

## **APPENDIX B**

### **Completed 2014/15 Audit Reports**

1. **Internal Audit – Completed 2014/15 Audits: Fundamental Systems Audits**
2. **Internal Audit – Completed 2014/15 Strategic / Ad Hoc Audits**

## 1. Internal Audit – Completed 2014/15 Audits: Fundamental Systems Audits:

- a) General Ledger
- b) Debtors
- c) Treasury Management
- d) Payroll
- e) Insurance
- f) Medium Term Financial Plan
- g) Budgetary Control

### a. **General Ledger :**

#### **Scope and Background**

The objectives of this audit were to review the effectiveness of the controls in place within the general ledger system at Merseyside Fire and Rescue Service for the 2014/15 financial year and to form an opinion as to whether they are operating effectively to manage the relevant risks.

The audit reviewed the following key controls:

- Accuracy/completeness of financial data;
- There is appropriate / authorised of the Authority's financial system.
- The risk of fraud/ misappropriation is minimised.
- There is a correct allocation of service costs.

A series of Computer Assisted Audit Techniques (CAAT) tests were performed to analyse 38,194 journals in the financial system from 1<sup>st</sup> April 2014 to 20<sup>th</sup> February 2015.

A CAATs test was performed to identify journals that are matched by account code, amount, journal type and description to determine whether any genuine duplicates have been processed. Tests were also performed to verify that all journals in the system contain details of the account code to be debited/credited, amount and narrative. A test was carried out to verify that journals are issued with a unique sequential reference number and that the total value of debit entries in the system equals the total value of credit entries.

#### **Findings**

Based upon the audit testing we can provide a substantial level of assurance that sound controls are in place and that the key risks are being effectively managed.

The CAATs testing provides assurance that controls are in place to prevent duplicate journals from being processed. A review of journals confirmed that all journals in the system contain an appropriate level of detail and narrative. Testing also confirmed that the total value of debit entries equals the total value of credit entries and journals are assigned a unique sequential reference.

Reviewing a sample of 20 journal forms confirmed that journals are being authorised by an appropriate authorising officer and posted in a timely manner by an officer independent of the authorising officer.

Testing confirmed that account code closing balances are accurately rolled forward at the beginning of each year, monthly bank reconciliations are taking place and the suspense account is being regularly reconciled.

Reviewing the financial system confirmed that access to the system is restricted to authorised personnel, access rights within the system are being reviewed on an annual

basis and a suitable ICT policy is in place which provides guidance on passwords and ICT usage.

There are no recommendations arising from this audit review.

b. **Debtors**

**Scope and Background**

The objectives of this audit were to review the effectiveness of the controls in place in relation to the income and debtors system for the 2014/15 financial year at Merseyside Fire and Rescue Service and to form an opinion as to whether they are operating effectively to mitigate the relevant risks.

The audit fieldwork included a review of the raising of customer accounts, invoices and the timescales involved following the receipt of the sales invoice request form. The debt pursuance procedure was reviewed and accounts that had been referred to the Litigation Department were tested to ensure their compliance with the procedure with any necessary action discussed with the relevant officers. The financial regulations of the Authority were reviewed to confirm that the process is being adhered to in line with the timescales set out and any anomalies were discussed.

The audit also included a review of the write off procedure and confirmation that debts are actively pursued by the Exchequer and Litigation departments prior to any write offs being actioned and approved by the Deputy Chief Executive. The corresponding documentation relating to these write offs was obtained and vouched to ensure that the correct process had been followed prior to the write off.

The collection of income was reviewed to ensure that income received by the Authority is matched to the correct invoice and posted to the e financials system promptly with any unknown receipts investigated accordingly.

**Findings**

Based upon the audit testing we can provide a substantial level of assurance that effective controls are in place and that the key risks are being successfully managed.

The audit identified that 817 invoices had been raised in the first ten months of 2014/15, totalling £8.9 million.

It was confirmed that the timescales laid down in the Financial Regulations in relation to the raising of invoices and the monitoring of debts are being adhered to correctly with invoices raised without delay and debts actively pursued. Only five debtor accounts have been written off in the first nine months of the 2014/15 year totalling £684.73.

Reconciliations are carried out and prepared monthly and authorised by the Chief Accountant with any irregularities investigated and resolved in a timely basis.

Testing found that unknown receipts that are posted to the suspense account are investigated and reallocated to correct accounts

There are no recommendations arising from this audit review.

c. **Treasury Management**

**Background**

The objectives of this audit were to review the key controls in place within the Treasury Management system to form an opinion on whether they are operating effectively to ensure that associated risks are adequately mitigated. The main areas reviewed were:

- CIPFA Code of Practice reporting frequency to Members.
- Investment decision making (including reviewing available cash flow balances).
- Selection of institutions for investments.
- Procedures for the authorisation of investments and loans.

**Scope of the audit exercise**

The audit work comprised of detailed testing on a sample of investments made throughout the year, involving a review of transactions and respective documentation. As the treasury management function is outsourced to Liverpool City Council (LCC), we also made reference to the audit work undertaken of the LCC Treasury Management system where the systems overlap.

