



Staffordshire Commissioner Fire and Rescue Authority

INTERNAL AUDIT PROGRESS REPORT

10th December 2018
Report to the Ethics, Transparency and Audit Panel

Our Mission

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Table of Contents

Introduction.....	3
2018/19 Audit Plan Progress	4
Audit Recommendations	5
Appendix 1	7

Contacts

Deborah Harris

Interim Chief Internal Auditor

01785 276406

deborah.harris@staffordshire.gov.uk

Alexander Cannon

ICT Audit Manager

01785 895334

alex.cannon@staffordshire.gov.uk

Internal Audit Service
Staffordshire County Council
2nd Floor, 2 Staffordshire Place
Tipping Street
Stafford
ST16 2DH

Introduction

This report presents the progress made against the Internal Audit Annual Plan for 2018/19 in addition to providing an update for the Ethics, Transparency and Audit Panel (ETAP) on Internal Audit activity since the last meeting held on 19th October 2018. It also provides information on the progress against recommendations made to the Fire & Rescue Service by Internal Audit.

Internal Audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. Assurance opinions are categorised as follows:

- **Substantial Assurance (positive opinion)** - We are able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls were in place and operating effectively and risks against the achievement of objectives were well managed.
- **Satisfactory Assurance (positive opinion)** - We are able to offer satisfactory assurance as most of the areas reviewed were found to be adequately controlled. Generally, risks were well managed, but some systems required the introduction or improvement of internal controls to ensure the achievement of objectives.
- **Limited Assurance (negative opinion)** - We are able to offer limited assurance in relation to the areas reviewed and the effectiveness of the controls found to be in place. Some key risks were not well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.

2018/19 Audit Plan Progress

Audit Name	Status	Assurance
Priority 1 – Education & Engagement		
Project Management – Fire Transformation Fund	Not Started - Planned for February	
Priority 2 – Community Safety & Wellbeing		
Community Interest Company	Final Report Issued	Satisfactory
Priority 3 – Planning, Resilience & Response		
GDPR - Preparedness	Final Report Issued	Substantial
Financial Ledger & Bank (Integra – NML)	Planning – Starting 23 rd January 2019	
Fire Fighters Pensions Administration and Payroll	Not Started - Planned for Q4	
Payroll Processing Procedures – New Payroll System Resource Link	Final Report Issued	Substantial
Stock Management System	In Progress	
Efficiency Plan	Not Started - Planned for February 2019	
Cybersecurity Preparedness and Response Effectiveness	Not Started - Planned for January 2019	
Integra – System Security	Planning – Starting 23 rd January 2019	
Anti-Fraud Culture		
Fraudwatch Publication	Not Started - Planned for Q3/4	N/A
Detection		
National Fraud Initiative 2018	In Progress	
Prevention		
Fraud Risk Assessment	Not Started	
Fraud and Corruption Checklists	*Completed as part of the above systems audits	
Procurement of Desirable Goods	Final Report Issued	Substantial

The Payroll Processing Procedures audit review has been finalised since the last ETAP meeting in October 2018. A total of 3 recommendations were made, including 2 medium priority and 1 low priority recommendations resulting in a substantial assurance opinion. The management summary for this report is attached as **Appendix 1**.

Adjustments to the Internal Audit Plan

No changes have been made to the 2018/19 Internal Audit Plan.

