complying with procedures: • Invoice request forms dated 2 months after service provided – 2/3 related to departmental delays. 1 of these was referred back to the department as there was a query and the other was caused by change in staff within the team. The third was caused by human error; • Invoice request forms taking more than a week to be approved and passed to income – delays were due to changes of staff during an individual's maternity leave; • Invoice raised over 5 working days after being received by income – this was raised by new staff member to cover for someone on long term sick. This individual was not on Agresso so we had to get authorisation to set them up causing the delay. We will reissue guidance to all departments to remind them of the need to process invoices and credit notes on a timely basis so that we can achieve our target processing time of 5 working days.	Andrew Woodward (Interim Revenues Manager) **Target date:** With immediate effect

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2. Amendments to standing data report – Control Design

Finding

Exception reports are not produced for amendments to standing data on a frequent basis.

Risks

Unauthorised or unusual amendments may not be identified and rectified as appropriate.

Action plan

Finding rating	Agreed action
Low	Use of amendment reports will continue to be investigated.

Responsible person / title

Andrew Woodward (Interim Revenues Manager)

Target date:

31/03/2013

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3. Authorisation of sales invoices and credit notes– Operating Effectiveness

Finding

During testing of sales invoices and credit notes we identified:

- 1/25 sales invoices tested were raised and authorised by the same individual;
- 1/15 credit notes had been authorised by someone who was not on the ASL. The Council are satisfied that this is appropriate to their job role;
- We could not prove segregation of duties for 3/15 credit notes tested as the individual raising the credit note also authorised it or individual raising invoice could not be identified.

Risks

Lack of appropriate authorisation and/or segregation of duties may mean transactions are initiated or processed incorrectly or by unauthorised personnel.

Action plan

Finding rating	Agreed action	Responsible person / title
Medium	We will remind staff in departments of the need for segregation of duties between raising and authorisation of sales invoices and credit notes.	Andrew Woodward (Interim Revenues Manager)
	The individual who was not on the ASL was omitted as this ASL had not been updated at the time of audit. We are comfortable that the authorisation of this credit note, by the individual was appropriate and relevant to their job responsibilities.	**Target date:** 31/03/2013
	We will review the hard copy ASLs and update them to include staff that are not listed and remind staff of the need to write legibly to prove authorisation is appropriate.	

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General Ledger

1. Journal processing - Operating effectiveness

Finding

Authority procedures state that all journals should be appropriately authorised ahead of processing and should be supported by a completed journal input form, relevant supporting documentation and a General Ledger print to evidence the transaction. The following issues were noted from a sample of 25 journals processed in year:

- 4/25 journals were input before they were authorised; and
- 1/25 journals has not been dated to document when it had been authorised.

Risks

Transactions are posted to the ledger without adequate justification or authorisation. Journals are generally accepted to be more susceptible to fraud as they are often based on accounting estimates.

Action plan

Finding rating	Agreed action	Responsible person / title
Medium	The policy on journals will be reiterated to officers. Quality review processes have been put in place by Finance to ensure that sufficient documentation is provided for journals.	Anna Winship (Financial Accounting Manager) **Target date:** 31/12/2012

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2. Reconciliations – Operating Effectiveness

Finding

We reviewed a sample of reconciliations and noted:

- The Fixed Asset Register was reconciled to Uniform in Q1. However, it was not reconciled to Agresso during this period; a full reconciliation between all three systems (Agresso, Uniform and the Fixed Asset Register) was completed fully in Q2.

Risks

If reconciliations are not performed on a timely basis there is a risk that issues go un noticed. These may become more difficult to reconcile.

Action plan

Finding rating	Agreed action
56 Low	The initial delay in performing this reconciliation was because this was a new process. A reconciliation between the Fixed Asset Register, Uniform and Agresso was completed in Q2 and we will continue to do perform this on a quarterly basis. We will record the date that reconciliations have been prepared and reviewed to evidence timeliness.

