



*Public Sector Auditing.... Private Sector Thinking*

# Internal Audit Progress Report



**Date: March 2016**

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## Introduction

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1. The purpose of this report is to:

- Provide details of the audit work during the period 1<sup>st</sup> January 2016 to 29<sup>th</sup> February 2016
- Advise of progress with the 2015/16 Audit Plan
- Raise any other matters that may be relevant to the Audit Committee role

## Key Messages

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2. During the period we have completed 4 County audits, 2 to final report and 1 to draft report stage as well as finalising 1 school audit.
3. There are currently 9 further audits in progress. All contracted Academy visits for 2015/16 are progressing in accordance with their agreements.
4. The detailed Audit Plan is shown in Appendix 3 with current progress as follows:

62% completed or at draft report stage  
30% In progress  
3% agreed and scheduled during quarter 4  
5% potential audit areas to be agreed and scheduled<sup>1</sup>

## Internal Audit work completed in the period 1<sup>st</sup> January 2016 to 29<sup>th</sup> February 2016.

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5. The following audit work has been completed and a final report issued:

High Assurance	Substantial Assurance	Limited Assurance	Low Assurance
		■ Business Continuity Management	■ Payroll

Note: The assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. The definitions for each level are shown in Appendix 1.

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<sup>1</sup> Our quarterly liaison meetings agree and schedule audits during the year based on the risk based plan and new emerging risk areas.

6. Since our last progress report we are reporting 2 audits with an opinion of 'Limited' or Low Assurance' – management summaries for these audits can be found at Appendix 2:

## **Audits in Progress**

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7. We have three audit's at draft report stage:

### **Concerto Property Asset Management System**

We have included this audit in ICT plan as Concerto software is a new application. The scope of this review includes assessing whether adequate controls are in place to protect the system and data from unauthorised access, modification and system unavailability.

### **Mental Capacity Act**

The Mental Capacity Act 2005, provides a statutory framework for people who lack capacity to make decisions for themselves. It is supported by a Code of Practice (the Code), which provides guidance and information about how the Act works in practice.

Whilst the Act does not impose a legal duty on anyone to 'comply' with the Code certain categories of people including social workers, care managers, etc are legally required to 'have regard to' relevant guidance in the Code of Practice. That means they must be aware of the Code of Practice when acting or making decisions on behalf of someone who lacks capacity to make a decision for themselves, and they should be able to explain how they have had regard to the Code when acting or making decisions.

Our review will seek to provide assurance that the adult care workforce have regard to the Code when acting or making decisions. Our work reviewed the following areas:

- Training of the adult care workforce relating to the Mental Capacity Act 2005 and the Code of Practice
- Application of the code guidance in practice
- Monitoring the application of the code by senior management within adult services.
- Management of Deprivation of Liberty Safeguard (DoLS) risks. (High level review only)

### **Freedom of Information**

Our audit has sought to provide assurance that the authority is compliant with the Freedom of Information Act 2000. The review included assessment of training, policy, guidance, and publication schemes. We also evaluated processing and performance in relation to statutory timescales.

8. The following audits are currently in progress:

#### **Pensions**

Since the implementation of Agresso in April 2015, a number of issues relating to pension deductions and third party payovers have been brought to the attention of LCC senior management. These have included:

- Delayed payment of contributions to third parties
- No / incomplete information provided to third parties to support payovers
- Incomplete / incorrect information reported to Pension Funds on starters / leavers / changes

The LCC Pension Fund Manager has also highlighted areas of concern specifically relating to the LGPS. Our review includes:

- identifying and evaluating the current procedures and controls in place to provide monthly contribution reports and to update pension funds on starters, leavers and changes
- review of payroll to third party payover reconciliations and supporting reports
- analytical review and substantive testing to assess the accuracy and completeness of Prudential AVC, LGPS, Teachers and NHS pension deductions and monthly contributions paid over
- accuracy and completeness of pension postings to the general ledger

#### **Adult Safeguarding Referrals**

Our audit seeks to provide assurance over safeguarding referrals through examination of the following:

- Confirmation that the Council is Care Act compliant via the referral process
- Robustness of the Risk Assessment process
- Clarity over the different roles and responsibilities and how these interlink
- Effectiveness of the procedures and guidance available to staff

#### **Better Care Fund – Financial Management**

Lincolnshire's Better Care Fund (BCF) is one of the largest in the Country, setting a 2015/16 budget of £197m. This pooled budget is supported by a delivery plan, which specifies where expenditure will be targeted to maximise the chance of performance indicators being met. Lincolnshire County Council (LCC), as host authority for the fund, are responsible for accounting and audit as well as completion and submission of quarterly and annual returns.

The focus of our audit aims to provide assurance over the effectiveness of LCC, in discharging its role as host. Specifically that it has the right resources and

skills and receives appropriate support and information from partners to fulfil this role well.

### **Integrated Community Equipment Service**

The Integrated Community Equipment Service (ICES) provides short and long term loans of equipment, through a Joint Commissioning approach between LCC and the Clinical Commissioning Groups.

