

**LGSS Audit & Risk Management Service**

**Internal Audit Report**  
*Assurance Opinions on Key Financial  
Systems 2015/16*

## Assurance Opinions on Key Financial Systems 2015/16

Many financial activities transferred from Northampton Borough Council to LGSS during the 2013/14 financial year. It was agreed with the S151 Officer and the council’s internal auditors (PwC) that where LGSS have the responsibility to undertake the functions, LGSS Internal Audit would complete the assurance work relating to LGSS functions, whilst PwC would continue to audit those aspects which remain in the direct control of the council. This approach was used in 2013/14 and 2014/15 and has been repeated for 2015/16. We have worked with PwC to plan and undertake our work to enable us to provide the assurance opinions, whilst minimising duplication of work.

We have now finalised our work to provide these 3<sup>rd</sup> party assurances to Northampton Borough Council on the controls in key financial systems now operated by LGSS. This report sets out the results. The assurance levels are based upon the definitions in Table 1. These definitions are new and were introduced during 2015/16 following an internal review of our reporting and assurance processes.

Table 1. Assurance Level Definitions

Assurance	Definition
Substantial	There are minimal control weaknesses that present very low risk to the control environment.
Good	There are minor control weaknesses that present low risk to the control environment. .
Moderate	There are some control weaknesses that present a medium risk to the control environment.
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

For systems where we were able to give substantial assurance in 2013/14 and 2014/15 we agreed an approach which walked through the system controls to verify whether or not they continued to operate in 2015/16 and followed up the previous recommendations to verify that appropriate actions had been taken. The results of the audits are summarised in the Table 2. We are pleased to report that we are able to give “Good” or “Substantial” overall assurances on all of the systems we have reviewed.

Table 2 Overall Assurance Opinions

Auditable Area	Assurance Opinion
Accounts Receivable	Substantial
Accounts Payable	Substantial
Payroll	Good
Bank Reconciliation	Substantial

The detailed assurance statements for each auditable area are set out in Appendix A. These set out the process areas included in each review and the assurance opinion on each process, leading to the overall opinions set out above. For each process area where the assurance is less than “Substantial” we have agreed an agreed action plan of improvements for implementation by LGSS. These actions will be monitored and followed up, utilising our automated audit management processes.

## APPENDIX A

### Northampton Borough Council (NBC)

### Third Party Assurance – Accounts Receivable 2015/16

The table below provides a breakdown of the levels of assurance given for each of the process areas identified, based upon testing of LGSS systems and processes:

Process Area	Assurance opinion
Set up of New Customers	Substantial
Amendments to Customer Accounts	Substantial
Direct Debit set up; payment run and rejected / cancelled of direct debits	Substantial
Raising Invoices	Substantial
Receipt of Payments	Substantial
Credit Notes / Cancellation of invoices	Substantial
Debt Recovery and Write off	Moderate
All control account balances are identified. Control account balances are reviewed and cleared on a regular basis.	Substantial
User Access	Substantial
<b>Overall Level of Assurance</b>	<b>Substantial</b>

Where testing and systems reviews have identified areas requiring further improvements these have been discussed with LGSS management and suitable actions have been agreed.

#### Details of findings and assurance opinions

##### Set up of New Customers – Substantial Assurance

Customer creation is an Agresso Self Service function and therefore any NBC employee can commence the process of setting up a new customer account. However, prior to the customer being available for selection, it requires approval from LGSS Exchequer.

We walked through the ‘customer approval’ process and concluded that all appropriate processes and controls are in place. In addition, we followed up on the recommendation raised during the 2014/15 review and found that this has now been implemented.

##### Amendments to Customer Accounts – Substantial Assurance

Any NBC Agresso service user can submit a request to amend an existing customer account on Agresso. The process commences with the service user submitting an

online request via the LGSS Exchequer e-mail address and attaching an Accounts Receivable Amendment Form noting changes.