**Conclusion**

Based upon the audit testing performed we can provide a **substantial level of assurance** that sound controls are in place and that the key risks are being effectively managed by the Fire Service. Where treasury management activities are managed by LCC, on behalf of the Fire Service, we have provided substantial assurance that these key risks are adequately managed.

**Findings**

There are no recommendations arising from this audit review.

d. **Payroll**

An audit of Payroll has been completed as part of the agreed annual review of audit work for Merseyside Fire and Rescue Service (MF&RS) for the 2014/15 financial year.

The objectives of this audit were to review the effectiveness of the controls in place in relation to the Payroll system and to further strengthen the previous work carried out on the new HR and Payroll Integrated system that has been effective since 1 April 2014. It will then be possible to form an opinion as to whether the controls are operating effectively to manage the relevant risks.

The audit fieldwork included a review of specific areas including starters, leavers, overtime/voluntary additional hours, variance and exemption reports, payroll reconciliations and also how cost centre managers monitor their monthly payroll reports.

The new system operates by using a 'workflow' process and evidence was obtained to confirm that there was a sufficient segregation of duties in place with regards to the setting up of new starters and also that leavers were processed efficiently prior to the date the employee left the Authority.

Computer Assisted Audit Techniques (CAATs) were also utilised to analyse the payroll data in order to ensure that more detailed testing could be carried out on selected areas such as potential duplicate employees, bank accounts and the validity and correct format of National Insurance Numbers. Other areas that were looked at as part of the CAATs testing included reviewing payments made to leavers to ensure all payments were valid and the review of officers' who had received pay increases during the year, see Appendix

A.

## Findings

Based upon the audit testing we can provide a substantial level of assurance that effective controls are in place and that the key risks are being successfully managed for the new HR and Payroll system.

The test population included 1307 employee data records and 12,374 payroll data records for both the F4 and FM payrolls from the period 1 April 2014 to 31 January 2015. Sample testing of starters and leavers confirmed that the controls in place were operating effectively.

An October internal audit confirmed that bespoke user profiles have been created for each group of users within HR, Payroll and Pay and Pensions based on responsibilities, however, we were unable to confirm in practice that the appropriate segregation of duties had occurred between HR and Payroll officers on the sample selected for testing. Subsequent discussions, resulted in payroll officers liaising with the software supplier to resolve the matter. We have since been provided with evidence that this problem has been resolved with the software supplier and going forward the segregation of duties between HR and Payroll for all new starters will be visible within the audit log.

When an employee resigns from the Authority it was found that their leaving date is processed prior to the leaving date and that the leaving date on the system agrees to the documentation maintained confirming their request to resign. The documentation provides authorisation and approval by the relevant officers of appropriate grade and seniority.

Finance Officers confirmed that a six monthly payroll audit is produced and confirmation required that the payroll costs are in line with what is expected. The payroll reports will include a detailed breakdown of the payroll costs and support is provided via finance support officers on a regular basis.

Monthly reconciliations of the payroll system to the finance system are being performed and variance and exemption reports are run with any large variances and discrepancies investigated by senior payroll officers and explanations provided.

As in previous years there were various fluctuations identified in the use of voluntary additional hours (VAH) to staff fire stations which reflects the use of VAH as an efficient way to manage the service. There was also a one off exercise during the summer of 2014 that resulted in a large fluctuation in payroll costs (JESSIP).

There are no recommendations arising from this audit review.

## e. **Insurance**

### **Scope and Background**

The objectives of this audit were to review the effectiveness of the controls in place relating to the Authority's insurance arrangements for the 2014/15 financial year and to form an opinion as to whether they are operating effectively to mitigate the relevant risks.

The audit fieldwork carried out included a review of the current approved Insurance Strategy to ensure that appropriate insurance cover is in place, risks are reviewed according to the timescales set out and to ensure the strategy links to the Corporate Risk Register. Audit committee reports were reviewed with a new identified risk selected and vouched to the current Corporate Risk Register

The audit also included a review of a sample of employee liability, public liability and motor claims to ensure compliance with the claims handling procedure and to ensure that payments made do not exceed that of the reserve set. The corresponding documentation relating to these claims was also obtained and vouched.

Trend analysis data was obtained for motor claims since 2011 and reviewed, whilst minutes of meetings for various committees and working groups were reviewed to confirm that productive discussions around risks are taking place on a regular basis.

## **Findings**

Based upon the audit testing we can provide a substantial level of assurance that sound controls are in place and that the key risks are being effectively managed.

It was confirmed that the Insurance Strategy linked to the risk register. Current insurance levels were identified and reasons obtained for any large variances. The recent building work at the Joint Control Centre had resulted in large fluctuations in the premises work in progress insurance premium.

The insurance provision identified in the 13/14 accounts was reconciled to the reserves calculated for ongoing claims.

It was found that road traffic accidents across the Authority for both uniformed and non uniformed officers had decreased significantly from the previous year.