A competitive tendering has been undertaken and the new five year ICES contract awarded during summer 2015, commencing April 2016.

Our audit will give independent assurance that effective and robust Contract Management Arrangements are in place.

### **HR – Absence Management**

Adult Care and Children's Services were previously identified as areas where there were high levels of sickness and reviews have been undertaken by the Absence Management Project Team. Reviews of these 'hot spots' were undertaken in 2012/13 and 2013/14 and considerable improvements have occurred in both areas.

Our audit seeks to provide assurance on application of the Sickness Management Policy across areas of the council not previously subjected to focused review.

### **European Union Procurement Changes**

The Public Contracts Regulations 2015 implement the 2014 EU Public Sector Procurement Directive and some reforms recommended by Lord Young of Graffham. The Regulations came into force in February 2015 with the new rules applying, with a small number of exceptions, to procurements starting on or after the 26 February 2015.

Our review will seek to provide assurance in the following areas:

- Appropriate public procurement training has been offered to or accessed by LCC officers engaged in procurement.
- Rules and guidance has been/will be developed to assist officers and professional advisers in ensuring procurement decisions are compliant with the Public Contracts Regulations 2015.
- Procurement is compliant with the Public Contracts Regulations 2015 and EU Treaty obligations across all of the Authority's Directorates including activity carried out on the advice of VinciMouchel the Council's professional property adviser.

### **Financial Control Systems Work**

Our annual work to provide assurance over the financial control environment is well underway. Due to on-going issues with Agresso resources are targeted at areas of greatest risk. We are covering Payroll, Accounts Payable and General

Ledger. We are working closely with External Audit on these assignments and also Price Waterhouse Cooper on Payroll as they have been commissioned by Serco to complete a payroll audit.

## Other Work

### 9. Families working together

On behalf of Children's Services we provide assurance that the performance figures provided to the DCLG relating to the quarterly Troubled Families grant claim are:

- Accurate
- Bona fide
- Related to eligible families (based on criteria from the financial framework payments-by-results scheme for local authorities)
- Supported by adequate evidence

The 2015/16 grant claim audits are now complete

## Performance Information

10. Our performance against targets for 2015/16 is shown in the analysis below:

Performance Indicator	Annual Target	Profiled Target	Actual
Percentage of plan completed (based on revised plan)	100%	91%	72%
Percentage of recommendations agreed	100%	100%	100%
Percentage of recommendations implemented	100% or escalated	100% or escalated	N/A
Timescales: <sup>2</sup>			
Draft Report issued within 10 days of completion	100%	100%	86%
Final Report issued within 5 days of management response	100%	100%	83% <sup>3</sup>
Draft Report issued within 2 months of fieldwork commencing	80%	80%	43% <sup>4</sup>
Client Feedback on Audit (average)	Good to excellent	Good to excellent	Good to excellent

<sup>2</sup> Based on targets for 7 2015/16 reports completed

<sup>3</sup> Big Society Fund final report handed from one leaving staff member to another which created a delay

<sup>4</sup> Big Society Fund opinion created some rewriting of reports and further work on review. Complexities and availability of key staff during the payroll audit resulted in 2 month span being exceeded. CfBT review suffered delays in the review process due to investigation priorities.

11. Progress with the implementation of agreed management action can be found at Appendix 4.



## Appendix 1 - Assurance Definitions<sup>5</sup>

<b>High</b>	<p>Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.</p> <p>The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.</p>
<b>Substantial</b>	<p>Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.</p>
<b>Limited</b>	<p>Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.</p>
<b>Low</b>	<p>Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.</p>

<sup>5</sup> These definitions are used as a means of measuring or judging the results and impact of matters identified in the audit. The assurance opinion is based on information and evidence which came to our attention during the audit. Our work cannot provide absolute assurance that material errors, loss or fraud do not exist.

## Appendix 2 – Reporting on Limited or Low Assurance

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# Business Continuity Management – issued December 2015

## Introduction and Scope

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Business Continuity Management (BCM) is a planning process which aims to ensure that key services to the community can continue to be delivered, to an acceptable level, in the event of an incident or disruption and return to normal working once the incident has been resolved.

In 2004, the Civil Contingencies Act was introduced to ensure that the UK had a plan in place for civil protection. A BCM system is a vital component of this plan.

The Act identified organisations, which provide vital frontline public services such as local authorities, as Category 1 Responders and placed a legal responsibility upon them to establish BCM within their organisations. These responsibilities are reflected in the Business Continuity Policy.

The Council has integrated the business continuity with emergency planning in order to achieve overall improved resilience and awareness within the Business Continuity and Emergency Planning teams.

A joint Business Continuity/Emergency Planning Corporate Plan has been drafted and is to be submitted for approval. The aim of this unified approach is to further improve overall resilience to serious incident or disruption.

Following the arson attack at South Oxfordshire District Council's office work has taken place to improve the Council's response should an event result in the loss of the Council's headquarters.

