

Shared Services
Agresso Payroll
Final Internal Audit Report

March 2018



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1. Introduction

As part of the internal audit plan for 2017/18, agreed by the Committees of all three Councils (Royal Borough of Kensington and Chelsea, Westminster City Council, and Hammersmith and Fulham), Audit undertook a review of the payroll service under the Managed Service contract with BT.

The objective of the payroll audit was to provide a level of assurance to the Councils and Members that key payroll controls were operating effectively for the three Councils.

The audit did not examine the payroll system controls operating within BT's operational site at South Tyneside since all transaction testing was based on tests and data analytic reports carried out on data held on Agresso.

The audit reviewed the effectiveness of controls and processes in place to ensure that the councils' payroll systems are managed appropriately and that all payments made to employees through the payroll are administered, processed and approved in accordance with the Council's rules and regulations.

The audit was specifically restricted to the following areas where sample testing was carried out; Starters, Leavers, Variations to Pay, Standing Data and Performance and Management Reporting. In addition, the procedure and guideline documents were reviewed.

As part of the Managed Services agreement, BT is contracted to deliver a payroll service to all three Councils through the Agresso Business World application which went live in April 2015. The payroll service is delivered through the BT Shared Service Centre supported by the Framework Intelligent Client Function (ICF) and the retained HR teams within each Council.

Retained HR teams are available to provide managers with support on certain HR and payroll related matters across each Council although the bulk of these issues should be directed in the first instance to BT Shared Service through the Service Now portal by users with any payroll related queries.

The Agresso application is an Enterprise Resource Planning (ERP) system which delivers a standard transactional solution for HR (including Payroll), Finance and Procurement functions across the three Councils with hierarchy based workflow and self-service underpinning the key functionality of the system for end users. As a managed service provider BT has responsibility for managing, maintaining and delivering related support services such as the help desk through the BT Shared Service arrangements.

As at January 2018, Westminster City Council (WCC), the Royal Borough of Kensington and Chelsea (RBKC) and London Borough of Hammersmith and Fulham had accepted that they will not seek to extend the BT Managed Services contract beyond the end date of May 2019.

An appropriate replacement solution to Agresso has been identified and all three councils will be using the Hampshire Partnership SAP solution to replace BT in providing the managed services for HR, payroll and finance.

It is anticipated that the Hampshire Partnership SAP solution will be implemented for all three councils during 2018/19.

The largest area of expenditure for any public sector body is on its employees and it is therefore critical that the payroll system functions properly and robust controls exist to minimise the risk of errors and omissions occurring with employee pay.

The total number of employees and approximate payroll expenditure across the three Councils (excluding schools) for 2017/18 is summarised below:

Council	Employees	Employee Cost
WCC	3,353	£105.5m
RBKC	3,370	£94.6m
H&F	3,231	£90.7m
Total	9,954	£290.8m

This audit only covers council employees and excludes school employees and employees of other third parties that the Council pays through the Agresso application. These are covered under separate audit reviews.

As part of this review, Audit were provided with high level read only access to the Agresso payroll and HR module which enabled access to key payroll/HR information, data and documentation for employees across all three Councils.

From various payroll data reports provided for all three Councils, a suite of tests and analytical processes using audit specialist software was performed on the data to highlight potential indicators of control weaknesses and erroneous transactions. The results from the data analytic reports were used to focus audit testing to detect any errors and omissions in payroll transactions.


The audit did not review any of the arrangements in preparation for the migration of payroll data and records from Agresso to the new SAP solution.

2. Executive Summary

2.1 Assurance Opinion

The table below provides an overview of the adequacy and the effectiveness of the controls for the Agresso Payroll Service across the three Councils using a RAG rating to highlight the degree of control weakness. It also indicates the number and priority rating of any recommendation raised as a result of the review.

The assurance opinion is based on the areas and transactions tested as part of this review; Starters, Leavers, Variations to Pay, Standing Data and Performance and Management Reporting. It does not provide an assurance opinion of the end to end payroll service.

	Nil	Limited	Satisfactory	Substantial
Audit Opinion				

2.2 Recommendations Summary

The following table highlights the number and categories of recommendations made. The Action Plan at Appendix 1 details the specific recommendations made as well as agreed management actions to implement them.