Responsible person / title

Anna Winship (Financial Accounting Manager)

Target date:

With immediate effect

Additional findings related to Human Resources

The following finding was identified as part of our Payroll review. They relate to Human Resources and thus have been excluded from the findings for the core financial systems:

1. Leavers processing – operating effectiveness

Finding
A leavers form must be completed for all officers leaving the Council. At this point, any salary or holiday owed to or by the individual are calculated. During testing of leavers processed in 12/13, we identified:
• 1/20 officers tested had been paid for two months after their leave date. This was due to the leaver form not being forwarded to Payroll at the time the employee left;
• 1/20 officers had exceeded their annual leave entitlement and no adjusting calculation was made.

Risks
Leavers are overpaid.

Action plan	
Finding rating	**Agreed action**
Medium	These issues have been investigated by the Payroll team:
	• The overpayment of one leaver was due to the relevant department failing to inform HR that they had left employment. We have now removed the employee from the Payroll and are recovering the overpayments;
	• We have reviewed the holiday entitlement of the other employee and believe this to be an isolated error. We will take the necessary steps to recover any monies owed.
	Going forward, staff will be reminded of the need to double check the salary and holiday owed, to or by individuals, and ensure that the correct units are used.

Responsible person / title
Sean Hoskin (Systems and Reward Manager)
Target date:
31/12/2012

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4. Follow up of 2011/12 findings

Creditors

1. Goods receipts checks- Operating Effectiveness

Issue Noted

It is the responsibility of individual departments to ensure that the price and quality of goods received agree to original purchase orders raised. Goods receipt checks are evidenced on a creditor payment form which is completed by the department and sent to Finance to authorise payment. For Fleetplan, goods receipts checks are documented on the system against the order. The following issues were noted when testing 30 invoices paid in year:

- 8 Agresso invoices were not supported by a creditor payment form and there was no other evidence of goods receipts checks being performed; and
- Evidence of goods receipt checks were not provided to audit for 3 Fleetplan transactions.

Original agreed action

A notification will be issued to departments reiterate the process in relation to goods receipting. Invoices will not be processed for payment if no creditor payment form is in place.

Status update

Not implemented. See issue #1 above.

Action plan

Finding rating	Revised action	Responsible person / title
Medium	See issue #1 above for current year revised recommendation.	Andrew Woodward (Interim Revenues Manager)
		Revised target date:
		With immediate effect

2. ASL - Control design

Issue Noted

Responsibility for setting ASLs currently rests with individual departments and during review of the ASLs, it was noted 9/15 lists tested did not specify any limits for authorisation of purchase orders or invoices. In addition, 1/15 lists did not specify limits for purchase orders and 3/15 omitted invoices. In addition, testing of authorisation of a sample of 30 expenditure transactions in year identified that:

- Goods Received checks were signed by individuals not included on the ASL for 7 Agresso transactions;
- In 3 cases the authoriser of the purchase order was included on the ASL however there were not permitted to authorise purchase orders;
- 1 Agresso purchase order had not been authorised; and
- In 2 cases where differences occurred between the value of the order and invoice, there was no documentation to validate that this difference had been followed up. These were in relation to Fleetplan purchases.

Original agreed action

A standard ASL form is to be introduced with P2P. This will also allow for an automated authorisation workflow within Agresso.

Status update

Implemented. It was agreed that a standardised ASL would not be introduced as individual departments have different formats and different uses for their ASLs. However, a standardised ASL for transactions processed through the P2P system has been developed and will be used from January 2013 onwards.

Action plan

Finding rating	Revised action	Responsible person / title
Medium	N/A - Issue addressed, no further action required.	N/A
		Revised target date:
		N/A

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3. Creation/amendments of creditors – Operating Effectiveness

Issue Noted	A supplier amendment form must be completed for all changes in supplier information. This should be signed by the preparer, inputter and an independent reviewer. All amendments must be supported by a request from the supplier: • 4/20 creditor amendments tested were not accompanied by supporting documentation from the supplier.
Original agreed action	A notification will be issued to the creditors team to reiterate that creditor amendments should not be made without supporting documentation from the supplier
Status update	Implemented. Staff responsible for processing supplier amendments have been reminded not to process amendments without obtaining supporting documentation and will not process supplier amendment requests without acceptable backup documentation.