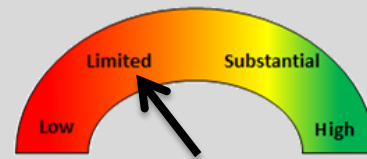
In forming our assurance opinion we have;

- assessed whether sufficient capacity and resilience exists to respond to, and recover from, wider area prolonged emergencies and business disruption impacting on the continuity of critical functions and normal service delivery.
- performed testing on a sample basis to confirm;
  - Up to date Business Continuity plans are in place for all the Council's critical functions (including where relevant within the supply chain), which are fit for purpose
  - Business continuity plans are regularly exercised, maintained and reviewed
- Reviewed arrangements in place to assess whether business continuity is externally promoted to small business and the voluntary sector.

# Executive Summary

## Assurance Opinion

### Limited



Business continuity management at the Council is not sufficiently centralised to allow the Business Continuity Team to assume direct responsibility for all of the key aspects of the process.

We are not confident that business continuity management arrangements in place across the Council are sufficiently robust and resilient to ensure that critical services could be maintained and normal service resumed within reasonable timescales. Our assessment is based on weakness identified in the exercising of plans, monitoring of the plans of key suppliers and the integration of IT business continuity within the overall business continuity management arrangements for critical services.

Business continuity arrangements cannot be considered reliable unless they are regularly and rigorously exercised to ensure that all information in plans is verified, all critical plans are rehearsed and all relevant personnel are exercised. In our opinion existing processes do not consistently ensure that plans are reliable.

Our sample testing indicates that whilst up to date business continuity plans are held for service areas with critical (category 5) functions, the exercising of these plans are not taking place with the appropriate frequency determined by either the Business Continuity Policy or through an assessment of the organisation's needs.

As the authority's commissioning model includes commissioning of services from external providers the importance of resilience within the supply chain is ever more significant. In our view, resilience has not been sufficiently assessed and evidenced.

We examined arrangements in place within Children's and Adult services and found in both areas that the business continuity plans of key suppliers are being monitored and assessed by commissioning officers (Children's) or contract management officers (Adults). Whilst these officers have been issued with comprehensive guidance by the Business Continuity Team they are not business continuity specialists and rely upon support provided by the Business Continuity Team which is limited by available resources.

We also found that exercising of plans undertaken by key suppliers are not subjected to robust assessment through either monitoring or reviewing the outcomes of those exercises, and consequently officers may not be aware of any serious issues identified.

The loss of key IT systems is a major consideration in all business continuity plans for all critical services. The Council cannot at present rely upon IT business

continuity arrangements being sufficiently resilient in the event of a serious incident affecting IT.

We found that following the change of IT partner to Serco the IT elements of critical service business continuity plans have not been re-evaluated through referral to, or assessment by, IT professionals possessing the requisite technical knowledge and experience. It is therefore possible that the plans may contain incorrect assumptions and inconsistencies may exist between the ability of a site to cater for a disruption to service, recovery times required by services for key systems and the ability of Serco to restore IT capability within that timescale.

Serco are also contractually responsible for maintaining and exercising the IT Business Continuity plan. The plan has not yet been exercised and at the time that we conducted our audit work no exercise has been scheduled.

These matters are considered more fully below.

#### Direction of Travel



Improving

There has been clear progress in laying the foundations for effective Business Continuity Management.

Business continuity is promoted to small business and the voluntary sector.

Our work has however highlighted a number of areas where further improvement is required.

We identified a number of points of good practice during the review including:

- ✓ An up to date Business Continuity Policy is in place which clearly sets out responsibilities for relevant roles within the authority and provides the framework within which Business Continuity Management takes place.
- ✓ Business continuity plans for critical (category 5) functions are up to date, comprehensive in their content.
- ✓ The Business Continuity Team is viewed as supportive and helpful in service areas visited.
- ✓ Business continuity is effectively promoted to external small business and the voluntary sector.

Our work has however highlighted a number of areas where weaknesses exist and further work is required.

Members of the CMB as individuals are supportive of BCM and understand the importance of robust BCM within their services. As a group however they are not

visibly associated with Business Continuity Management. We found that the policy has not been publicly endorsed by CMB, and critical activities such as the strategy and methodology for exercising plans has not received its approval. The Head of Joint Emergency Management Service has expressed the view that this is not necessary and accordingly we make no recommendation.

The exercising of plans is not taking place with the appropriate frequency determined by either the Business Continuity Policy or an assessment of organisational needs. This is particularly apparent in the case of the Corporate Business Continuity Plan which was last formally exercised in 2010, and the Public Health business continuity plan which has not been tested at the time that our audit fieldwork was conducted. Both of these plans were subsequently tested in tandem with or as a by-product of operation Black Swan.

Weaknesses in arrangements in place within Children's and Adult's services for monitoring and reviewing the business continuity arrangements of key suppliers were noted.