Area of Scope	Adequacy of Controls	Effectiveness of Controls	Recommendations Raised		
			High	Medium	Low
Policies and Procedures					
Reporting and Monitoring			1		
Starters to payroll			1		
Leavers to payroll			1		
Variations to Pay			1		
Standing Data				1	
Management Reports					
		Total	4	1	

Please refer to the Appendix 2 for a definition of the audit opinions and recommendation priorities.

3. Summary of Findings

In Internal Audit's opinion, **Limited Assurance** can be given to Members, the Chief Executive and other senior officers that the Agresso Payroll controls relied upon at the time of the audit were suitably designed, consistently applied and effective in their application. This opinion relates only to the areas examined as part of this audit review (as detailed in the introduction) and does not refer to the complete end to end payroll service.

The key findings and an assessment of controls are summarised below:

Application of and compliance with control framework to address risks identified

Areas where compliance was satisfactory

- Updated procedure and guidance notes are available for users under the Service Now / Knowledge Base / Learning Guide portal. These provide comprehensive desktop guidance on how to undertake key payroll and HR tasks covering establishment & recruitment; new starters & induction; pay expenses & timesheets; leavers; and working patterns.
- Various self-service reports and functionality has been built into the Agresso application which enable line managers to view payroll and HR information and data for employees under their management.
- The workflow set up enables appropriate authorisation and escalation of payroll related requests in accordance with service organisation hierarchy and approval profiles across all three Councils.
- Performance monitoring reports for the BT managed payroll services are produced and monitored by the ICF. Additionally, appropriate arrangements also exist to manage the risk of any decline in performance as the BT contract approaches its conclusion.

Areas where compliance could be improved

- The absence of supporting documentation and records on Agresso for payroll transactions meant that the audit trail was either incomplete or missing. This limited the audit checks that could be undertaken on payroll records and their accuracy and consequently the integrity of payroll transactions could not always be confirmed.
- The retention of supporting documentation and maintaining an audit trail for payroll transactions on Agresso by BT remains an area of concern since it was also raised in the 2016/17 audit report and appropriate recommendations made to address this issue. It should be noted that there has been an improvement in this area since the last audit.
- Reliance cannot be placed on the starters and leavers process and the accuracy of data held on the payroll for new starters and leavers due to the incomplete audit trail within Agresso as part of transaction testing undertaken.
- Reliance cannot be placed on variations to pay being processed correctly, on a timely basis and supported by the appropriate level of approval.
- The accuracy and completeness of standing data on the payroll cannot be fully relied upon due to omissions noted over standing data on Agresso as part of transaction testing undertaken.
- Limited progress has been made in implementing the recommendations from the 2016/17 audit of payroll. Of the nine high priority recommendations made in the previous audit, four have not been fully implemented all of which relate to maintaining an adequate audit trail for starters, leavers, variations to pay and standing payroll data. It should be noted that BT and the line manager/employee have responsibility for ensuring this is being maintained to an acceptable level.

4. Acknowledgement

We would like to thank the following members of staff for their time and assistance during the review:

- Bi Borough Managed Services and 3rd Party Providers – Paul Lawrence RBKC
- Programme Assurance Manager for MSP – George Lepine WCC
- Retained HR Officers and Managers – Various across WCC, H&F and RBKC
- BT Payroll Services – Various

Appendix 1: Management Action Plan

1. Reporting and Monitoring – Service Performance

Priority	Issue	Risk	Recommendation
High	<p>As part of the contractual discussions with RBKC and WCC, a Recovery Plan was agreed with BT which aims to reach an end point at which functionality required for a “good enough” operation of the Agresso application is in place.</p> <p>Audit established that a Block 3 Delivery Plan is currently in place with fortnightly meetings being held with BT to review progress and update senior management.</p> <p>Additionally, a copy of the most recent monthly Payroll Performance reporting pack was provided by the ICF which showed BT performance was in line with targets and at an adequate level.</p> <p>Whilst payroll accuracy has been a major concern across the three Councils with this issue being raised in the 201617 payroll audit, there has been an improvement over the past twelve-month period.</p> <p>As the contract with BT moves towards the termination date, there is a significant risk that the performance of the payroll and HR managed service could fall below expected standards. As such it is important that the Councils have robust monitoring arrangements in place that would highlight any significant performance issues with BT.</p> <p>Audit established that the reporting of payroll under and over payments still remains an outstanding issue and this has been exacerbated by the lack of reliance that can be placed on the data sets provided by BT. While the issue over accuracy of data provided by BT remains unresolved, a final agreement on the value of payroll under and overpayments can't be reached.</p>	<p>There is a risk that payroll corrections, particularly those relating to historic over/under payments, may not be completed before the system is migrated to the SAP solution. This could result in inaccurate data and errors being perpetuated in SAP and Hants CC not be willing or able to deal with the outstanding over or under payments.</p>	<p>1.1 Historical payroll errors need to be verified and action to resolve these agreed by the Councils as soon as possible with timelines for action clearly stated.</p>