Action plan

Finding rating	Revised action	Responsible person / title
Low	N/A - Issue addressed, no further action required.	N/A
		Revised target date:
		N/A

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4. Consistency of policies and procedures – Operating Effectiveness

Issue Noted

Our work identified inconsistencies between departments in goods receipting and use of creditor payment forms. In addition, the policy on segregations of duties differs considerable between the creditor systems. Segregation of duties could not be confirmed for all Fleetplan invoices tested (10/30 transactions). This is because Fleetplan does not record who has authorised good received notes or invoices.

Original agreed action

Dedicated revenues manager is now in post and will be responsible for reviewing policies and procedures to ensure consistency across the different purchase order systems. Segregation of duties will be explicitly considered in this process.

Status update

Partially implemented. Policy and procedure notes have been formalised. This includes the Council's policy on segregation of duties. However, during testing we were unable to verify segregation of duties for some invoices sampled due to lack of documentation. See issue #3 above for revised recommendation.

Action plan

Finding rating	Revised action	Responsible person / title
Low	See issue #3 above for current year revised recommendation.	Andrew Woodward (Interim Revenues Manager)
		Revised target date:
		With immediate effect

5. Automated purchase order system and commitment accounting – Operating effectiveness

Issues Noted
There is currently no commitment accounting in place at the Authority as orders are placed manually within Agresso.
12/30 transactions tested were not supported by a purchase order. 9 cases were in relation to Agresso purchases and 3 related to Fleetplan transactions where no evidence was provided to audit.
As at September 2011 the Authority was not meeting its prompt payment targets (85.96% of invoices were being paid within 30 days against a target of 97%). Some issues have been noted with the quality of data in this area. In September 2011, 2.1% of invoices (45/2109) were stamped after being paid.

Original agreed action
Commitment accounting to be introduced through the P2P system. For Fleetplan and Servitor, journals showing open purchase orders will be processed each month to reflect commitments. Issues in relation to prompt payment are due to a number of grant payments set up at the start of the year. In these cases an estimated "date stamp" was used which has adversely affected performance. These will be reviewed for inclusion in the indicator going forward to ensure an accurate reflection of performance. Performance on prompt payment is due to Accepted on the BVPI.

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Status update
Implemented. P2P is due to go live in January 2013.The Council processed 93.78% of invoices within 30 days in September 2012 and 96.15% of invoices within 30 days in October 2012. Although the target is still not being achieved, this is an improvement from the prior year where the Council achieved a rate of 85.96% (September 2012). These results are monitored on the Councils performance management system, Corvu, on a monthly basis where adverse performance is challenged which is deemed a suitable mechanism to ensure the Council continue to aim to achieve this target.

Action plan		
Finding rating	**Revised action**	**Responsible person / title**
Low	N/A - Issue addressed, no further action required.	N/A
		Revised target date:
		N/A

6. Invoice receipt – Operating Effectiveness

Issue raised

The following exceptions were noted when testing 30 invoices paid during the year:

- 8/30 Agresso invoices did not have a creditor payment form and there was no other evidence of stamps to show receipt by finance;
- 11/30 invoices were supported by a creditor payment form which had not been stamped by finance;
- 6/30 invoices had not been date stamped by the ordering department.

Original agreed action

A dedicated revenues manager is now in post to ensure consistency and compliance with procedures. Procedures will be reiterated to the processing team to reduce exception levels.

Status update

Not implemented. See issue #2 above.

Action plan

Finding rating	Revised action	Responsible person / title
Medium	See issue #2 above for current year revised recommendation.	Andrew Woodward (Interim Revenues Manager)
		Revised target date:
		With immediate effect

Debtors

1. Debtors control account reconciliations – Operating effectiveness

Issue raised

The debtors control account is reconciled to the General Ledger on a monthly basis. It is best practice for reconciliations to be performed and reviewed within one month of the period end. The July 2011 reconciliation was not prepared or reviewed until October 2011. This was due to close down commitments within the Finance department.

Original agreed action

All reconciliations will be updated and be performed on a monthly basis.

Status update

Implemented. All reconciliations are now up-to-date and being performed and reviewed on a monthly basis.