Audit Recommendations

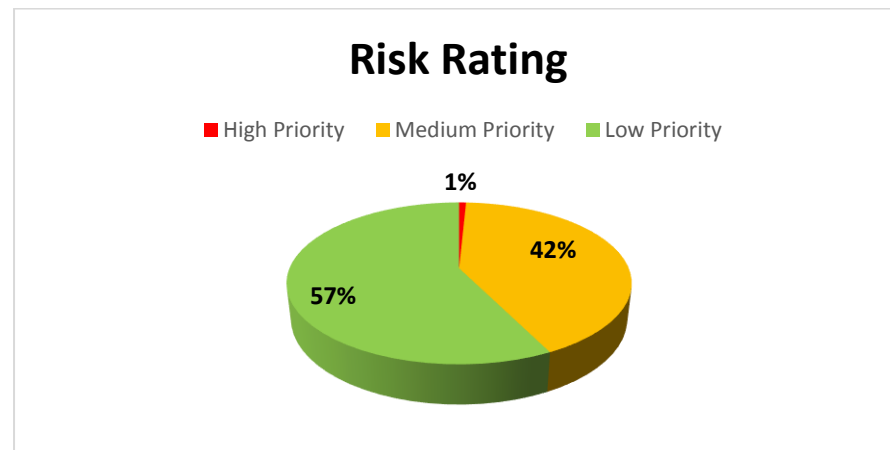
As part of Internal Audit's service to the Staffordshire Fire and Rescue Service, we record, monitor and report on all recommendations that have been made in our audit reports.

Risk Rating

Each recommendation that we make is risk assessed, and based on an assessment of likelihood and impact, 1 of the 3 following priority levels will be awarded:

- **High Priority**
- **Medium Priority**
- **Low Priority**

Since the implementation of an Audit Management System in 2016 which is used to monitor all recommendations, a total of 129 recommendations have been imported for monitoring and reporting. Of these recommendations, 1 is a high priority, 54 are a medium priority and 74 are a low priority.



Action Status

Each recommendation that is imported into the Audit Management System is allocated a responsible officer and an agreed action date, which are detailed in the internal audit's final report. Once this agreed action date has passed, an email is sent to the responsible officer asking them to provide an update on the progress made against the recommendation.

Following this response, the recommendation is given a status to enable us to monitor and categorise the progress of recommendations. The following status' can be assigned to a recommendation:

- **Implemented** – Audit have been informed that the control weakness has been addressed
- **Partially Implemented** – Audit have been informed that the agreed action is a work in progress, some elements may have been implemented.
- **Outstanding** - Action has been agreed upon with management but is yet to be implemented.
- **Deferred** - The agreed actions have been deferred until a later date (e.g. it may be dependent on another activity, action or upgrade).
- **Superseded** – Audit have been informed that the control weakness no longer exists due to changes in the system or business process.
- **Risk Accepted** – Management accept the risk and no mitigating action will be taken to address the control weakness identified

INTERNAL AUDIT PROGRESS REPORT

Recommendations Summary

The table below summaries the status for each recommendation made to the Staffordshire Fire & Rescue Service.

Priority	Recs Made	Implemented	No Action to be Taken		Not Yet Implemented			Agreed/Revised Action Date	
		Implemented	Superseded	Risk Accepted	Deferred	Partially Implemented	Outstanding	Not Overdue	Overdue
High	1	1	0	0	0	0	0	0	0
Medium	54	46	0	1	2	3	2	7	0
Low	74	65	2	1	2	1	3	6	0
TOTALS	129	112	2	2	4	4	5	13	0

Overdue Recommendations

Of the 129 recommendations that Internal Audit are tracking, 13 have yet to be implemented with **none** of these having passed their agreed or revised action date.