This issue and appropriate recommendations were raised in the 2016/17 payroll audit and whilst some progress has been made, a final agreement has yet to be reached by all parties to sign off.

As at 21 February 2018, payroll overpayments being actively recovered as sundry debtors by BT since April 2015 are shown below:

	No of debtors	Outstanding balance
WCC	56	£129.8k
H&F	84	£163.7k
RBKC	78	£199.1k
Total	218	£492.6k

A number of overpayments are still being reviewed to determine the most appropriate recovery method and have yet to be officially reported on until these have been signed off by all three councils and BT

Whilst it is acknowledged the issue of reporting and recovery of overpayments has been problematic for varying reasons, it is critical for all parties to come reach a conclusion in advance of the contract end date with BT.

Management Response

The Framework ICF continues to work with BT as part of the Block 3 Delivery Plan to bring to a satisfactory conclusion the production of the under and overpayment case packs on which the resolution of this issue is dependent. The Framework ICF is conscious of the urgency of this matter and the need to bring it to a timely conclusion.

Responsible Officer

Intelligent Client Function (Rec 1.1)

Deadline

Immediate

2. New Starters – Transaction Testing

Priority	Issue	Risk	Recommendation															
High	<p>A number of online forms (SN75, SN76, SN110) are available under the Service Now portal which managers have to complete and submit to BT to initiate a new starter on the payroll as part of the self-service set up on Agresso.</p> <p>A report showing all new starters for each Council was extracted from Agresso Smartclient for the period April to September 2017. Total new starters for this period and the sample of new starters examined for compliance testing is shown below:</p> <table border="1"> <thead> <tr> <th>Council</th> <th>New Starters</th> <th>Sample tested</th> </tr> </thead> <tbody> <tr> <td>WCC</td> <td>205</td> <td>20</td> </tr> <tr> <td>H&F</td> <td>140</td> <td>20</td> </tr> <tr> <td>RBKC</td> <td>142</td> <td>20</td> </tr> <tr> <td>Total</td> <td>487</td> <td>60</td> </tr> </tbody> </table> <p>Testing Methodology: The following key areas were tested for each new starter by examining the records, data and documents held under the Agresso Personnel module:</p> <ul style="list-style-type: none"> -New starter form present, authorised and properly completed. -New starter role approved and accurately recorded on Agresso. -New starter form submitted, processed and checked by second officer in timely manner. -New starter details accurately input onto Agresso (personal/bank details, tax code, salary, deductions, benefits). -All supporting documentation retained under the Document Archive folder (right to work, P45, references). -First salary payment made on time and is correct. 	Council	New Starters	Sample tested	WCC	205	20	H&F	140	20	RBKC	142	20	Total	487	60	<p>There is a risk that where the full audit trail for new starters is not maintained in Agresso, the accuracy and completeness of payroll transactions for new starters cannot be independently verified and checked as being correct and as a result errors and omissions may go undetected and uncorrected.</p> <p>In addition, the absence of complete records for new starters may compromise the integrity of the data migration process if incomplete records are migrated from one HR/Payroll system to another.</p> <p>There is a risk that an incomplete audit trail could compromise the Councils' ability to demonstrate compliance with legislation, particularly the requirement to verify an employee's eligibility to work which could be required if investigated or challenged by the UK Border Agency.</p>	<p>2.1 The Intelligent Client Function should ensure that the Block 3 Delivery Plan actions and change requests which impact on data integrity are satisfactorily completed and take such other actions as are possible so that:</p> <p>a) The data which is migrated to the new solution is as accurate and complete as possible; and</p> <p>b) The fullest possible audit trail of supporting documentation for new starters is maintained and available.</p>
Council	New Starters	Sample tested																
WCC	205	20																
H&F	140	20																
RBKC	142	20																
Total	487	60																