Action plan

Finding rating	Revised action	Responsible person / title
Low	N/A - Issue addressed, no further action required.	N/A
		Revised target date:
		N/A

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2. Timely raising of invoices - Operating effectiveness

Issue raised	
We tested a sample of 25 invoices and 18 credit notes to ensure these the Council's policies and procedures were being adhered too. Testing noted that:	
	• 7/25 invoice request forms tested were dated 2 months after the service had been provided;
	• 3/25 invoice request forms took more than a week to be approved and passed onto the income department;
	• 6/25 invoices were raised over one week after being received by the income department. The average delay across the sample was 5 days;
	• 3/18 credit note request forms were submitted to income over 1 week after approval; and 2/18 credit notes were not raised within a week of receipt by income.

Original agreed action	
The Council has reissued guidance to all departments to remind them of the need to process invoices and credit notes on a timely basis. The Authority has a target date of 5 working days.	

Status update	
Not implemented. See issue #1 for current year revised recommendation.	

Action plan

Finding rating	Revised action	Responsible person / title
Medium	See issue #1 above for current year revised recommendation.	Andrew Woodward (Interim Revenues Manager)
		Revised target date:
		With immediate effect

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3. Monitoring of standing data amendments - Control design

Issue raised	
	Exception reports are not produced for amendments to standing data on a frequent basis. This should be mitigated through the invoice authorisation process, however, during testing it was noted that for 2/10 amendments tested there was no documentation to support the change being made.
Original agreed action	
	Use of amendment reports will be investigated as part of the Agresso health-check process which is currently underway.
Status update	
	Not implemented. Amendment reports have not been introduced.

Finding rating	**Revised action**	**Responsible person / title**
Low	See issue #2 above for current year revised recommendation.	Andrew Woodward (Interim Revenues Manager)
		Revised target date:
		31/03/2013

General Ledger

1. Agresso User Access – Operating effectiveness

Issue raised	
The Agresso system currently has over 250 users throughout the Authority. Currently no review is performed on the access list to ensure that access rights are up to date and reasonable. In addition, no exception reports are run to identify and review changes to standing data. The following issues were noted when reviewing the current access lists:	
• There are currently 5 officers with administrator access to the Agresso system. 2 of these officers are members of the operational finance team and therefore should not hold this level of access;	
• 5/25 Agresso users tested are no longer employed by the Authority.	
Original agreed action	
Current users will be reviewed and super users rationalised to ensure that appropriate access is held. A request will be sent to reduce all IT level access from super users within Finance.	
Status update	
Implemented. All leavers had access removed from the system and new starters were only set up at the appropriate approval.	

Action plan		
Finding rating	**Revised action**	**Responsible person / title**
Low	N/A - Issue addressed, no further action required.	Anna Winship (Financial Accounting Manager)
		Revised target date:
		N/A

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2. Journal Processing - Operating effectiveness

Issue raised	
Authority procedures state that all journals should be appropriately authorised ahead of processing and should be supported by a completed journal input form, relevant supporting documentation and a General Ledger print to evidence the transaction. The following issues were noted from a sample of 25 journals processed in year: • 4/25 journals were authorised after the journal had been processed; • No supporting documentation was in place for 2/25 journals tested; and • In 6/25 cases, there was no Agresso print to support the transaction.	

Original agreed action	
The policy on journals will be reiterated to officers. Quality review processes should be put in place by finance to ensure that sufficient documentation is provided for journals.	

Status update	
Not implemented. See issue #1 above for current year revised recommendation.	

Action plan	
Finding rating	**Revised action**	**Responsible person / title**
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Medium	See issue #1 above for current year revised recommendation.	Anna Winship **Revised target date:** 31/12/2012

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3. Opening Balances - Control Design

Issue raised	Opening balances are rolled forward on the ledger following completion of the statutory audit. This process is not authorised ahead of processing.
Original agreed action	The 10/11 open balances journal will be reviewed. As part of the Agresso health check, the Authority is reviewing the implementation of an automated roll forward process to reduce the risks in this area.
Status update	Implemented. Opening balances for 12/13 have correctly been carried forward.

Action plan

Finding rating	Revised action	Responsible person / title
Low	N/A - Issue addressed, no further action required.	Anna Winship (Financial Accounting Manager) **Revised target date:** N/A

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4. Procedure Notes - Control Design

Issue raised
It was noted from review that elements of the Agresso procedure notes have not been updated since 2004.