Appendix 1

FINAL Report

Payroll Processing Procedures

1 Executive Summary

1.1 Scope and Background of Audit

- 1.1.1 Internal Audit has completed a review of the systems, controls and risks relating to the administration of the Staffordshire Fire & Rescue Service (SFRS) Payroll. The review was carried out as part of the 2018/19 Strategic Internal Audit Plan. This report summarises the results of the audit work undertaken.
- 1.1.2 For the financial year 2018/19 (April to September) the total gross pay expenditure and allowances was in the region of £14m.
- 1.1.3 The SFRS has a Service Level Agreement (SLA) with Stoke-on-Trent City Council (payroll provider) for the provision of payroll services. These services include the provision of a payroll system (Resource Link) and data input portal (My View), payroll masterfile changes (pay awards and tax code changes), reconciliations, the processing of the payroll and the payment of deductions to third parties.
- 1.1.4 The Payroll Section at SFRS comprises of a Payroll Manager and three Payroll Officers. These staff, are responsible inputting all data and amendments relating to pay (including overtime and expenses claims) into the payroll system. This includes expenses, and month end payroll reconciliation procedures. New starter details and the amendment of personal information e.g. changes to names and addresses are input by staff within the Human Resources team (HR) at SFRS using the MyView portal of the Resource Link system.
- 1.1.5 The objective of the Internal Audit review was to evaluate the key controls operating at SFRS to ensure that payroll transactions are complete, accurate and valid.
- 1.1.6 The scope of the audit was to provide assurance against the following control objectives:
- - Access to the payroll computer system is appropriate, controlled and reports that enable the effective management of the payroll are available;
 - Appropriate contract monitoring arrangements are in place;
 - An approved organisation structure is in place;
 - Legal requirements are met;
 - Amendments to the HR master file are complete, accurate and valid;
 - Payments are complete, accurate and valid; and
 - Policies are in place for payroll processing.
- 1.1.7 Of the sixteen recommendations made as part of the 2017/18 review it was confirmed that fourteen had been implemented.

INTERNAL AUDIT PROGRESS REPORT

- Recommendation one, an annual letter of assurance over the controls surrounding the general operation of and access to the providers payroll system has not yet been addressed; and
- Recommendation twelve (Firewatch reports), remains outstanding as implementation is linked to the implementation of the new version of Firewatch.

Progress in relation to the above issues are being tracked as part of a separate exercise and therefore the recommendations are not being re-presented. However, these outstanding issues have been considered when forming the overall audit opinion.

With regard to recommendation three of the previous audit report it was confirmed that the SLA had been reviewed. Although the 2018/19 review identified similar issues to those reported in 2017/18 (acceptance of the payroll providers terms and conditions, providers liability, charges, defining and monitoring of service delivery expectations/performance, notice period and system amendment protocol) the risks identified have either been accepted, added to the risk register or a separate process agreed by SFRS.

1.2 Summary of Audit Findings

Control Objectives Examined	No of Controls Evaluated	No of Adequate Controls	No of Partial Controls	No of Weak Controls
Access to the payroll computer system (Resource Link) is appropriate, controlled and reports that enable the effective management of the payroll are available.	4	2	2	0
Appropriate contract monitoring arrangements are in place.	3	2	1	0
An approved organisation structure is in place.	3	1	2	0
Legal requirements are met.	3	3	0	0
Amendments to the HR master file are complete, accurate and valid.	5	4	1	0
Payments are complete, accurate and valid.	7	5	2	0
Policies are in place for payroll processing.	2	1	1	0
TOTALS	27	18	9	0

1.2.1 The following issues were considered to be the key control weaknesses:

Rec Number	Risk Rating	Summary of Weakness	Agreed Action Date
1	Medium Priority	Access to the system administrator role had not been promptly revoked. There is a generic system administration account "ADM". The use of this account to make system changes means that amendments cannot be attributable to a specific officer and as the account has not been accessed since August 2017 it is unclear whether this role is still required.	Implemented
2	Low Priority	The way the reconciliation between the Firewatch and payroll systems is evidenced could be improved.	28/02/2019

INTERNAL AUDIT PROGRESS REPORT

3	Medium Priority	The review identified three instances where sickness absence details on attendance records (and subsequently input into the payroll system) were incorrect when compared with the details recorded on Firewatch, the HR Absence Certificate spreadsheet, Self Certification and Return to Work forms. In addition, attendance reports had not been submitted for three of the absences examined	31/01/2019
---	-----------------	--	------------

This report focuses on the weaknesses in the Organisation's systems of control that were highlighted by this audit and recommends what Audit considers to be appropriate control improvements. This report contains the follow amount of recommendations

High	Medium	Low	Total
0	2	1	3

Another five minor priority issues have been highlighted for management's consideration.

1.3 Summary of Control Assurance Provided

- 1.3.1 **Substantial** - Internal Audit are able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls were in place and operating effectively and risks against the achievement of objectives were well managed.