Arrangements in place could be strengthened through the consistent application of existing guidance provided by the Business Continuity Team, ensuring;

- plans are jointly exercised with input from both council officers and staff of key partners/suppliers, and
- the outcomes of exercises undertaken by key partners/suppliers are monitored or reviewed.

This approach may also strengthen arrangements in place in other Directorates which we have not tested in this audit.

We also found that the standard Council terms and conditions used in Children's Services contracts do not contain a right to audit clause which may result in limitation of the scope of enquiry into a suppliers plans.

With effect from 1<sup>st</sup> April 2015 Serco became the Councils new IT partner. IT elements of critical service business continuity plans have not been reassessed in the light of this change.

Serco have been instructed to prioritise the implementation of Agresso which has meant that their contractual obligations not only to liaise with service areas regarding the requirements of service level plans but also to exercise the IT Business Continuity Plan have not been satisfied. We understand that IMT will require Serco to undertake these contractual requirements following the completion of the Agresso implementation.

We also established The Council's IT services currently operate from a single onsite data centre. This arrangement increases vulnerability to a loss of critical IT systems.

IT is engaging with Corporate Property to ensure additional resiliency can be provided via failover sites which are appropriately connected for an invocation of plans.

Over the next 6 to 12 months resilience to loss of IT is expected to significantly improve with the introduction of two off-site data centres connecting services over a wide area network. If one data centre is lost for whatever reason activity will fail over to the other making arrangements far more resilient than at present. Work also continues to reduce any single points of failure within systems and networks that support critical services

Although touched upon the scope of our Audit did not include IT disaster recovery and we do not make any recommendation in this regard.

We would like to thank the Business Continuity Manager for his help in undertaking our work.

## Management Response

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The focus of this audit has been to consider the Authority's overall business continuity arrangements of which IT forms a significant part. Findings relating to IT have been shared with Chief Information and Commissioning Officer who is considering our findings and recommendations.

As subject matter lead for the council I am of the view this audit has allocated disproportionate overall weighting to 'weaknesses in exercise frequency' and 'monitoring of key supplier plans'; and has given insufficient consideration to either the rate and pace of change within Lincolnshire County Council, or the strengthening of corporate resilience, policy, planning & exercising achieved since the emergency planning & business continuity services amalgamated (including the agreed prioritisation of care providers resilience and preparedness, and the promotion of BC to 'small & medium enterprises').

Actions 1 & 2 should be 'Medium' priority (timely management action is warranted within 6 to 12 months)

Management Actions	No	All to be completed by:
High Priority	4	31 July 2016

## **Payroll – issued December / January 2015**

### **Introduction**

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During 2014/15, Internal Audit took an advisory and consultancy role within the Agresso project team, providing insight and support on risk, control, governance and business intelligence.

Issues and risks around the implementation of the payroll module figured regularly in reports to project management and the Project Board. The project did not have 'business expertise' in this area until mid-way through the year, compressing the time available to develop the payroll solution. As a consequence, the Agresso payroll module was implemented in April 2015 with known issues – some functionality had not been built, elements of functionality such as sickness had not been fully tested and there had been no clear parallel runs completed to confirm the system calculated all payments and deductions correctly. In addition, there had been little testing to determine the accuracy of postings to the ledger and no testing around postings to supplier and control accounts. The Agresso Board, in conjunction with the Project Manager and team, determined the risk of not going live was greater than implementing on schedule.

Following discussion with the Organisation Development & Learning Manager, and given the lack of assurance at go-live and the issues that were evident with April and May payments, we have undertaken a high level review of payroll processes. This is an extension to our work on the Agresso project and is in addition to the planned 'due diligence' transaction testing work that is scheduled for later in the year. This approach provides independent insight and assessment over the current system, processes and controls, and highlights to management the outstanding issues and risks. Our report includes an action plan which will help to inform and support monitoring by the Agresso Recovery Board.

The period over which we have completed our review has extended further than originally planned, impacted by the significant issues the Council has encountered with Agresso and payroll payments. Our report includes the points previously highlighted in interim updates. A number of the findings of our work have also been identified by Serco and reported to the Project Board. We recognise that work is already in progress to address a number of the issues highlighted.

### **Scope and Approach**

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Our review focussed on identifying and evaluating the controls within the 'end to end' payroll process, including:

- Maintenance of organisational structure
- HR Administration (starters, leavers, contractual changes)
- Payroll input (tax, NI, pension schemes, voluntary deductions)
- Expenses & additional hours

- Absence maintenance (sickness, maternity)
- Payroll processing, exception reporting and checking
- Payroll approval & BACS payment
- Payroll posting and payment of third party deductions

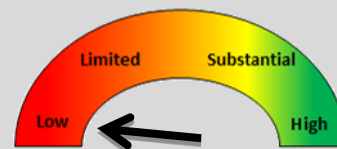
Our review has principally been completed by identifying processes and controls through discussion with HR Administration, Payroll and project team staff. We also observed payroll processing in August 2015 and reviewed some supporting reporting information. To date we have completed limited transaction testing – further data analytics to help identify possible errors, overpayments and duplicate payments is planned for January to March 2016. This will help to quantify the level of error which we are unable to do at present.