The current structure of the litigation department was reviewed to ensure that the officers involved in the insurance process are knowledgeable and have the appropriate skills to carry out their role effectively.

There are no recommendations arising from this audit review.

## **f. Medium Term Financial Plan**

### **Background**

The objectives of this audit were to review the key controls in place with regards to the Medium Term Financial Plan and to form an opinion on whether they are operating effectively to ensure that associated risks are adequately mitigated. The main areas reviewed were:

- The robustness of assumptions made;
- That the Plan is achievable;
- That it allows the Service's key aims and priorities to be met;
- The MTFP is reviewed and updated appropriately.

### **Scope of the audit exercise**

The audit work comprised of testing a range of controls including that the plan presented to Members is reflected in the financial systems, that the key assumptions within the Plan are supported by appropriate calculations that are regularly reviewed and updated and are based on the most up to date, actual financial information. In addition a review of the levels of reserves held and the reasoning and calculations behind those levels was performed to provide assurance that consideration has been given to a range of potential future financial scenarios.

Testing also looked at the opportunities for input to the Plan for operational officers and Members outside of the finance function to help ensure that the Plan supports the

Authority in the achievement of its aims and objectives, including, for example, consideration of the Integrated Risk Management Plan.

Further testing included a review of the information regarding the plan that was presented to Members, including the analyses of the potential budget options, to provide assurance that an appropriate level of detail and information was provided to ensure that fully informed decisions may be taken.

### **Conclusion**

Based upon the audit testing performed we can provide **substantial** assurance that sound controls are in place and that the key risks are being effectively managed by the Fire Service.

There are no recommendations arising from this audit review.

### **g. Budgetary Control Scope of the audit exercise**

The review examined budget monitoring arrangements for the 2014/15 financial year to enable us to provide an overall opinion as to whether controls were adequate and effective. The audit included a review of the following key controls:

- The procedures in place to effectively control revenue expenditure and commitments and to ensure that these are reflected in the budget,
- The frequency and adequacy of budget monitoring reports,
- The procedures in place to ensure that significant variances are promptly identified, reported on and appropriate corrective action is taken,
- The procedure for amending budgets, and,
- The reporting of the financial position to the Authority throughout the year.

### **Conclusion**

Based upon the audit testing performed we can provide a **substantial level of assurance** that sound controls are in place and that the key risks are being effectively managed by the Authority. There are no recommendations arising from this report.

### **Findings**

Testing identified that there are sound procedures and processes in place to control revenue expenditure and commitments. Very clear and detailed monitoring reports are produced each month from information extracted from the finance system. The reports are accessible to each relevant cost centre manager and regular meetings, both informal and formal are held at a directorate level to discuss any issues arising.

Variances will be identified and discussed at the meetings. In addition quarterly variance reports are produced by finance staff. The findings within the reports are discussed and corrective actions required will be considered.

Amendments to budgets in year are controlled through a robust virement process.

Controls built into the procedures ensure that appropriate approval is always evident prior to any budget movement, both within cost centres and between different cost centres.

Quarterly financial monitoring reports are produced and shared with members of the Authority. They contain comprehensive details relating to the budget of the Authority and are presented in a clear and informative format. Minutes of meetings indicate that members will discuss and question the information presented.

## 2. Internal Audit – Completed 2014/15 Strategic / Ad Hoc Audits

- a. Toxteth Firefit Hub
- b. Financial Management & Integrated HR System
- c. Joint Control Centre – Review of Service Level Agreement
- d. External Grant audits

### a. Toxteth Firefit Hub :

Internal Audit Opinion (see inside for details)	Control Environment	Acceptable
	Compliance	Acceptable
	Organisational Impact	Moderate

### Audit Scope

The objectives of this audit were to provide assurance to the Company board, Managing Director that the Toxteth Firefit Hub has appropriate internal controls in place and that they are operating effectively. The outcomes are reported here for information only.

The review examined the overarching controls and procedures in place covering a range of key governance and financial process risks.

Testing was performed in order to ascertain the strength of controls in place specifically that:

- There is an appropriate Governance structure that enables frequent and appropriate review of operational activities and performance.
- Financial Procedures are documented and appropriate staff are aware of their requirements.
- There are sufficient processes in place to adequately monitor financial performance.
- Payroll is correctly handled.
- Procurement procedures have been developed and appropriately communicated.
- Assets are appropriately secured and recorded.
- Cash receipts (and expenditure) are accurately recorded.
- Income due is collected / received.
- Access to the bank account/cheque book is restricted.
- There is a disaster recovery or business continuity plan.

### Assessment of Control Environment

The following table sets out in summary the objectives we have covered as part of the audit, our assessment of risk based on the adequacy of controls in place, the effectiveness of the controls tested and any resultant recommendations.