We walked through the customer account amendment process and concluded that there are appropriate processes and controls in place over this function.

In addition to the above, and as part of the 2015/16 review, we also followed up on the implementation of recommendations raised during the 2014/15 review. We are satisfied that all the recommendations raised during our previous review in this area, have been implemented and actioned.

#### Direct Debit – Substantial Assurance

We walked through the customer direct debit set up process through to cash receipting including the cancellation and rejection of direct debits and noted that there are appropriate processes and controls in place over these functions.

We can also confirm that the processes and controls in 2015/16 have been tested and are unchanged from the previous year 2014/15.

#### Raising Invoices – Substantial Assurance

Any NBC employee that is required to raise sales requisitions as part of their duties, and has been set up on Agresso to do so, can raise a sales requisition. Once the requisition has been approved by the line manager, a sales order is generated. The order is processed through workflow requiring approval by LGSS Exchequer prior to becoming a sales invoice and then dispatched.

We walked through the LGSS related process and can confirm that there are appropriate processes and controls in place over these functions. This walkthrough has also confirmed that the controls covered in the 2014/15 review have been tested and continue to operate in 2015/16.

#### Receipt of Payments – Substantial Assurance

We walked through the 'receipting payment' process including batch receipting and the Jade Security Services Ltd collection of receipts for banking. No weaknesses were identified:

This walkthrough has also confirmed that the controls covered in the 2014/15 review have been tested and continue to operate in 2015/16.

#### Credit Notes / Cancellation of invoices – Substantial Assurance

Any NBC employee that is required to raise sales requisitions as part of their duties, and has been set up on Agresso to do so, can raise a sales requisition. Only the officer who raised the sales requisition initially can raise a sales credit note. When the credit note requisition is approved by the line manager, it is processed through workflow prior to LGSS Exchequer final check and approval.

Our testing involved a walkthrough of the credit note process from the point of LGSS involvement and confirmed that no weaknesses have been identified. We can also

confirm that the controls covered in the 2014/15 review have been tested and continue to operate in 2015/16.

Debt Recovery and Write off – Moderate Assurance

We walked through the debt recovery and write off processes and noted the following weaknesses:

- Write-off requests within the £10 - £50k band require the write-off request form to be submitted or recommended for write-off by a Manager and authorised for write-off by a Head of Service.  
On the test sample selected, the debt write-off of £16,865 was recommended for write-off by a regular officer (not a manager) and authorised by an Operations Manager (not a head of service).  
Further to the above, the debt write-off was authorised by an officer outside her authorised limits.
- Electronic signatures are ‘copied and pasted’ onto the write-off request form and used as evidence that the write-off has been authorised. Irrespective of whether or not the authorised signatory has sole access to the original saved authorised electronic signatures, in this particular system, electronic signatures can be ‘lifted’ from the saved authorised electronic write-off forms by an unauthorised officer and used as evidence of authorisation of future debt write-offs.

All control account balances are identified. Control account balances are reviewed and cleared on a regular basis – Substantial Assurance

We walked through the control account processes ensuring that all control accounts balances are investigated and cleared on a regular basis. We also obtained a list of all the control account balances as at audit review date. On the sample test selected, there were no long outstanding uncleared balances.

In addition to the above, we can confirm that all the recommendations raised during the 2014/15 review following weaknesses identified in this area, have been implemented and actioned.

User Access – Substantial Assurance

We walked through the user access process ensuring that access responsibilities were allocated to appropriate officers. No weaknesses were identified:

This walkthrough has also confirmed that the controls covered in the 2014/15 review have been tested and continue to operate in 2015/16.

