

OXFORD CITY COUNCIL

INTERNAL AUDIT PROGRESS REPORT

JULY 2018/19

CONTENTS

Progress against internal audit plan	3
Executive Summary - Payroll 17/18	5
Appendices:	
Definitions of assurance	7

PROGRESS AGAINST PLAN

Internal Audit

This report is intended to inform the Audit and Governance Committee of progress made against the 2018/19 internal audit plan, which has been amended and brought to this audit committee for approval. It summarises the work we have done, together with our assessment of the systems reviewed and the recommendations we have raised. Our work complies with Public Sector Standards. As part of our audit approach, we have agreed terms of reference for each piece of work with the risk owner, identifying the headline and sub-risks, which have been covered as part of the assignment. This approach is designed to enable us to give assurance on the risk management and internal control processes in place to mitigate the risks identified.

Internal Audit Methodology

Our methodology is based on four assurance levels in respect of our overall conclusion as to the design and operational effectiveness of controls within the system reviewed. The assurance levels are set out in section 2 of this report, and are based on us giving either "substantial", "moderate", "limited" or "no". The four assurance levels are designed to ensure that the opinion given does not gravitate to a "satisfactory" or middle band grading. Under any system we are required to make a judgement when making our overall assessment.

Outstanding from 2017/18 audit plan

The following 2017/18 audit reports have now been issued in Final and the executive summaries included in this report:

- Payroll.

Overview of 2018/19 work to date

All Terms of Reference have been completed for the year and work is well under way for Risk Management and Members Allowances and Budgets where draft reports have been issued.

There was a one-off piece of work we were requested to complete a controls review in an area where potential fraud was a concern. An update will be given to this Committee in Confidential Items.

We are also presenting separately to this Committee:

- Follow up of recommendations report
- 2017-18 Annual Opinion.

INTERNAL AUDIT OPERATIONAL PLAN 18/19

Audit Area	Audit Days	Executive Lead	Planning	Fieldwork	Reporting	Opinion	
						Design	Effectiveness
Audit 1. Car Parking	15	Stephen Clarke	✓				
Audit 2. Data Analytics	15	Nigel Kennedy	✓				
Audit 3. ICT Service Desk	15	Helen Bishop	✓				
Audit 4. Risk Management	15	Nigel Kennedy	✓	✓	✓	Moderate (draft)	Moderate (draft)
Audit 5. General Ledger	12	Nigel Kennedy	✓				
Audit 6. Accounts Receivable	15	Nigel Kennedy	✓				
Audit 7. Project Management (Capital)	15	Helen Bishop	✓				
Audit 8. Members Allowances and Budgets	12	Anita Bradley	✓	✓	✓	Moderate (draft)	Moderate (draft)
Audit 9. Investment Properties	12	Nigel Kennedy	✓				
Audit 10. Retention	12	Helen Bishop	✓				
Audit 11. Customer Service	12	Helen Bishop	✓				
Audit 12. Fusion Partnership	15	Ian Brooke	✓	✓			
Audit 13. Companies Oversight Review	15	Nigel Kennedy	✓				

EXECUTIVE SUMMARY - PAYROLL

EXECUTIVE SUMMARY

LEVEL OF ASSURANCE: (SEE APPENDIX I FOR DEFINITIONS)

Design	Moderate	Generally, a sound system of internal control designed to achieve system objectives with some exceptions.
Effectiveness	Moderate	Evidence of non-compliance with some controls that may put some of the system objectives at risk.

SUMMARY OF RECOMMENDATIONS: (SEE APPENDIX I)

High	0
Medium	3
Low	0

TOTAL NUMBER OF RECOMMENDATIONS: 3

CRR REFERENCE:

Efficient Council

BACKGROUND:

The Council processes payroll for c.1200 staff per month via their iTrent system. From April 2017 the Council's Payroll and Human resource department were aggregated together and, as a result, all processes within payroll and HR were streamlined to reflect this aggregation. The Council has recently established Oxford Direct Services (ODS), a LATCO developed to better manage housing stock. Due to this, some 600 staff members were TUPEd (Transfer of Undertakings Protection of Employment, ie transfer on same or equivalent terms and conditions) across to ODS with effect from 1 April 2018. The TUPEd staff have been transferred to a new ODS payroll with their existing payroll reference numbers and the ODS payroll has a unique PAYE reference number for PAYE reporting purposes. However, the Council's payroll department will continue to process all payroll for the TUPEd staff.

Due to the significant steps taken and the large numbers of starters and leavers there was a potential risk that staff could end up on both systems, resulting in duplicate payments, which did not materialise. Payments to staff bank accounts are made by MHR, under the terms of the 'hosted' service contract.

GOOD PRACTICE:

During the course of our review we identified the following areas of good practice:

- Monthly reconciliations are completed, reviewed and retained by Finance, reconciling extracts from iTrent to Agresso and GL.
- Access to systems appears appropriate with only Managers given the necessary ability to approve on iTrent
- The parameters for the Payroll system are in line with current requirements and are reviewed and updated annually and as required
- All staff reviewed were correctly transferred from OCC to ODS with the appropriate starter and leaver designation seen on iTrent.

KEY FINDINGS:

However, we identified the following areas of improvement:

- In the testing of starter, leaver and variation forms as well as overtime forms we noted that not all had been signed/authorised by the relevant staff with some disparities between what the forms detail and the information on iTrent (Medium - Finding 1)
- There is a lack of separation of duties with regards to the production and sign-off of the pay run each month (Medium - Finding 2)
- The current Payroll Processing Guide was last updated in November 2015 and includes out of date information (Medium - Finding 3).

ADDED VALUE

During the course of our audit we undertook data analytics in order to identify any duplicate payments made in April across Oxford City Council (OCC) and Oxford Direct Services (ODS). We compared April pay runs for OCC and ODS using Data Analytics software (IDEA), identifying any duplicates and then reviewed these on iTrent to ensure they were appropriate.

CONCLUSION:

Based on our review we have raised three medium level recommendations. There were some weaknesses identified in both the design and the operation of the controls, relating to the authorisation and accuracy of forms, out of date guidance and a lack of separation of duties. Consequently, we conclude moderate assurance over both the design of the controls and their operational effectiveness.

APPENDIX 1

OPINION AND RECOMMENDATION SIGNIFICANCE DEFINITION

Level of Assurance	Design Opinion	Findings from review	Effectiveness Opinion	Findings from review
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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