Objective Assessed	Control Environment	Compliance	Recommendations Raised
Appropriate governance structure that enables frequent and appropriate review of operational activities and performance	Good	Acceptable	R1

Appropriate financial procedures and systems are in place	Limited	Acceptable	R2, R3, R5, R8, R10, R11
Payroll is correctly handled	Good	Good	R6
Access to the building is monitored and assets are appropriately monitored and recorded	Substantial	Substantial	None
Procurement guidelines are in place and adhered to	Good	Limited	R7
Appropriate arrangements are in place for cash and banking procedures	Good	Acceptable	R9
Business Continuity plans are designed and implemented	None	None	R4

## Audit Findings

### Key Findings

#### Governance

Governance arrangements are considered to be appropriate. Testing found that there are regular meetings of both the full Board of Trustees and the Finance Sub-Committee.

A review of the minutes of the meetings, with particular reference to financial matters, found that there is a level of financial discussion that enables Members to be aware of the current and potential future financial positions of the Hub.

The minutes also highlighted a number of issues that Members of the Board had raised, including governance training, increasing Member attendance at governance meetings, the adoption of a Members Code of Conduct and also the provision of clear and accurate financial reports to Members. It is to be encouraged that plans noted in the minutes to improve all these areas are carried out to ensure that the Board is able to provide maximum value to the Hub.

#### Financial Procedures & Systems

The financial procedures document is considered to be appropriate for the nature of the organisation. Communication of the procedures to staff with financial responsibilities is also considered to be appropriate.

However there are areas for which recommendations have been made.

These include ensuring that European procurement thresholds are up to date with current limits to ensure that were any such procurement exercises to be undertaken that all due processes are carried out.

Other areas are to be considered for amendment. The petty cash limit within the document is set at £50. However in actuality, the operational float is £300. Consideration should be given on whether to reduce the current float levels or to amend the procedures to more accurately reflect operational needs.

The financial regulations also state that on-line purchases require two authorisations

from two persons out of the Managing Director and the Chair/Treasurer. At present, for payments over £2,000 the banking system only requires authorisation from the Managing Director. It is recommended that an additional authorisation is required by the system. Ideally this should follow the prescribed method as per the financial procedures document; however if this is not practical the additional authoriser must be a person who has not been involved in the order process.

It has been recommended that the financial procedures are updated to include a virement's procedure. Budget responsibility is not devolved below Managing Director level; however it is considered appropriate that any significant changes to reported budgets should be subject to an independent review and authorisation.

Discussions with officers with financial responsibilities confirmed that the Sage accounts system had, at the date of testing, not yet been fully integrated and utilised. Particular reference is made to the use of a cash budgeting system. It is recommended that the Hub continues to work towards an accruals accounting basis to help give more accurate financial information. This is to be linked to the recommendation noted above regarding the provision of accurate and complete financial information to the governing bodies.

A review of risk reporting found that key risks, including financial risks, had been identified and reported in the Hub's Business Plan. However since that document there has not been regular reporting of risks to Members. It has been recommended that risks are regularly reviewed and reported on to ensure that the most relevant risks are adequately monitored and mitigated.

#### Payroll

Internal processing controls are considered to be adequate with additional hours approved and logging of expected payroll amounts maintained in a spreadsheet.

A recommendation has been made to ensure that checks are made (and noted) from the information received in the monthly payroll reports from the payroll provider against a sample of individual employees to ensure that correct amounts are processed and paid.

#### Assets and Access to the Building

Controls regarding the monitoring of access to both assets and the Centre are considered to be strong. It is to be noted that many of the assets within the Hub are the property of MFRS and therefore are not listed within financial information of the Hub.

#### Procurement

The financial procedures contain clear instructions with regards to the processes that are required within the various procurement bands.

There have been limited purchases for significant amounts. A sample of 5 purchases was selected for testing, all individually under £2,500. Financial procedures require that a record of the verbal quotes be maintained and the value for money considerations noted. This procedure was not followed in the cases of the sample selected.

As the amounts are not considered to be significant, it is therefore recommended that consideration be given as to whether it is appropriate to amend the financial procedures document to reflect current operational practices. If this is not the case, then it is recommended that it is ensured that all purchased items are supported by

appropriate information.

### Income, Cash & Banking Arrangements

Controls relating to the taking of cash and recording it are considered to be good with access to the facilities controlled and receipts reconciled at the end of each shift.

Controls relating to cash (and cheque) storage are in place which limit access to both the safe and the office where the safe is located.

Cash is collected on a regular basis with signed receipts provided and matched to the Hub's records.

Testing on petty cash purchases found 4 instances (out of a sample of 10) instances of petty cash slips not including either the signature of the requisitioning officer or the authorising manager.

A further issue was noted with regards to 2 (out of the sample of 10) purchases of alcohol as presents for leaving members of staff.

It has been recommended that it is ensured that all petty cash purchases comply with the required processes. In addition consideration should be given to the clarification of financial procedures to cover the nature of items that may be purchased using the Centre's funds.

The controls for the collection of non-cash income due are considered to be strong with outstanding debts routinely monitored and chased.

### Business Continuity

It was confirmed during testing that there is no Business Recovery Plan for the Hub. It has been recommended that one is produced, reported to the Board of Trustees and tested on at least an annual basis.