## Executive Summary

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### Assurance Opinion

#### Low Assurance



Our work has confirmed that key controls required within a payroll system and processes to prevent and detect errors have been or are missing, or have not been applied consistently. Whilst many of the issues with payroll payments and postings are a result of an unstable system which wasn't fully built or tested at go-live, the absence of controls and defined processes has contributed to the level and nature of known errors. The risks related to poorly controlled payroll processes - overpayments, accounting errors, fines and reputational damage, have materialised. Ongoing issues mean that the risk of fraud and error remains high.

The absence / inadequacy of exception reporting and checking control has had the greatest impact on accurate payroll delivery. The arrangements in place until August 2015 were not adequate and did not provide a robust mechanism to detect potential errors. Whilst we have seen that steps have been taken to introduce appropriate exception reports and more structured review, we have not received responses to be able to confirm that the level and approach to checking is consistent across the teams. The demand of query resolution also creates pressures that will impact on the timeliness and effectiveness of checking. Our work in quarter 4 will include review over the checking mechanisms introduced.

We remain concerned around the level and expertise of the resources within Payroll to cope with the demands of query and error resolution. Our initial review of payments made from April to July 2015 has identified many complex errors to be investigated and corrected to ensure payment, payroll and ledger entries are accurate. It is essential that transactions in this period are analysed in detail to minimise the risk of fraud and error and that staff with the appropriate expertise undertake the system amendments required. Going forward, there is also a need for the Council to have assurance that Serco has the appropriate resource to deliver 'business as usual' in line with contract specifications and agreed



performance levels.

Other significant issues that need to be addressed include:

- Testing and implementing a mechanism to make the retrospective system amendments which are needed to correct payroll and posting entries for leavers and where payments have been recalled.
- Adequately restricting access to payroll functionality, including parameters that determine how payments and deductions are processed. In addition, separation of duties is not enforced within the system.
- Ensuring payments and information sent to third parties are complete, accurate and up to date.

Although significant issues remain, it is important to acknowledge the work that Serco staff in Payroll, HR Administration and the Agresso project team have undertaken since go-live to address and correct system problems and to introduce and develop controls.

#### Direction of Travel



Improving

Whilst there are still gaps in control and system design issues to be addressed, the direction of travel is positive.

## Key Messages

### Exception Reporting and Checking

Generating and checking exception reports is the most significant control to detect errors in proposed payroll payments allowing them to be corrected before payment reaches the employee. At the implementation of Agresso payroll the only report available was the 'Errors and Warnings' report and in April and May this included thousands of entries that could not be cleared due to a combination of limited time and incomplete understanding of the errors.

Over the period June to September the level of checking has gradually increased and we have been able to confirm that the 'Errors and Warnings' reports are now checked in full and additional exception reports are being used to compare current and previous months net pay. At September these reports were still being manually created as the system generated 'variance report' was still being tested. To date we have not reviewed the resolution of exceptions on these reports. This will be a source of transactions for further work.

Whilst Serco has made significant improvements around the checking process we still have concerns around the consistency of checking across the teams and that

sufficient time is allowed for completing checks on all exception reports before payrolls are finalised. Management need to ensure checking is as robust as possible to reduce the number of errors that reach payment, which will in turn give the teams more time to process the payrolls as they won't be dealing with the same level of queries as is currently the case.

We understand a report is being developed to allow budget holders and schools to check payroll prior to payment. Serco need to ensure that there are sufficient resources within payroll to respond to and address the queries they receive in addition to the resources to check payrolls internally. External checking should not be a substitute for checking completed by the payroll team.

### **Training / Payroll Expertise**

Due to the arrangements for transferring and recruiting staff to the Serco Payroll Team, Agresso payroll training had to be completed after go-live. Whilst additional staff have been employed by Serco it has proved difficult to recruit staff with knowledge of the complexities of local government payroll. To support staff development and provide assurance over the quality of service, it is important Serco review skills and knowledge gaps, introduce a training programme and recruit appropriately qualified and experienced staff.

The initial work we have completed to review payroll payments from April to July 2015 has identified complex errors around particular themes (negative net pay, pay advance recovery, maternity and sickness payments, unbalanced / incomplete payslips, pension deductions). We remain concerned that the Payroll team does not have the resource and expertise to resolve these issues – we have identified occasions where corrections have not been completed accurately. We understand Serco is recruiting Payroll Assistants and a Payroll Pensions Team Leader with emphasis on payroll knowledge and prior experience. Until these posts are filled, there remains some uncertainty over the ability of the Payroll Team to satisfactorily resolve the backlog of errors and provide assurance over future Payroll accuracy.

There is also a need to complete skills transfer to the payroll team to allow them to fully support the Agresso payroll solution. Serco should provide assurances on the continuing support from Unit 4 consultants and the plan to transfer skills to key payroll staff.