Key Findings: the following was noted from transactional testing of new starters:

	WCC	H&F	RBKC
New Starter Form (SN75/76/110) retained on Agresso a)	0/20	0/20	1/20
New starter set up on Agresso in timely manner	19/20	18/20	19/20
New starter checklist form present to indicate details checked by second BT officer	0/20	0/20	4/20
First salary paid on time	19/20	18/20	19/20
First salary payment correct amount paid	18/20	18/20	14/20
New starter bank detail form retained on Agresso	0/20	0/20	1/20
Employee Tax code correct	a)	a)	a)
Pension opt out processed correctly where present	3/3	2/2	2/2
Occupational Health check form retained	0/20	1/20	0/20
Occupational Health tab on Agresso completed with details by BT	16/20	11/20	18/20
HR Declarations completed	0/20	7/20	3/20
P45/46 retained b)	3/20	2/20	6/20
References retained on Agresso	0/20	0/20	0/20
Signed employment contract retained	1/20	1/20	1/20
Verification of ID retained	0/20	0/20	0/20

Findings in bold denote poor compliance with the control area being tested.

a) Where new starter is processed through e-Recruiter the supporting documentation may be retained on e-Recruiter

b) There is no requirement to file a P45/46 but it is good practice to retain this information.

	<p>Whilst there has been an improvement in terms of record keeping by BT since the previous audit, there are still anomalies identified from transactional testing in addition to the absence of a full audit trail for payroll transactions. As such Audit are unable to provide complete assurance on the robustness and integrity of the new starter process across the three councils.</p>		
<p>Management Response</p>			
<p>The Framework ICF continues to work with BT as part of the Block 3 Delivery Plan to complete the uploading of the backlog of historic letters to employees. The target date for the completion of this action is 30th April 2018. In addition, we will review the findings of this audit report with the BTSSC Service Assurance and Service Desk Manager to identify any further actions which can be taken to improve data integrity.</p>			
<p>Responsible Officer</p>			<p>Deadline</p>
<p>Intelligent Client Function</p>			<p>May 2018</p>

3. Leavers – Transaction Testing

Priority	Issue	Risk	Recommendation															
High	<p>A leaver is initiated by the line manager completing the leaver details on the employee’s personnel record on Agresso. Some information is also provided by the retained HR team before BT can process the leaver. All information is work flowed to BT for action. A leaver can also be processed by completing a SN10 Leavers Form by the manager through the Service Now portal where the line manager/employee does not have access to Agresso. This should be the exception rather than the rule.</p> <p>A report showing all leavers for each Council was extracted from Agresso Smartclient for the period April to September 2017. Total leavers for this period and the sample of leavers examined for compliance testing is shown below:</p> <table border="1"> <thead> <tr> <th>Council</th> <th>Leavers</th> <th>Sample tested</th> </tr> </thead> <tbody> <tr> <td>WCC</td> <td>169</td> <td>20</td> </tr> <tr> <td>H&F</td> <td>125</td> <td>20</td> </tr> <tr> <td>RBKC</td> <td>160</td> <td>20</td> </tr> <tr> <td>Total</td> <td>454</td> <td>60</td> </tr> </tbody> </table> <p>Testing Methodology: The following key areas were tested for each leaver by examining the records, data and documents maintained under the Agresso Personnel module:</p> <ul style="list-style-type: none"> -Leavers details are entered against employee record -Leavers details completed by line manager/submitted to BT in timely manner -Leaver details accurately input on Agresso by BT -Correct final pay based on last day of service -Supporting leaver documents retained (i.e. resignation letter) -P45/46 copy retained (best practice) -Leaver removed from payroll in timely manner -Salary deductions made to recover any overpayment or allowance (i.e. travel allowance) 	Council	Leavers	Sample tested	WCC	169	20	H&F	125	20	RBKC	160	20	Total	454	60	<p>There is a risk that where the full audit trail for leavers is not maintained in Agresso, the accuracy and completeness of HR and associated payroll transactions cannot be substantiated.</p> <p>In addition the absence of complete records for leavers may compromise the integrity of the data migration process if incomplete records are migrated from one HR / payroll system to another.</p>	<p>3.1 The Intelligent Client Function should ensure that the Block 3 Delivery Plan actions and change requests which impact on data integrity are satisfactorily completed and take such other actions as are possible so that:</p> <ul style="list-style-type: none"> a) The data which is migrated to the new solution is as accurate and complete as possible; and b) The fullest possible audit trail of supporting documentation for new payroll leaver records is maintained and available. c) The Framework Intelligent Client Function should work with the Retained HR teams to encourage line managers to improve the completion of SN10 forms
Council	Leavers	Sample tested																
WCC	169	20																
H&F	125	20																
RBKC	160	20																
Total	454	60																