2 Positive Assurance

Internal Audit attempted to establish whether the Organisation's system of control for the following areas contained all the key controls expected of a sound and robust process. Through a combination of control evaluation and testing it was confirmed that the following adequate controls were in operation:

2.1 Payroll Computer System (Access & Reporting)

- Based on discussions with Payroll and HR staff along with observations made at the time of the audit, access to the MyView portal appears appropriate.
- Staff within the Payroll and HR teams has appropriate access to the Time Management system, Firewatch.
- From October 2018 various management information reports have been made available by the payroll provider. Although work is still on-going to identify, test and refine suitable reports, those that are available should assist with the management of the SFRS payroll going forward.
- Emails sent between SFRS and Stoke-on-Trent City Council are encrypted, this includes HR and Payroll related emails which may contain private and confidential information.

2.2 Contract Monitoring Arrangements

- A service level agreement for 2018/19 has been agreed by the Director of Assets, Finance and Resources which contains the service delivery expectations of the provider and SFRS.
- Service/performance issues are identified via the maintenance of an issues log and discussions with the Payroll Manager, with matters being raised at contract management meetings.
- Contract management meeting are normally held on a quarterly basis. Two meetings have been held in 2018 (January and October). No meeting was held in April due to the workloads of the respective teams and because there were no pressing issues to discuss. Meetings had been minuted and in October 2018 it was confirmed that the issues log had been reviewed and performance discussed.
- A risk register is in place which was last reviewed in March 2018. The register includes the key risks to payroll provision including BACS failure, the short notice period for contract termination and non-compliance with statutory return deadlines.

2.3 Organisation Structure

- Discussions and a review of the documentation provided by the Management Accountant confirmed that the pay budget monitoring (including forecasting) is undertaken monthly, with outcomes reported to budget holders on a timely basis. The information used for these reports comes from the Firewatch system and costing reports received from the payroll provider.

2.4 Legal Requirements

- All tax and national insurance calculations are handled from within the payroll system. Testing completed as part of the audit (in relation to ten new starters) confirmed the accuracy of the deductions made in relation to tax and national insurance.
- All tax and national insurance returns are processed by the provider in accordance with the Service Level Agreement. The Payroll Manager has not been made aware of any issues with the submission of returns by either the payroll provider or HMRC.
- For a sample of ten new starters, the review confirmed that eligible individuals had been automatically enrolled into the relevant pension scheme. Two individuals had subsequently opted out which provides some assurance that the payroll provider is issuing letters of enrolment/opt out forms in accordance with the SLA.

2.5 Masterfile Amendments

- For the ten new starters sampled, the review confirmed that all had been processed accurately in accordance with the action slip and that authorised vacancy control forms had been completed where required.
- The review of twenty amendments to pay confirmed that action slips had been received with amendments being processed accurately and timely by the Payroll team.
- A sample of twenty employees was taken and this found that annual pay awards and increments had been correctly processed.

2.6 Payments

- A sample of sixty employee payments relating to claims (20), expenses (20) and retained fire fighters (20), was taken and this found that all payments were valid, had been authorised, processed accurately/timely and that where claims had been

INTERNAL AUDIT PROGRESS REPORT

submitted and had be signed by or emailed from the employee. In addition, all payments had been evidenced as input by a member of staff within the payroll team. There was just one instance where a copy of a retained hours form could not be provided and one where the form was submitted after the payment had been processed. It is however acknowledged that these payments had been approved in Firewatch.

- The review confirmed that payment of the payroll had been authorised by the Finance Manager or Management Accountant, thereby ensuring an appropriate segregation of duties.
- The review confirmed that there are procedural documents in place to provide guidance should overpayments to employees occur when their employment has ceased. Testing identified two instances where overpayments had occurred due to late notification regarding the termination of employment. In both instances the required process had been followed.

2.7 Policies

- The review confirmed that the Payroll team is made up of experienced staff who receive adequate training and support.