## **Findings and Recommendations**

Ref	Priority*	Finding	Risk	Recommendation	Management Response, Target Date and Responsibility
1	Essential/ Strategic	Trustees have, on occasion, noted that there had not been full, up to date financial information presented to them at Board meetings.	Trustees may not be fully aware of the financial position of the Hub and therefore decisions may be affected through a lack of information.	Accurate, up to date and relevant financial reports are presented to Trustees at each Financial Committee meeting with a summary of that information reported at full Board meetings.	No response received from management.  Recommendation deemed to have been actioned.
2	Essential/ Strategic	There is no formal, recording, monitoring and reporting of key risks to the organisation.	Significant risks to the aims and objectives of the centre are not identified and appropriately mitigated putting at risk the ability of the organisation to achieve its aims and objectives.	Key risks, of all natures (e.g. operational, reputational, financial etc.) are regularly identified, mitigated (through the implementation of appropriate controls) and reported on to operational management and also to the Board of Trustees.	No response received from management.  Recommendation deemed to have been actioned.
3	Essential/ Strategic	Financial Procedures state that on-line payments require 2	A lack of an independent review of on-line payments	The banking system is amended to ensure that all transactions require	No response received from

		authorisations; however the system only requires one, for amounts over £2,000.	reduces the possibility of fraudulent or erroneous payments being identified which may impair the Hub's ability to make best use of its resources.	authorisation from 2 persons who are independent from the ordering process.	management.  Recommendation deemed to have been actioned.
4	Essential/ Strategic	There is no business continuity or disaster recovery plan.	In the case of an event causing disruption to the day to day operation of the centre, there are no formulated and tested plans in place for management and employees to follow to help ensure that operations can be resumed as quickly as possible.	A Business Continuity Plan should be produced and reported to the Board of Trustees for approval. Once approved the plan should be subject to testing at an appropriate frequency (annually). In addition to the testing, the plan should be reviewed and approved on an annual basis by the Board.	No response received from management.  Recommendation deemed to have been actioned.
5	High	There is no virement policy contained within the Financial Procedures.	Significant amendments to the financial plans of the Centre are not subjected to an independent review and approval process which does not provide an appropriate level of scrutiny to key financial decisions.	That the Financial Procedures are amended to include a requirement that changes, over a significant monetary amount, to agreed/presented budgets are authorised by the Trustees.	No response received from management.  Recommendation deemed to have been actioned.
6	High	There are no detailed checks performed against individual payroll data.	Errors in payroll data may not be identified leading to the Hub's resources not being effectively utilised.	A sample of employees' payroll data, as produced by the payroll provider, is selected each month and compared to expected data taking into account basic salary, additional hours worked and any expected deductions etc.	No response received from management.  Recommendation deemed to have been actioned.
7	High	Procurement procedures, as per the Financial Procedures document, had not been followed in the sample of (five) purchases reviewed.	There is a lack of audit trail to support the choice of suppliers for goods and services procured. This lessens accountability for procurement which may prevent best use of the Hub's resources and ability to achieve value for money.	Procurement procedures, as described in the Financial Procedures document are followed at all times.	No response received from management.  Recommendation deemed to have been actioned.
8	High	Financial Procedures set the petty cash limit at £50; however the standard float level in operation was found to be £300.  During sample testing of the petty cash purchases it was found that some purchases had been	Procedures may either restrict the operational needs of the organisation or not provide sufficient clarity which leads to inappropriate purchases being made which do not make best use of the centre's resources.	Financial / Petty Cash Procedures are to be reviewed to ensure that they reflect the organisation's operational needs.  In addition, they should be clarified to include instruction on the nature of permissible purchases such as gifts and alcohol.	No response received from management.  Recommendation deemed to have been actioned.

		made for gifts for departing employees which included the purchase of alcohol.			
9	High	4 out of 10 petty cash purchases reviewed found that the signature was missing for either the purchaser making the requisition or the authorising manager.	There is a lack of an audit trail to confirm which employee has made the request and that an appropriate manager has authorised all petty cash purchases to help ensure that purchases make best use of centre resources.	It is ensured that all petty cash purchase requisitions are signed by the purchaser and that purchases are authorised by an appropriate manager and that authorisation is evidenced by their signature.	No response received from management.  Recommendation deemed to have been actioned.
10	Medium	The EU procurement thresholds stated in the Financial Procedures document are not in line with current limits.	Purchases of supplies/services and/or works may not comply with EU regulations.	The Financial Procedures documents are updated to reflect the current EU procurement thresholds of Supplies/Services £172,514 (€207,000) and Works £4,322,012 (€5,186,000).	No response received from management.  Recommendation deemed to have been actioned.
11	Medium	The Centre does uses cash based accounting / forecasting and does not make full use of the Sage accounts package.	Financial information does not provide the most useful information to users of the reports which may result in decisions not being able to achieve best value or make best use of the Centre's resources.	The Centre continues with proposals to develop accruals based accounting method and to increase the use of the Sage accounts package.	No response received from management.  Recommendation deemed to have been actioned.