Key Findings: the following was noted from transactional testing of 20 leavers for each Council:

	WCC	H&F	RBKC
Leaver notified through line manager completing leaver details on employee record on Agresso	13/20	7/20	9/20
Leave date agreed with manager reconciles with leave date entered by BT	9/20	14/20	6/20
SN10 form (where completed) retained on Agresso	7/20	7/20	9/20
SN10 form (where completed) contains all relevant information (a)	2/7	2/7	2/9
SN10 form completed by line manager in timely manner	7/7	5/7	6/9
Last day service notified agrees with Agresso entry	7/7	6/7	7/9
Leaver removed from payroll in timely manner (responsibility of line manager)	16/20	17/20	14/20
Final salary unable to determine if correctly calculated due to insufficient information being retained.	9/20	11/20	12/20

Findings in bold denote poor compliance with the control area being tested.

Following findings also noted in relation to the above:
 (a) SN10 forms had missing information such as employee name, job title, reason for leaving and resignation date. It should be noted that most of this information is provided by the line manager and BT are not responsible for this.

	<p>Supporting documentation retained for leavers on Agresso was limited or incomplete which would have the potential to make it difficult to verify whether payments made such as redundancy, compromise agreements, payments in lieu, had been correctly made and authorised or represented a potential overpayment.</p> <p>Payroll related queries and incidents are reported to BT through the Service Now portal by council employees. However, these communications are not always uploaded onto Agresso as supporting evidence where issues have been raised and resolved.</p> <p>As a result of the number of anomalies and queries identified from transactional testing, Audit are unable to provide any assurances for the following areas:</p> <ul style="list-style-type: none"> • Robustness and integrity of the leavers process. • Leavers being promptly removed from the payroll. • Overpayments have not occurred. <p>Audit noted that there has been no significant improvement in maintaining the audit trail for leavers since the 2016/17 payroll audit where recommendations were made to address this issue.</p>		
Management Response			
<p>The Framework ICF continues to work with BT as part of the Block 3 Delivery Plan to complete the uploading of the backlog of historic letters to employees. The target date for the completion of this action is 30th April 2018. In addition, we will review the findings of this audit report with the BTSSC Service Assurance and Service Desk Manager and the Retained HR teams to identify any further actions which can be taken to improve data integrity.</p>			
Responsible Officer			Deadline
Intelligent Client Function			May 2018