Original agreed action
A review of all procedure notes is being carried out centrally by the Authority. Updating of Agresso procedures will be covered as part of this process.

Status update
Implemented. We obtained procedure notes and confirmed that these have been reviewed in last 12 months.

Action plan		
Finding rating	**Revised action**	**Responsible person / title**
Low	N/A - Issue addressed, no further action required.	Anna Winship (Financial Accounting Manager)
		Revised target date:
		N/A

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5. Code Review - Control Design

Issue raised	
A complete review of all account codes has not yet been performed.	
Original agreed action	
The planned Agresso health-check will help to rationale and review the current chart of accounts. The outputs of this review will be considered.	
Status update	
Implemented.	
Action plan	
Finding rating	**Revised action**
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Low	N/A - Issue addressed, no further action required.
	Responsible person / title
	Anna Winship (Financial Accounting Manager)
	Revised target date:
	N/A

Payroll

1. New user access – Operating effectiveness

Issue raised	
A new user form must be completed for all officers requiring access to the I-Trent system. This must be authorised by the officer's line manager. During testing of new users, it was noted that 1/5 new sampled since April 2011 had been granted access to I-Trent the day before the new user form had been authorised. This was an adminstrative error with dating of the form.	
Original agreed action	
The process for new users will be reiterated to staff to ensure that a clear audit trial is in place	
Status update	
Implemented. No issues were noted were part of audit work.	
Action plan	
Finding rating	**Revised action**
Low	N/A - Issue addressed, no further action required.
	Responsible person / title
	Sean Hoskin (Systems and Reward Manager)
	Revised target date:
	N/A

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2. Leavers - Operating effectiveness

Issue raised	A leavers form must be completed for all officers leaving the Authority. At this point, any amounts owed to or by the individual are calculated. During testing of leavers processed in 11/12, it was noted that 1/20 officers had been under paid by the Authority. In this instance the individual was owed £1,363.91 by the Authority for 17 days holiday but had only been paid £123.88. This was due to the system using a payment hourly rate instead of daily pay.
Original agreed action	Staff will be reminded of the need to double check the amount owed to or by individuals and ensure that the correct unit has been used.
Status update	Not implemented. Staff have been reminded to double check calculations and the growing use of the self service holiday system is contributing to ensuring such issues do not reoccur. However, as part of audit fieldwork we identified one instance where a leaver had been paid after they terminated their employment and one instance where the leaver had overtaken their holiday entitlement. See issue #1.

Action plan		
Finding rating	**Revised action**	**Responsible person / title**
Low	See current year revised recommendation at issue #1.	Sean Hoskin (Systems and Reward Manager)
		Revised target date:
		N/A

Appendix 1: Basis of our classifications

Individual finding ratings

Finding rating	Assessment rationale
Critical	A finding that could have a: • *Critical* impact on operational performance; or • *Critical* monetary or financial statement impact; or • *Critical* breach in laws and regulations that could result in material fines or consequences; or • *Critical* impact on the reputation or brand of the organisation which could threaten its future viability.
High	A finding that could have a: • *Significant* impact on operational performance; or • *Significant* monetary or financial statement impact; or • *Significant* breach in laws and regulations resulting in significant fines and consequences; or • *Significant* impact on the reputation or brand of the organisation.
Medium	A finding that could have a: • *Moderate* impact on operational performance; or • *Moderate* monetary or financial statement impact; or • *Moderate* breach in laws and regulations resulting in fines and consequences; or • *Moderate* impact on the reputation or brand of the organisation.
Low	A finding that could have a: • *Minor* impact on the organisation's operational performance; or • *Minor* monetary or financial statement impact; or • *Minor* breach in laws and regulations with limited consequences; or • *Minor* impact on the reputation of the organisation.
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

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Report classifications

Findings rating

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification

Report classification		Points
🟢	Low risk	6 points or less
🟡	Medium risk	7– 15 points
🟠	High risk	16– 39 points
🔴	Critical risk	40 points and over

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Appendix 2: Terms of References
Oxford City Council
Terms of reference – Creditors/Debtors/General Ledger/Payroll

To: *Andrew Woodward, Interim Revenues Manager*
           Pete Johnson, Revenues Manager
           Anna Winship, Financial Accounting Manager
           Sean Hoskin, Systems and Reward Manager
From: *Charlotte Bilsland, Audit Manager*

This review is being undertaken as part of the 2012/13 internal audit plan approved by the Audit and Governance Committee.