**Northampton Borough Council (NBC)**  
**Third Party Assurance – Accounts Payable 2015/16**

The table below provides a breakdown of the levels of assurance given for each of the process areas identified, based upon testing of LGSS systems and processes:

<b>Process Area</b>	<b>Assurance opinion</b>
Supplier Account Setup	Substantial
Amendments to existing Supplier Accounts	Moderate
Requisition Creation and Approval	Substantial
Goods Receipt Processing	Substantial
Invoice Processing	Substantial
Payment Run	Substantial
User Access	Substantial
<b>Overall Level of Assurance</b>	<b>Substantial</b>

Where testing and systems reviews have identified areas requiring further improvements these have been discussed with LGSS management and suitable actions have been agreed.

**Details of findings and assurance opinions**

Supplier Account Setup – Substantial Assurance

We walked through the supplier set up process included authorisation arrangements and concluded that there are appropriate processes and controls in place over this function.

This walkthrough has also confirmed that the controls covered in the 2014/15 audit have been tested and continue to operate in 2015/16.

Supplier Account Amendments – Moderate Assurance

We walked through the supplier account amendment process re: bank account change and noted the following weakness:

The contact details (in this case telephone number) used by LGSS Exchequer to contact the supplier and thus confirm the veracity of the request, was obtained from the same correspondence (albeit a letter headed document) submitted by the requestor and the person who requested the change. This in our view does not provide any assurance that the ‘real’ supplier as noted on Agresso requested the change; it increases the risk of fraud and error and is contrary to the LGSS policy and procedures.

Requisition Creation and Approval – Substantial Assurance

We walked through the requisition creation and approval processes and noted that there are appropriate processes and controls in place for both these functions.

This walkthrough has also confirmed that the controls covered in the 2014/15 audit have been tested and continue to operate in 2015/16.

Goods Receipt Processing – Substantial Assurance

We walked through the goods receipt process with LGSS involvement limited to user access responsibilities. The process in 2015/16 has been tested and is unchanged from the previous year – 2014/15.

Invoice Processing – Substantial Assurance

We walked through the invoice processing function and conclude that there are appropriate processes and controls in place over this function. The process in 2015/16 has been tested and is unchanged from the previous year – 2014/15.

Payment Run – Substantial Assurance

We walked through the BACS and Cheque payment run processes and concluded that there are appropriate processes and controls in place over both these functions.

The process in 2015/16 has been tested and is unchanged from the previous year – 2014/15.

User Access – Substantial Assurance

We walked through the User Access responsibility function and concluded that there are appropriate processes and controls in place over this process. The process in 2015/16 has been tested and is unchanged from the previous year – 2014/15.



**Northampton Borough Council (NBC)**  
**Third Party Assurance – LGSS Payroll 2015/16**

The table below provides a breakdown of the levels of assurance given for each of the process areas identified, based upon testing of LGSS systems and processes:

<b>Process Area</b>	<b>Assurance opinion</b> (Please see Appendix 1 for definitions)
User Access	Substantial
Establishment Controls	Moderate
Standing Data Security	Moderate
Manual Input Controls	Substantial
Starters	Substantial
Leavers	Good
Variations	Substantial
Deductions	Substantial
Exception Reporting	Substantial
Payment Run	Good
Payroll Overpayment and Recovery	Good
<b>Overall Level of Assurance</b>	<b>Good</b>

Where testing and systems reviews have identified areas requiring further improvements these have been discussed with LGSS management and suitable actions have been agreed.

It is important to note that the LGSS Payroll team is a central function which undertakes payroll processing but do not have management control over the quality of data received for processing. Clearly there were challenges faced by the team with regards to ensuring that NBC staff comply with the standard processes.

**Details of findings and assurance opinions**

User Access – Substantial Assurance

There are appropriate processes in place to both create new Payroll users and to delete users from the Payroll System including appropriate authorisation and user access responsibility levels.

Added to this, on a monthly basis, a Payroll User Access Report is now generated by Systems and submitted to Payroll via Payrolls generic email account, rather than the individual managers email account within the Payroll team. This has been

implemented as result of last year's recommendation, which further strengthens the controls in place.