### **Overpayments**

Our initial review of Agresso has confirmed that overpayments are now being recovered from employees on a gross basis where individuals remain on the payroll. However, where employees have left the Council or schools, the recovery should be made on a net basis by raising a debtor invoice and amending the payroll system to show correct payments and deductions. At present the functionality to undertake the system changes required has not been tested and as a result we understand these overpayments are not yet being recovered. This functionality is also required to correct payroll postings to the ledger.

It is essential that this functionality is fully tested and made available as soon as possible – corrections to deductions such as tax and NI must be made by the end of the financial year. The longer this is delayed the greater the risk that

overpayments will not be recovered and that the errors will remain in payroll and in the Council's accounts.

### **System Access**

At present there is no enforced separation of duties within the Agresso payroll module as all payroll staff have the same standard payroll access. In addition, we understand that a number of staff who have access to payroll also have HR Admin access (allowing access to amend the establishment structure and create Positions) and vice versa. Separation of duties ensures that no one individual can complete a process from end to end and is designed to reduce the risk of fraud. This is a key control issue requiring immediate attention to reduce the risk.

Three individual roles (super user, processor and inputter) have been identified but these are still in test. Management need to complete testing and introduce the roles to the 'live' environment as soon as possible. In allocating the roles, care needs to be taken to ensure that no individual (including the HR/Payroll Consultant) has all 3 roles. Access restrictions and separation of duties are designed to minimise the risk of fraud and the error that can be caused by incorrect/inappropriate changes to system parameters.

Our review has also found inadequate control around the access to HR Admin and Payroll roles. We identified:

- employees that have left the organisation are still live users with full access
- multiple roles that give access to areas of the system where inappropriate changes can result in errors (e.g. Payment & Deduction codes)
- users who have full HR Admin access when only a limited element of this role is needed to undertake their work

An urgent review of Role access and allocation to users is needed to ensure that access to amend or view HR and payroll information is appropriate.

### **Third Party Payments & Reporting**

Real Time Information (RTI) submissions providing up to date information on staff PAYE and National Insurance deductions have not been made in line with the deadlines set by HMRC. At the time of writing this report, submissions for the main corporate and schools payrolls were incomplete. We understand that work to address this issue is progressing and there is an expectation that submission will be completed shortly. Management need to ensure they have assurance that future submissions are completed in line with deadlines and that these submissions are accurate and complete.

The staff transfer from Mouchel and subsequent Serco recruitment did not include a Payroll Control Officer with business knowledge of payovers for statutory and voluntary deductions and the reporting to third parties that support these. In conjunction with the system issues that prevented posting of payroll data to the ledger, this resulted in late payment to some third parties and issues with providing supporting reports.

Whilst we understand that payments to third parties are up to date to the end of September, there are some reports for pension providers, such as Teachers'

Pensions that are still in development. These need to be completed quickly in order to fulfil our statutory obligations.

As a result of delays in reporting, the Council has been fined a small amount by HMRC and has also been reported to the Pensions Regulator. It is essential that Serco clearly define responsibility for payovers and third party payroll and pensions reporting. We understand that Serco are now recruiting to a Senior Control Officer post.

### **Position Administration**

The link of Position (job) to a Role within Agresso is a key control within the system as this defines the access a user has, what information they can see and the smooth operation of workflows where payments and changes are approved.

Our discussions have determined that the schools' payroll team are creating a new Position each time they make an appointment rather than transferring a Position from one individual to their replacement. This has occurred because an establishment structure has not been set up for schools. As a consequence, the Agresso access for a Bursar and Headteacher is being lost when new employees join schools in these posts, creating the risk of error, additional work for the Systems Administration team and delaying access. Ideally work should be completed to create school establishments with defined Position numbers that are shared with schools and used consistently as staffing changes are made.

We understand similar issues have been occurring as the Council's restructure starts to be implemented. It is essential that there is discipline in transferring Positions so that the roles and access are transferred with them and there is no adverse impact on the smooth operation and completion of workflows.

We are grateful to Serco staff and members of the project team who have made time under difficult circumstances to provide information for this audit.

## **Management Response**

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Since this report has been written much work has been undertaken to address the key issues identified including the development of a number of initiatives and key themes which are being pursued to ensure that any risk to the accounts is minimised.

A new Governance structure has been agreed and is being implemented. A HR & Payroll Portfolio Board has been established and this Board will direct and prioritise individual projects within the HR and Payroll portfolio. Specific areas of focus will include: prioritisation and sequencing of projects; management of inter-dependencies; resolution of issues and risks escalated from Project Boards; delivery of business change; benefits tracking and realisation. The work of the Recovery Board and new Governance process are all geared to encourage joint planning and ensuring that we identify the priorities and topics that are key for the business.