\*Recommendations are given one of three priority ratings - Essential/Strategic, High or Medium

## **b. Financial Management & Integrated HR System**

Internal Audit Opinion (see inside for details)	Control Environment	Good
	Compliance	Not Applicable*
	Organisational Impact	Not applicable*

### **Audit Summary**

#### **Audit Scope**

The audit review has been specifically scoped to provide advice and assistance in relation to changes in the control environment affected by the project to implement an integrated HR and Payroll solution. System changes in the following areas were examined.

- System access controls, including the design and allocation of system permissions.
- Quality of master data held on the system.
- The process of updating the system with starter and leaver information.
- Payroll amendments.
- The payment claims process.
- High level, variance and exception reporting.
- The arrangements for issuing payslip and P60 information.
- Compliance with HMRC, RTI conditions.

#### **Assessment of Control Environment**

<b>Objective Assessed</b>	<b>Control Environment</b>	<b>Compliance</b>	<b>Recommendations Raised</b>
Access to the payroll system is appropriately controlled and regulated.	Substantial	Not tested	No recommendations made.
The quality of data held on the system is sufficient to ensure proper and accurate processing of payroll payments and is compliant with HMRC requirements.	Good	Not tested	R1
Starter and leaver information is processed accurately and in a timely manner.	Good	Not tested	R2 and R3
Amendments to the payroll are processed accurately.	Substantial	Not tested	No recommendations made.
Payment claims are appropriately authorised.	Substantial	Not tested	No recommendations made.
The payroll is processed accurately and free from error or fraud.	Substantial	Not tested	No recommendations made.
Statutory pay information is	Good	Not tested	R4

issued to all employees.			
HMRC, RTI conditions are complied with.	Substantial	Not tested	No recommendations made.

## Audit Findings

### Key Findings

Work was undertaken to review and advise on changes to the key payroll controls following the initial implementation of the Authority's integrated human resource and payroll project. Phase 1 of the project had been implemented at the time of the review with basic human resource and payroll functions integrated within the new system along with new elements of employee self-service functionality. Further developments will link the TRM system to payroll to streamline the processing of payment claims and allowances. Future development work will link a web based recruitment system to the human resource and payroll system.

The work was conducted by discussing system changes with the project team and reviewing evidence of the existence of controls where changes had been made. Based upon the information and evidence gathered we can provide good assurance that the control environment is adequate to mitigate key payroll risks. The review did not extend to the testing of the effectiveness of the controls. It is envisaged that detailed testing of the key controls will form part of the planned audit of the payroll system this year.

During the course of our discussions we offered advice on the strengthening of controls in some areas. We have summarised this advice within the table at section 4 of this report.

The new system provides good access security functionality and has been configured appropriately to segregate access permissions according to team/staff roles and responsibilities for key control purposes. We did not test the security environment but based on what we were told, the complexity of user passwords are considered to be of sufficient strength and password renewal procedures provide adequate security.

It is important that the payroll system holds complete, accurate and up-to-date data so as HMRC RTI data submission requirements are met. We were informed that the Authority undertook an exercise to review and cleanse payroll data prior to the migration process. With the introduction of self-service there is an increased reliance on employees to ensure that data is kept up-to-date. We have recommended that staff are prompted to periodically access the system and review their information.

The system and associated procedures for creating or removing employee records incorporate appropriate controls to ensure actions are supported by proper authority. The integration of HR and payroll processes has increased system workflow between sections and a small risk has been identified by project officers that new employee records may not be fully updated to reflect the pay elements and allowances of the post. The project manager is liaising with the software providers to improve the workflow process to minimise this risk. To provide added assurance we have recommended that management incorporate an independent review of all new starters and leavers as part of the high level overview of the monthly payroll.

We were informed that there has been no significant change to the process for authorising payroll amendments and payment claims at this stage. As part of the next phase of the

project the system will be enabled to allow claims to be input and authorised at employee and manager level. This will introduce new risks and to ensure adequate control is maintained supporting evidence for each claim must be retained by the business areas to demonstrate that claims have been accurately input and authorised. There should also be clear and appropriate permissions set within the system to ensure that claims are independently authorised. Where possible, claim options should be set up to reduce the risk of incorrect rates being selected.

The same level of reporting has been maintained following migration to the new system; net pay tolerance and exception reports continue to be produced and reviewed prior to the monthly payroll run. The Finance Manager has advised that following the migration the reconciliations between the monthly payroll and the general ledger have been successful with no major issues reported.

A key change following migration is the move away from issuing paper payslips and P60 information to employees in favour of electronic delivery. The Authority is mindful of its statutory responsibility to provide an itemised pay statement to all its employees. The ability to access payslips remotely, away from a work-based computer, will resolve some accessibility issues. However, the Authority should satisfy itself that access to the electronic information is practical for all staff and where necessary take steps to resolve access issues for individual employees.

Migration to the new system has enabled the Authority to become fully RTI compliant as the chosen solution is included within the HMRC's list of compatible systems. We were informed that no major issues have been raised by HMRC with the format and quality of data transferred to date.