#### Establishment Controls – Moderate Assurance

There are adequate systems in place to create new or amend existing posts with appropriate authorisation arrangements. Furthermore, only designated officers have access to this responsibility on the Payroll System.

The Establishment is regularly reviewed by Finance and Services as part of monthly budget monitoring processes.

The above notwithstanding, our testing identified the following compliance weaknesses:

- An EC1 Form was not completed for new post SPYC665005 which was created in September 2015. Council procedures require an EC1 Form to be completed for all Establishment changes, post creation, deletion and amendments.
- Following the above, another random sample was selected, i.e. NBC post no. SPYC868003 which was created in March 2016. It was noted that although this post was set up on Agresso and added to the establishment structure, Section 4 of the EC1 Form (i.e. the funding source and a requirement for the post to be created) was not completed.
- There was no documented process or flowchart detailing tasks required to be undertaken when making amendments to the establishment list. The service officer indicated that a 'step by step process guideline is in the process of being drawn up but no completion by date has yet been established.

#### Standing Data Security – Moderate Assurance

A review of the controls in this area identified the following issues:

- The procedural flowchart which includes details of the day to day operational procedures to be followed when making changes to employee standing data requires updating to reflect processes undertaken in practice but which have not been included in the guidance.
- In addition to the above, there were some issues around the failure to review the amendment logging report between the period November 2015 – February 2016.

From discussions with management, it was understood that notwithstanding the weakness above, 100% checks on the NBC payroll slips to Agresso including payroll changes generated through 'Let's Go Direct', has been carried out since December 2015 thus compensating for the weakness identified above.

Whilst this belt and braces 100% check approach is time consuming and costly, we noted the following:

- a) The 100% pay slip check was not incorporated into the payroll checklist. There was therefore no evidence that this check was undertaken.
- b) In the post Let's Go Direct era and in theory, this 100% check format if undertaken correctly should achieve the same objectives. However, this check in our view should not supersede the amendment logging report check as this is an exception report which highlights specific changes pertinent to this area and is thus easier to check.

#### Manual Input Controls – Substantial Assurance

There was appropriate control over manual input including submission to Payroll on standard forms and an authorised signatory listing in place detailing authorising officers who could submit these standard forms.

#### Starters – Substantial Assurance

There was a robust process in place for adding new starters to the Payroll system including the completion of a standard form and appropriate authorisation. Discussions with the key officers involved with the process and a walkthrough confirmed that the request form had been submitted by an appropriately authorised officer and the start date from this form had then been correctly input into the system. The starter had been paid correctly in the first month.

#### Leavers – Good Assurance

In the main there was a strong process in place for removing Leavers from the Payroll system including the completion of a standard form and appropriate authorisation. A walkthrough confirmed that the form had been completed, appropriately authorised and that the leaving date on the form had then been input correctly onto the system.

Notwithstanding the above, a few issues were identified regarding the Leaver process:

- The Agresso Leaver Checklist is required to be updated to take account of tasks undertaken in practice, but which are not included on the Leaver Checklist.
- According to the HR and Payroll Transactional Manager the following are undertaken on a monthly basis:
  - 1) Payroll runs a list of leavers instructions through Let's Go Direct to ensure all instructions have been actioned;
  - 2) All work queues are cleared and checked before every final payroll run to ensure that all the leaver instructions and emails have been received; and

3) A 100% payslip check of all NBC employees to Agresso is also undertaken.

Notwithstanding the above, we found no evidence that the payroll checks as described above were being undertaken. Furthermore, they were also not incorporated into any of the payroll checklists detailing tasks to be undertaken and / or completed each period.

Whilst there was no evidence that the above checks were carried out, results of corresponding tests undertaken on actual payroll overpayments (refer to the Payroll Overpayments and Recovery section below), suggests that the controls in place to avoid payroll overpayments post leaver NBC employment, have been effective.