The service is concentrating on getting the issues sorted and in doing so being realistic about the resources, time and effort it will take to complete these tasks. The Real Time Information (RTI) has now been submitted to HMRC for all months up to and including November for schools. This has demonstrated that the changes made to the reporting process and system has been successful and robust. We are now in the process of submitting the RTI for the corporate payroll from May onwards and we are confident that they will all be successfully submitted by 18<sup>th</sup> January, 2016.

The Payroll Service has been enhanced by the recruitment of additional staff with payroll expertise and the realignment of duties to ensure they reflect service user needs. A new query/ case management system (Lagan) was implemented at the beginning of October and this is being used to monitor, track actions and inform us of areas that need further development. The backlog of queries for the period April to September has now been dealt with. The Agresso Board now receives daily reports on the progress being made to stabilise the system and this concentrated focus has helped to ensure our resources are targeted effectively.

These interventions are beginning to delivery results and demonstrate positive progress towards our aim of providing excellent services. Our focus is clearly on supporting the business in a way which will enable us to work together to minimise any risk for the end of year processes or the accounts.

Serco 24/12/2015

Management Actions	No	All to be completed by:
High Priority	17	
Medium Priority	10	

## Appendix 3 – Internal Audit Revised Plan 2015/16

Area	Indicative Scope	Planned start date	Actual start date	Final Report date	Status / Assurance opinion
<b>Executive Director – Pete Moore</b>					
Emergency Planning and Business Continuity	Review the Council's arrangements and resilience to respond and recover to a major event / incident.	Jun 2015	Jul 2015	Sept 2015	Limited assurance
Property – VINCI-Mouchel Contract	Consultancy assignment to support the business in developing the governance, management and monitoring arrangements for the new VINCI-Mouchel property contract	Apr 2015	Apr 2015	N/A	Assignment complete
Business rates Pool	Review of methodology used to calculate the additional income generated from pooling to confirm this aligns to national guidance and the MOU and verify calculations are based on correct data.	May 2015	May 2015	Oct 2015	Audit Complete – Limited assurance
Agresso Finance system	Consultancy assignment to support the business in ensuring efficacy of the new finance system.	Apr 2015	Apr 2015	Sept 2015	Report to committee September 2015 Assignment complete
Payroll system	Consultancy assignment to support the business in ensuring efficacy of the new payroll system.	Apr 2015	Apr 2015	Jan 2016	Audit complete – Low Assurance
<b>Executive Director – Richard Wills</b>					

Joint waste management strategy	Review to provide assurance on arrangements and progress for the district waste strategy. To include assessment of financial benefits and district engagement.	Nov 2015			Strategy delayed by countywide proposal – audit to be rolled forward to 16/17 plan.
Adult Learning	Review of the financial arrangement in to confirm adequate financial control and sustainability	Oct 2015	Oct 2015	Jan 2016	Audit complete – Substantial assurance
Highways Grants Work	Audit of 3 Highways grants to provide verification on use of grants to the provider	Oct 2015	Oct 2015	N/A	Audit Complete – opinion n/a
<b>Director of Children Services – Debbie Barnes</b>					
Families Working Together	To provide audit support as per the requirements of the grant on a quarterly basis	Jun 2015	Jun 2015	N/A	Audit Complete – opinion n/a
Raising the Participation Age (project) / Tracking the Status of 16 – 18 year olds in education, employment or training (critical activity)	<p>From September 2013, all 17 year olds had a duty to participate in education, employment or training. This extends to 18 year olds from September 2014.</p> <p>To review the arrangements in place that ensure young people are aware of their duty to participate and that there will be sufficient provision available. This could include how the LA are identifying young people that are not in education or training, including data sharing arrangements with Educational Institutions.</p>	Jun 2015	Jul 2015	Sept 2015	Audit complete – Substantial assurance

People Management	Review the effectiveness, quality and compliance of the People Strategy launched in 2012 and the strands underpinning delivery of the Council's people management arrangements.  Area of focus will be application of the sickness / absence policy.	<del>Oct 2015</del> Jan 2016	Jan 2016		Audit in progress
CFBT School Improvement Plans	Follow up audit to confirm whether the CfBT SIS Assurance Review monitoring protocol is embedded within all education settings, particularly secondary and special schools.	Jul 2015	Jul 2015	Sep 2015	Audit complete – Substantial assurance
Schools	Periodic audits of maintained schools.	Jun 2015	Jul 2015	N/A	9 schools complete
<b>Director of Adult Services – Glen Garrod</b>					
Mental Capacity Act	Review, advice and guidance around the transformation programmes within Social Care, including the Case Management System and Lincolnshire Health and Adult Care - considering the design and application of the governance structure. To provide proactive advice and support on governance, managing key risks and effective internal control.	Oct 2015	Oct 2015		Draft report stage
Safeguarding Adults Follow up	Provide assurance on the alignment of the safeguarding referral process with 'The Care Act' and its consistent application across the Council and its providers.	Jan 2016	Feb 2016		Audit in progress