4. Variations to Pay – Transaction Testing

Priority	Issue	Risk	Recommendation																		
High	<p>Audit requested a number of reports from BT showing variations to pay for the three council payrolls. From the payroll based reports, the following variations to pay data was extracted across the three council payrolls for the period January to August 2017;</p> <ul style="list-style-type: none"> Honoraria Payments Variable Payments (travel expenses, professional fees, work permit expenses etc.) Overtime Payments <p>Testing Methodology: A sample of 15 from each type of variation to pay was examined for each Council and checks made to verify the supporting documentation held under the Document Archive folder under the employee record and evidence of appropriate payment authorisation by the line manager. An SN 82 Notification of Allowance/Payment Form is completed by the line manager and submitted to BT through the Service Now portal for the payment instruction to be processed.</p> <p>Key Findings: the following findings were noted from transactional testing for each Council:</p> <table border="1"> <thead> <tr> <th>Variation to pay for WCC</th> <th>Sample size for WCC</th> <th>Evidence retained for WCC</th> </tr> </thead> <tbody> <tr> <td>Honoraria payment (a)</td> <td>15</td> <td>13</td> </tr> <tr> <td>Variable payment (b)</td> <td>15</td> <td>0</td> </tr> </tbody> </table> <p>(a) Payments range from £850 to £8,368. For one payment the supporting form showed authorisation for £4,000 but actual payment made was for £4,442. (b) Payments range from £94 to £326</p> <table border="1"> <thead> <tr> <th>Variation to pay for H&F</th> <th>Sample size for H&F</th> <th>Supporting Evidence Retained for H&F</th> </tr> </thead> <tbody> <tr> <td>Honoraria payment (a)</td> <td>15</td> <td>13</td> </tr> <tr> <td>Variable payment (b)</td> <td>15</td> <td>1</td> </tr> </tbody> </table> <p>a) Payments range from £500 to 5,000. b) Payments range from. £126 to £1,491.</p>	Variation to pay for WCC	Sample size for WCC	Evidence retained for WCC	Honoraria payment (a)	15	13	Variable payment (b)	15	0	Variation to pay for H&F	Sample size for H&F	Supporting Evidence Retained for H&F	Honoraria payment (a)	15	13	Variable payment (b)	15	1	<p>There is a risk that where supporting evidence and authorisation relating to variable payments (ie honoraria payments) are not retained on Agresso, the accuracy and completeness of HR and associated payroll transactions cannot be substantiated.</p>	<p>4.1 The Intelligent Client Function should ensure that the Block 3 Delivery Plan actions and change requests which impact on data integrity are satisfactorily completed and take such other actions as are possible so that:</p> <ol style="list-style-type: none"> The data which is migrated to the new solution is as accurate and complete as possible; and The fullest possible audit trail of supporting documentation for payroll variations to pay records is maintained and available. The Framework Intelligent Client Function should work with the Retained HR teams to encourage line managers to improve the processing of variable payments by employees and line managers.
Variation to pay for WCC	Sample size for WCC	Evidence retained for WCC																			
Honoraria payment (a)	15	13																			
Variable payment (b)	15	0																			
Variation to pay for H&F	Sample size for H&F	Supporting Evidence Retained for H&F																			
Honoraria payment (a)	15	13																			
Variable payment (b)	15	1																			

Variation to pay for RBKC	Sample size for RBKC	Supporting Evidence Retained for RBKC
Honoraria payment (a)	15	13
Variable payment (b)	15	1

a) Payments range from £833 to £5,760. The Director of Human Resources must approve recommendations for payments above £2,500, however for two such payments (£3,630 and £3,600) no evidence of approval could be seen on Agresso.

b) Payments range from £45 to £396.

Audit were unable to test any overtime claims due to the lack of access to the workflow log showing managers approving the amount claimed.

Compliance with the processing of honorarium payments has improved since the last audit where the results were WCC 10/20, H&F 2/20 and RBKC 6/20. Processing of variable payments remains an issue and Audit are unable to provide assurances that these are being authorised and processed correctly, accurately and on a timely basis on Agresso.

It should however be noted that the maintenance of the full audit trail on Agresso for certain types of variable payments such as expense is the responsibility of the employee and manager since they are responsible for uploading any receipts and supporting documentation on the relevant Agresso record and not BT.

Management Response

The Framework ICF continues to work with BT as part of the Block 3 Delivery Plan to complete the uploading of the backlog of historic letters to employees. The target date for the completion of this action is 30th April 2018. In addition, we will review the findings of this audit report with the BTSSC Service Assurance and Service Desk Manager and the Retained HR teams to identify any further actions which can be taken to improve data integrity.