### Findings and Recommendations

Ref	Priority*	Finding	Risk	Recommendation	Management Response, Target Date and Responsibility
1	Medium	Action has been taken to ensure that employee data is complete and up-to-date as part of the migration process. There is now a high level of reliance placed on individual employees to ensure that data is kept up-to-date using the self-service function offered by the MyView application. It is our experience that personal information can become outdated if staff are not prompted to periodically access the system and review their information.	Personal data may not be accurate exposing the Authority to the risk of breaching its responsibilities as a data controller. Also, errors could occur in the information provided to HMRC and Pension Funds.	Going forward, periodic reminders should be issued to all staff to review and where necessary amend their personal data using MyView.	Response Agreed. Propose to create a standard prompt 'All MFR' email to be issued 3 times per year (each January, May, September) to advise employees to review data held about them in MyView.  Target Date January 2015  Responsible Helen Jones – Payroll Manager
2	Medium	Whilst there are good controls in place for the creation of new starters, management do not have high level	Unauthorised or unexpected changes or additions to the payroll may go	Monthly system reports should be produced, identifying all new starters in	Response Agreed. Propose to create a report in BOXI listing all new starters

		assurance over these key changes.	undetected.	the period. The reports should be reviewed by management to provide high level assurance over amendments to the payroll.	for each calendar month to be countersigned by the Head of Resourcing and the Payroll Manager.  Target Date December 2014  Responsible Helen Jones – Payroll Manager Suzanne Lea – Head of Resourcing
3	Medium	The input and authorisation of leaver information is adequately controlled within the system but there is no mechanism to independently review leavers processed for each payroll run.	Unauthorised or unexpected amendments to the payroll may go undetected.	Monthly system reports should be produced identifying all leavers in the period. The reports should be reviewed by management to provide high level assurance over amendments to the payroll.	Response Agreed. Propose to create a report in BOXI listing all leavers for each calendar month to be countersigned by the Head of Resourcing and the Payroll Manager.  Target Date December 2014  Responsible Helen Jones – Payroll Manager Suzanne Lea – Head of Resourcing
4	Medium	There is a statutory requirement for employers to provide an itemised pay statement to all its employees. The Authority is moving away from the traditional paper payslips and P60s in favour of an electronic method of issuing this information. Whilst this arrangement will not present a problem for the majority of employees, the Authority should be mindful that some employees may find it difficult to do so. The ability to access payslips remotely, away from a work-based computer, will resolve some accessibility issues, particularly where employees are absent on or around pay day. However, more	Penalties can be imposed on employers that do not provide statutory pay statements to their employees.	The Authority should ensure that its arrangements for issuing pay statements and P60 information to all employees complies with statutory requirements, specifically that all employees are reasonably able to access information issued electronically where paper information is not provided.	Response Agreed. All employees have now been migrated to online payslips. Arrangements have been agreed with ICT (telent) to create network Users Accounts for those employees that did not have one. The Project has forced the Authority to review its arrangements for enabling all employees' appropriate access to its ICT systems. MyView represents just one of the information employees need to access. To deny them that would be to disenfranchise employees from key information that they need and should have access to (e.g. at a

		<p>fundamental issues around the IT literacy of some employees may need to be assessed and addressed.</p>			<p>very minimum Service Instructions and Health and Safety information). The move to online payslips has been positively received with all staff supported in accessing MyView if required. The Project Team has been working with ICT (telent) to ensure all employees have the access they need and arrangements are already exist for employees to develop their ICT skills if they deem that necessary.</p> <p>Target Date December 2014</p> <p>Responsible Helen Jones – Payroll Manager Mark Hulme – Applications Manager</p>
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### **c. Joint Control Centre Service Level Agreement (JCC SLA)**

#### **Background**

As part of the building works undertaken at the main Merseyside Fire and Rescue Service (MFRS) Head Quarters based in Bridle Road Bootle, a JCC was set up for use by MFRS and Merseyside Police Authority (MPA). In order to ensure that MPA contribute an acceptable share of costs associated with the management, maintenance and general running costs of the centre MFRS staff have calculated a proposed SLA.

#### **Scope of the audit exercise**

In order to offer some assurance to both MFRS and MPA on the suitability and accuracy of the SLA, audit examined the process adopted by MFRS to arrive at an apportionment percentage to be applied to costs, including verification of data from the supporting documentation. The method adopted for apportionment of individual services was assessed for appropriateness and the basis of actual costs charged was verified by discussion and limited examination of supporting evidence.

#### **Conclusion**

Testing established that, with the exception of a small number of minor anomalies the data used to calculate both occupied floor area and “weighted” floor area was accurate and reflected the details shown on original floor plans. Each of the apportionment methods applied to share costs (floor area occupied, weighted floor area, actual requested service, prearranged division of cost etc) were reasonable for the particular service in question. The cost against which the apportionment was applied was, where possible, actual cost based on known charges with the remainder being estimated. As explained by MFRS staff the cost calculated is simply indicative (with the method of apportionment being more important at this stage) and the amount ultimately paid by MPA will be based on actual expenditure.