Better Care Fund – Budget Management and Reporting	A review of LCC's management and reporting arrangements for the Better Care Fund budget	Feb 2016	Mar 2016		Audit scoped
<b>Director of Public Health – Tony Hill</b>					
ICES	<p>The Integrated Community Equipment Service (ICES) provides short and long term loans of equipment, through a Joint Commissioning approach between LCC and the CCG's.</p> <p>A competitive tendering has been undertaken and the new five year ICES contract will be awarded in August 2015, commencing April 2016. Our work will provide assurance on the commissioning and management of this service.</p>	Jan 2016	Jan 2016		Audit in progress
Big Society Member Grants	Review to provide assurance that big society member grants are appropriately utilised and accounted for to maximise the benefit to communities.	Sept 2015	Sept 2015	Nov 2015	Audit complete – Limited Assurance
<b>Chief Information and Commissioning Officer – Judith Hetherington-Smith</b>					
EU procurement changes	Review of the procurement regulations to ensure that the necessary changes have been implemented.	Jan 2016			Audit brief agreed - not progressed due to auditee availability
Impact Assessments	To provide assurance that the corporate policy on impact assessments is embedded and applied consistently.	Feb 2016			Audit not started
FOI and Transparency Agenda	Review of Freedom of Information and Transparency reporting to provide assurance on compliance with legislation.	Oct 2015	Dec 2015		Draft Report

<b>Due Diligence</b> - Those systems that support the running of the Council and ensure compliance with key policies					
Key Control Testing	Delivery of key control testing to enable the Head of Internal Audit to form an opinion on the Council's financial control environment.	Jan 2016	Feb 2016		In Progress – will roll forward into 2016/17 given the volume of work and testing required to evidence opinion
Pensions	Assignment to provide assurance over the accuracy of pension deductions and pay overs.	Dec 2015	Dec 2015		Audit in progress
Budget Management – Agresso reporting	To provide assurance on the adequacy of budget management reporting process post Agresso implementation.	Feb 2016			Not started
<b>ICT audit</b>					
ICT	<p>ICT plays a vital role in supporting the Council's business and customer interface. Possible areas identified on the assurance map include:</p> <ul style="list-style-type: none"> <li>■ ICT strategy</li> <li>■ Disaster recovery &amp; resilience</li> <li>■ Key Application Audit – Agresso and Case Management System (MOSIAC)</li> </ul>	Feb 2016			<p>PREVENT audit in progress</p> <p>Experiencing difficulties in scheduling audits – working with IMT to improve this process and firm up audit access for 2016/17.</p> <p>Leverage assurance through combined assurance status report – some area of low assurance</p>

Concerto	The audit will examine the strength of controls surrounding the Concerto application and will be carried out by means of discussions with system administrators and relevant users. The testing will make use of non-invasive audit tools in order to assess whether adequate controls are in place to protect the system and data from unauthorised access, modification and system unavailability.	Aug 2015	Aug 2015	Oct 2015	Draft report
<b>Emerging Issues and Key Risks</b>					
<p>To enable Internal Audit to respond to changes during the year we will meet regularly with Senior Management to agree which areas to focus our audit assurance work.</p> <p>The following areas have been identified through our risk assessment and on the assurance map as possible areas to focus audit activity:</p>					

**Executive Director – Pete Moore**

- Youth Offending
- Trading Standards
- VAT
- Budget Preparation and Financial strategy

**Executive Director – Richard Wills**

- Flood Management
- Lincolnshire Supported Bus Service
- Capital Projects
- Highways Maintenance – Revenue Contract

**Director of Children Services – Debbie Barnes**

- Exclusions
- Special Educational Needs and Disabilities Reform
- Closing the Gap
- Social care and SEND transport

**Director of Adult Services – Glen Garrod**

- Mental Health Services
- Carers

**Director of Public Health – Tony Hill**

- Customer Service Centre
- Health Improvement, prevention and self-management
- Integrated & Equipment Service

**Chief Information and Commissioning Officer – Judith Hetherington-Smith**

- Procurement Cards

Other relevant Areas					
Combined Assurance	Updating assurances on the Council's assurance map with senior managers and helping to co-ordinating the annual status report.	Oct 2015	Oct 2015	Jan 2016	Work complete
Follow up of Recommendations	Audit Reports issued during 2014/15 where an audit opinion of 'major improvement' or 'inadequate' will be followed to establish progress in implementing agreed management actions.	Oct 2015	Oct 2015	Nov 2015	Follow up work complete
Advice & Liaison					
Annual Report					
Annual Governance Statement					
Audit Committee					
<b>Total Planned Days 848</b>					

## Appendix 3 – Overdue Actions at 31<sup>st</sup> January 2016

Audit Area	Date	Assurance	Recs	Implemented	Overdue		Not Due
					H	M	
Coroners	June 2014	Limited/ Substantial	52	45	5	2	0
Debtors	April 2014	Limited	11	6	4	1	0
Income	Jan 2014	Limited	8	7	0	1	0
MIMS System	June 2014	No	6	3	2	1	0
Information Governance	Mar 2015	Major Improvement	15	11	3	1	0