Responsible Officer

Intelligent Client Function

Deadline

June 2018

5. Standing Data – Transaction Testing

Priority	Issue	Risk	Recommendation
Medium	<p>Audit were provided with a number of reports by BT showing standing data information of employees on the three Council payrolls such as name, address, bank details, National Insurance number.</p> <p>These reports were used to undertake a data analytic exercise to identify potential errors and anomalies. The payroll data report used showed standing data for employees across all three Councils as at September 2017 and comprised approximately 9,300 entries.</p> <p>Testing Methodology: A suite of analytic tests using audit specialist software was performed on the standing payroll data to highlight potential payroll errors and anomalies.</p> <p>Key Findings: the following was noted from the analytical review of standing data:</p> <ul style="list-style-type: none"> • Two H&F employees had their date of birth recorded as 01.01.1901 which appears to be a default date; • One WCC employee had a date of birth recorded as 28.04.2016; and • Two WCC employees (one was a recent leaver) did not have a home address showing against their personal record on Agresso 	<p>There is a risk that where there are errors and anomalies in payroll standing data, the integrity of payroll data is compromised and its accuracy cannot be relied upon.</p>	<p>5.1 The Intelligent Client Function should liaise with BT to identify any steps that can be taken to improve the quality and integrity of standing data.</p>
	<p>Audit also noted the following payroll and related HR issues:</p> <ul style="list-style-type: none"> • Annual leave balance report extracted from Agresso as at December 2017 identified 43 permanent employees on full time contracts (17 WCC, 17 H&F and 9 RBKC) with a nil annual leave allocation on Agresso for 2017/18. Audit were informed by the ICF that these all related to balances where the manager, and not BT, had to update the employees leave records for the correct balance to appear. There is also a known issue with employees on non-standard contracts where the annual balances on Agresso are incorrect and show as nil. Employees with a nil allocation are unable to see how much leave they have taken on Agresso; 		

	<ul style="list-style-type: none"> • Issues over the input (by line managers) and reporting of sickness levels. This is a known issue that is the subject of a separate audit review and mainly relates to line managers not fulfilling their responsibilities in reporting sickness levels on Agresso. • For WCC and RBKC, the payroll reconciliations which are the responsibility of BT, were not being undertaken on a timely basis and there were issues with the data contained within these reports. Where reconciliations are not carried on a timely basis there are implications for the year end accounting process and the integrity of the financial reporting process although Audit established that each of the corporate finance sections were addressing this issue and taking appropriate action to mitigate against this risk. Audit also established this issue is being addressed under the Block 3 Delivery Plan. <p>It is acknowledged that some of the anomalies and issues are as a direct result of the line manager failing to fulfil their duties in updating employee records on Agresso.</p>		
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Management Response

The Framework Intelligent Client Function will review the findings of this audit report with the BTSSC Service Assurance and Service Desk Manager and the Retained HR teams to identify any further actions which can be taken to improve data integrity. However, the Framework Intelligent Client function does not share the view that based on the findings of this audit the accuracy and completeness of standing data on the payroll cannot be fully relied or that this warrants a medium priority recommendation.

Responsible Officer




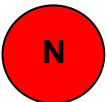
Intelligent Client Function

Deadline

June 2018

Appendix 2: Definition of Assurance Opinions and Recommendation Priorities

In order to help put the audit opinion and recommendation priority ratings in context the following tables detail the current ratings used by Internal Audit.

Rating	Description
	There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and no material errors or weaknesses were found.
	While there is a basically sound system, there are weaknesses and/or omissions which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
	Weaknesses and / or omissions in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.
Priority	Description
High	Recommendation addresses fundamental weaknesses, which seriously compromise the effective accomplishment of the system's objectives. Risks presented by the control weaknesses could be damaging in the short term. The management action required should be implemented as soon as possible, certainly within 0-3 months.
Medium	Recommendation addresses serious weakness, which affect the reliance to be placed on the system. Risks presented by control weaknesses could be damaging in the medium term. Management action is required within 0-6 months.
Low	Recommendation addresses minor weaknesses, or suggests a desirable improvement. Risks presented by control weaknesses are unlikely and inconsequential. Management action is recommended to address concerns within 0-9 months.

Appendix 3: Audit Scope, Limitations & Inherent Risks

This audit was a full risk based review of the arrangements for the Agresso Payroll audit and included the following areas:

Ref	Audit Area - Description	Comments on Coverage / Area Objectives
01	Policies and Procedures	<ul style="list-style-type: none"> Determine whether clear and up to date procedure documents are in place that reflect actual payroll processes and practice. Establish whether compliance with agreed procedures and practice is satisfactory. Establish whether the roles responsibilities and duties are clearly set out for managers, retained HR, Intelligent Client Function and BT Shared Service Centre in relation to the payroll function.
02	Reporting and Monitoring	<ul style="list-style-type: none"> Establish whether appropriate management reports can be produced from Agresso for the payroll. Determine whether any exception reports identifying payroll errors and anomalies are produced from Agresso and how resulting actions are controlled and monitored such as payroll error rates. Assess whether the reporting functionality within Agresso for payroll reports meets user requirements. Assess what action is being taken to mitigate against the risk of payroll errors reoccurring each month.
03	Starters	<ul style="list-style-type: none"> Review of a sample of new starters to check that they are added to the payroll system completely, accurately, validly and in a timely manner. Authority to set up the employee is appropriate. Review to ensure that all relevant information relating to the new starter is retained and uploaded onto Agresso. Verification of correct payment made to the new starter following commencement of their employment.
04	Leavers	<ul style="list-style-type: none"> Review of a sample of leavers to check that they were completely, accurately, and validly removed from the payroll in a timely manner and outstanding commitments to both parties to the contract of employment are completely, accurately and validly made to prevent leaver payment errors or anomalies. All appropriate leaver documentation is recorded and uploaded onto Agresso.
05	Variations to Pay	<ul style="list-style-type: none"> Review of a sample of additional payments made to employees to check these are adequately and appropriately approved through workflow and evidence is retained to support this. Dates for additional payments are correctly recorded to ensure under/over payments are not made. Verification of correct payment made to the employee in a timely manner. Review of a sample of non-statutory deductions to basic pay to check that they are processed completely, accurately, validly, and in a timely manner with evidence retained to demonstrate appropriate approval for the deduction. Dates for deductions are correctly recorded to ensure under/over deductions are not made. Review of a sample of employees paid on the basis of a claim to check that the claim has been appropriately authorised, recorded on the payroll system and paid accurately in line with agreed pay rates.

06	Changes to Standing Data	<ul style="list-style-type: none"> • Review a sample of adjustments to individual payee's standing data such as bank details; date of birth, addresses to ensure amendment was subject to due process and evidence is retained. • Verify the integrity of standing data held on the payroll
07	Management Information	<ul style="list-style-type: none"> • Determine the frequency of any regular and exception reports produced from Agresso and whether they are distributed to the appropriate recipient. • Establish whether the integrity accuracy and veracity of payroll based management reports produced from Agresso is maintained.

Limitations to the Scope of the Audit

The following limitations to the scope are applicable to this review which have been identified at the planning stage:

- The work will be undertaken using a risk based approach and testing will be on a sample basis to verify compliance; and
- The audit review does not provide absolute assurance that material error; loss or fraud does not exist.
- The audit did not examine or test the operational and system controls operating within the BT back office function at South Tyneside.

Inherent Risks

The risks listed below are **potential** inherent risks which are common for any system of this type and were considered as part of this review:

- Inaccurate or incomplete entry of payments and deductions;
- Inaccurate or incomplete entry of employee time and attendance data;
- Payroll calculations are inaccurate or incomplete;
- Risk of overpayment/underpayment of salary to staff;
- Statutory obligations for payment of taxation are breached;
- Breach of legislative requirements relating to pensions; and
- Payroll totals do not reconcile to the General Ledger

Appendix 4: Timetable and Distribution List

It is the responsibility of the auditee to ensure identify all officers that should receive a copy of this report.

Stage	Date
Exit Meeting	TBC
Draft Report Issued	27.02.2018
Responses Received	07.03.2018
Final Report Issued	29.03.2018

Audit Team
Principal Auditor: Alpesh Patel
Internal Auditor: Sohal Rawal
Sponsor
Director for Human Resources – Debbie Morris (RBKC)
Director of People Services – Lee Witham (WCC)
Director of Human Resources – Mark Grimley (H&F)
Head of Framework ICF – Jeremy Beresford (WCC)
Report Distribution List
Programme Assurance Manager (MSP) – George Lepine
Bi Borough Managed Services and 3rd Party Providers – Paul Lawrence
Head of Framework ICF – Jeremy Beresford (WCC)
Copy Recipients of Report
Director for Human Resources – Debbie Morris (RBKC)
Director of People Services – Lee Witham (WCC)
Director of Human Resources – Mark Grimley (H&F)

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Recommendations for improvements should be assessed by management for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

This report is prepared solely for the use of Audit Committees and senior management of the London Borough of Hammersmith and Fulham, the Royal Borough of Kensington and Chelsea and Westminster City Council. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.