#### Variations – Substantial Assurance

There was adequate control over pay variations. Standard forms were completed and submitted by responsible officers. Discussions with the key officers involved with the process and a walkthrough of a variation confirmed that these controls had been complied with. The increase in hours worked (variation) was accurately reflected in the payslip in the correct period.

#### Deductions – Substantial Assurance

There was adequate control over deductions including appropriate authorisation and deductions were supported with adequate documentation.

#### Exception Reporting – Substantial Assurance

These are produced on a monthly basis and reviewed / signed off at an appropriate level.

#### Payment Run – Good Assurance

A monthly payroll checklist is completed and signed by the payroll officer and the payroll reports are signed off independently by the Payroll & HR Transactions Service Manager. There is a satisfactory process in place to process BACS runs including full supporting documentation. The BACS file is sent to the BACS centre by IT Services and the payroll officer e-mails the control totals from the payroll reports to the BACS centre. If the control totals do not agree, they are queried by the BACS centre.

Notwithstanding the above, our testing identified the following issues:

- The Agresso Payment Run Checklist is out of date and requires updating.
- The February 2016 Payment Run Checklist was not signed off and by the Senior Payroll Officer.

#### Payroll Overpayment and Recovery – Good Assurance

NBC payroll overpayments are being managed by both the Payroll Service Delivery Team (for current employees) and LGSS Recovery (for ex employees). We found that

in the main, once identified, action is taken promptly to recoup all payroll overpayments.

Notwithstanding the above, our testing identified the following issues:

- As at the audit review date, the current balance of the debt being managed by LGSS Recovery was £13.7k. Of these debts, £11.5k were more than 2 years old and relate to debt from individuals who are no longer employed at NBC. NBC Management and LGSS Payroll is therefore required to consider:
  - a) The extent to which these debts are considered to be recoverable;
  - b) Whether it would not be prudent to make a specific provision in 2016/17 to cover the possibility that they may not be recovered.
- 100% of the monthly payslips were checked to Agresso to ensure that there were no overpayments. This check however was not incorporated into the payroll checklist of tasks required to be undertaken on a monthly basis. There was therefore no evidence that this check was undertaken.

**Northampton Borough Council (NBC)**  
**Third Party Assurance – Bank Reconciliation 2015/16**

The table below provides a breakdown of the levels of assurance given for each of the process areas identified, based upon testing of LGSS systems and processes:

Process Area	Assurance opinion
Monthly bank reconciliations undertaken	Substantial
All control account balances are identified. Control account balances are reviewed and cleared on a regular basis.	Substantial
Bank reconciliations are accurate and non-reconciled items are cleared in a timely manner	Substantial
<b>Overall Level of Assurance</b>	<b>Substantial</b>

Where testing and systems reviews have identified areas requiring further improvements these have been discussed with LGSS management and suitable actions have been agreed.

**Details of findings and assurance opinions**

**Monthly bank and control account reconciliations undertaken – Substantial Assurance**

The following tests were undertaken:

- Bank reconciliation walkthrough.
- Selected the November 2015 bank reconciliation statement, ensured that the reconciliation statements were signed by the preparer and authorised by a senior manager.

No weaknesses were identified.

**All control accounts have been identified and balances reviewed and cleared regularly – Substantial Assurance**

The following tests were undertaken:

- Identified all the control accounts and ensured that balances are reviewed and cleared monthly.

No weaknesses were identified

Bank reconciliations are accurate and non-reconciled items are cleared in a timely manner – Substantial Assurance

The following tests were undertaken:

- On the bank reconciliation statements selected above, ensured that unreconciled items are cleared monthly.
- Ensured that long outstanding cheques (6 months old) are investigated, cleared and written back.

No weaknesses were identified.

In addition to the above and as part of the 2015/16 review, we followed up on the implementation of recommendations raised during the 2014/15 review. We are satisfied that all the recommendations raised during our previous review in this area, have been implemented and actioned.