Background

Creditors

Oxford City Council has a centralised creditors function which is overseen by a dedicated Revenues Manager. Creditor orders and payments are processed on the Council's general ledger system (Agresso). The total value of short term creditors in 2011/12 was £17,211k.

This review seeks to understand and evaluate key controls surrounding the creditors process with the objective of ensuring that creditors are processed on a timely and accurate basis and in accordance with government guidelines. The review will also follow up prior year findings to ensure that agreed action plans have been implemented.

Debtors

Oxford City Council's debtors function was centralised during 2011/12 and is overseen by Revenues Manager located within Finance. Invoices are processed on the Council's general ledger system (Agresso). The total value of long term and short term debtors in 2011/12 were £23,368k and £14,831k respectively. The majority of the short term debtors balance relates to income owed from other entities and individuals (53%). The remaining balance is attributable to other local authorities (23%) and central government bodies (24%).

This review seeks to understand and evaluate key controls surrounding the debtors process. The review will also follow up prior year findings to ensure that agreed action plans have been implemented.

General Ledger

The Authority operates their General Ledger using the Agresso system. This system is supported by a number of feeder systems which are regularly interfaced. The system is operated and monitored by the Finance Team which is responsible for statutory duties such as the preparation, monitoring and reporting of revenue and capital budgets; the closedown of the accounts each financial year; the publication of the financial statements and the completion of statutory returns and claims. A system administrator is in place for the system who is charged with monitoring access as well as the operating effectiveness of the system.

Payroll

Oxford City Council has an internal payroll team which administers payroll through use of the Midlands i-Trent system. Per the Council's 2012/13 Budget Book, general fund service expenditure for total staffing costs (including NI and pension) are £44,351,455.

This review seeks to understand and evaluate key controls surrounding the payroll process with the objective of ensuring that payments are made to bona fide employees of the Council in accordance with contractual arrangements and that all amounts are accurately reflected in the accounts of the Council. The review will also follow up prior year findings to ensure that agreed action plans have been implemented.

Scope

We will review the design and operating effectiveness of key controls relied on by External Audit relating to creditors and follow up issues noted during the prior year. The sub-processes and related control objectives included in this review are:

Sub Process	Control Objectives
Creditors	
Purchase order authorisation	• The Council does not make or commit to make payments for goods or services which have not been approved by an appropriate officer.
Invoicing process	• Invoices are matched to purchase orders and authorised by an appropriate officer prior to payment.
Goods receipts checks	• Evidence of receipt of goods is obtained prior to payment.
Reconciliations (Control accounts)	• All transactions are recorded on the financial systems completely and accurately. Reconciling items are resolved on a timely basis.
Follow up of prior year issues	• Agreed action plans regarding prior year issues have been implemented.
Debtors	
Authorisation of sales invoices	• Only authorised debts are raised.
Reconciliations	• All transactions are recorded on financial systems completely and accurately. • Reconciling items are resolved on a timely basis.
Separation of duties	• Adequate separation of duties is in place for the authorisation of orders, invoices and receipts.
Follow up of prior year issues	• Agreed action plans regarding prior year issues have been implemented.
General Ledger	
Journals	• Journals are input to the ledger in a complete, accurate and timely fashion following appropriate authorisation.
Feeder systems and control account reconciliations	• Information is interfaced on a timely basis from supporting systems and checks are performed to ensure the completeness of this process.
General Ledger access	• The system is protected against unauthorised access/ processing and is secure against loss or damage of data.
Suspense Accounts	• Suspense accounts are cleared regularly.
Opening Balances	• Opening balances are brought forward accurately and completely.
Follow up of prior year issues	• Agreed action plans regarding prior year issues have been implemented.
Payroll	
Management Information	• Exception reports are completed to highlight issues occurring in the payroll process. • Information on the performance of the payroll function is reported to those charged with governance.
Reconciliation to the general ledger	• Information transferred from the payroll system to the main accounting system is complete and accurate.
Expenses	• Expenses claims are supported by relevant documentation and approved in line with Council procedures.
Follow up of prior year issues	• Agreed action plans regarding prior year issues have been implemented.