#### **Findings**

All separate room / area measurements entered on the spread sheet used by MFRS to calculate the apportionment of costs were verified to the floor plans provided. There were a small number of fairly minor discrepancies / anomalies noted where figures on the spreadsheet did not match those on the plan. There were 27 area measurements used for the calculations (all ground floor) which did not appear on the floor plan provided (and could therefore not be verified), and there were two areas shown on the plan as MFRS which were allocated differently (one to MPA and one shared). There were also two rooms numbered 85 and eight numbers appeared not to be used at all although there were areas on the plan that were not numbered. Whilst it is unlikely that the issues detailed will result in material changes to the figures used for the SLA, MFRS staff will look into them. Details of the anomalies / discrepancies are shown in the table below.

**Table one – anomalies noted**

<b>Room / area no</b>	<b>Room / area description</b>	<b>Data on spread sheet</b>	<b>Data on plan</b>	<b>Comments</b>
53	MACC Store	13.00 sq mtrs	12.49 sq mtrs	There was no apparent reason for the discrepancy which may simply be an input error
55	Study room	21.00 sq mtrs	20.00 sq mtrs	As above
43	Wash up / prep	1.00 sq	20 sq	As above

Room / area no	Room / area description	Data on spread sheet	Data on plan	Comments
	area	mtrs	mtrs	
?	Comms room D	MPA	MFRS	This area was bordered in red on the plan which identifies MFRS rooms / areas
30	Cleaner store	6.50 sq mtrs	6.00 sq mtrs	There was no apparent reason for the discrepancy which may simply be an input error
31	Male toilet	23.00 sq mtrs	25.00 sq mtrs	The measure used may include an area marked A on the plan which had no measurement shown although 2 square metres seems a little high
32	Female toilet	23.00 sq mtrs	25.00 sq mtrs	As above
22	Kitchenette	12.77 sq mtrs	12.50 sq mtrs	There was no apparent reason for the discrepancy which may simply be an input error
22	Kitchenette	shared	MFRS	This area was bordered in red on the plan which identifies MFRS rooms / areas
?	Unisex washrooms – 3.25m <sup>2</sup> – 8 in total	33.16 sq mtrs	26.00 sq mtrs	The measure used may include an unmarked area on the plan which had no measurement shown although 7.16 square metres seems a little high
4	Gym	133.79 sq mtrs	133.00 sq mtrs	There was no apparent reason for the discrepancy which may simply be an input error
4	Gym	shared	MFRS	This area was bordered in red on the plan which identifies MFRS rooms / areas

The calculated floor areas and weighted floor areas were confirmed as accurate (with the exception of those affected by the above). The rationale behind the selection of specific apportionment methods adopted was examined and in each case seemed reasonable. The logic behind using weighted floor area for services that would be directly affected by staff presence (mainly utilities) was sound, as was the use of simple floor area for other services (eg cleaning, maintenance etc). It also makes clear business sense to pass on the full cost of those services specifically requested by MPA.

A sample of supporting documentation on which service costs in the proposed SLA were derived was examined and found to be in order. Whilst there is still a fairly high level of the costs based on estimates this is inevitable given the nature of the services in question. The cost of consumables (including utilities) and repairs and maintenance will always be an unknown as it is based on actual “consumption” which can be affected by unpredictable issues. MFRS staff confirmed however that costs used were based on “high end” estimates to minimise the likelihood of having to present MPA with substantial additional costs at year end.

**d. Grant Payments** – Review of final two Heritprot Grant Claims – Both claims were submitted and approved.

**Definitions of audit assurance**

<b>Control Environment Assurance</b> – Opinion on the design and suitability of the current internal controls.	
<b>Level</b>	<b>Definition</b>
<b>Substantial</b>	There are minimal control weaknesses that present very low risk to the control environment
<b>Good</b>	There are minor control weaknesses that present low risk to the control environment
<b>Acceptable</b>	There are some control weaknesses that present a medium risk to the control environment
<b>Limited</b>	There are significant control weaknesses that present a high risk to the control environment
<b>None</b>	There are fundamental control weaknesses that present unacceptable level of risk to the control environment

**Definitions of audit assurance**

<b>Compliance Assurance</b> – Opinion on the level of compliance with current internal controls.	
<b>Level</b>	<b>Definition</b>
<b>Substantial</b>	The control environment has substantially operated as intended.
<b>Good</b>	The control environment has largely operated as intended although some minor errors have been detected
<b>Acceptable</b>	The control environment has mainly operated as intended although errors have been detected
<b>Limited</b>	The control environment has not operated as intended. Significant errors have been detected
<b>None</b>	The control environment has fundamentally broken down and is open to significant error or abuse

**Definitions of audit assurance**

<b>Organisational impact</b> – The potential impact on the organisation if the recommendations are not implemented.	
<b>Level</b>	<b>Definition</b>
<b>Major</b>	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
<b>Moderate</b>	The weaknesses identified during the review have left the Council open to moderate risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
<b>Minor</b>	The weaknesses identified during the review have left the Council open to a low level of risk. If the risk materialises it would have a minor impact on the organisation as a whole.