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Limitations of scope

Creditors

The scope of our work will be limited to those areas outlined above. We will not examine the infrastructure of the creditors system as part of this work. Only those key controls identified by External will be tested for operating effectiveness. This review will not cover the Council's procurement processes.

Debtors

The scope of our work will be limited to those areas outlined above. We will not examine the infrastructure of the debtors system as part of this work. Only those key controls identified by External Audit will be tested for operating effectiveness.

General Ledger

The scope of our work will be limited to those areas outlined above. This review will not consider the IT infrastructure of the General Ledger system, nor will consideration be made of the supporting systems interfaced into Agresso.

Payroll

The scope of our work will be limited to those areas outlined above. We will not consider the infrastructure of the payroll IT system as part of this review over and above appropriate access. This review will not consider the appropriateness of Human Resources policies and procedures.

Audit approach

Our audit approach is as follows:

- Obtain an understanding of creditors, debtors, general ledger and payroll through discussions with key personnel, review of systems documentation and walkthrough tests;

- Identify the key risks relating to creditors, debtors, general ledger and payroll;

- Evaluate the design of the controls in place to address the key risks;

- Test the operating effectiveness of the key controls.

Internal audit team

Name	Role	Review
Richard Bacon	Engagement Leader	Creditors/Debtors/General Ledger/Payroll
Chris Dickens	Chief Internal Auditor	Creditors/Debtors/General Ledger/Payroll
Charlotte Bilsland	Audit Manager	Creditors/Debtors/General Ledger/Payroll
Mohammad Malik	Team Member	Creditors/Debtors
Anjm Shahbaz	Team Member	General Ledger/Payroll

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Key contacts – Oxford City Council

Creditors /Debtors

Name	Title	Role	Responsibilities
Andrew Woodward	Interim Revenues Manager	Audit Sponsor*	Review and approve terms of reference Review draft report Review final report Hold initial scoping meeting Review and meet to discuss issues arising and develop management responses and action plan

General Ledger

Name	Title	Role	Responsibilities
Anna Winship	Financial Accounting Manager	Audit Sponsor*	Review and approve terms of reference Review draft report Review final report Hold initial scoping meeting Review and meet to discuss issues arising and develop management responses and action plan

Payroll

Name	Title	Role	Responsibilities
Simon Howick Sean Hoskin Anna Winship	Head of People and Equalities Systems and Reward Manager Financial Accounting Manager	Audit Sponsor* Audit Contact Audit Contact	Review and approve terms of reference Review draft report Review final report Hold initial scoping meeting Review and meet to discuss issues arising and develop management responses and action plan

* The audit sponsor should respond by email to the audit manager to confirm agreement with these Terms of Reference. By agreeing to the document, the responsible manager is confirming the following:

- Appropriateness of scope and any limitation;
- All relevant documentation, including source data, reports and procedures, will be made available to us promptly on request;
  Staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation; and
- Agreement with the timetable of reporting within the document and the audit reporting protocol within the Annual Audit plan.

Other Roles and Responsibilities – Oxford City Council

Name	Title	Responsibilities
Nigel Kennedy Pete Johnson	Head of Finance Revenues Manager	Receive agreed terms of reference Receive draft and final reports
Jackie Yates	Executive Director – Organisational Development and Corporate Services	Receive final report
Peter Sloman	Chief Executive	Receive final report

Timetable

Fieldwork start	12/11/2012
Fieldwork completed	16/11/2012
Clearance Meeting	w/c 19/11/2012
Draft report to client	w/c 03/12/2012
Response from client	w/c 10/12/12012
Final report to client	w/c 17/12/2012

Agreed timescales are subject to the following assumptions:

- All relevant documentation, including source data, reports and procedures, will be made available to us promptly on request;

- Staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation.

Appendix 3: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of Key Financial Systems, subject to the limitations outlined below.

Internal control

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls relating to the Key Financial Systems review is for the 2012/13 year. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or

- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

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