

**London Borough of Hammersmith & Fulham**

**Final Report**

**Shared Services  
Agresso Payroll Review**

May 2017

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## 1. Introduction

As part of the internal audit plan for 2016/17, agreed by the Committee of all three Councils (Westminster City Council, Hammersmith and Fulham and Royal Borough of Kensington and Chelsea), 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 data held on Agresso. It 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.

As part of the Managed Services agreement, BT are 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 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.

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 2016/17 is summarised below:

<b>Council</b>	<b>Employees</b>	<b>Employee Cost</b>
WCC	3,353	£92.1m
H&F	3,231	£83.5m
RBKC	3,370	£93.5m
<b>Total</b>	<b>9,954</b>	<b>£269.1m</b>

As at the time of this audit review, there were ongoing issues over the delivery of the payroll service by BT. Whilst it is acknowledged that the service has not been operating as it should since go live in April 2015, the ICF and retained HR have been working closely with BT to correct and resolve these issues.

This audit only covers council employees and excludes the school and employees of other third parties that the Council pays through the Agresso application.

As part of this review, Audit were provided with high level read only access to the Agresso 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.

In order to undertake this audit, read only access was requested to the Agresso payroll module through the ICF and BT which enabled Audit to access key payroll data documents and records held on Agresso. Significant delays were encountered in granting read only access which impacted the level of audit testing that could be carried out.


Furthermore, Audit experienced difficulties in engaging with BT in providing payroll based reports for the audit and seeking clarification on potential errors and anomalies identified from transaction testing where the full audit trail for payroll transactions was not always held within Agresso. This also had an impact on the level of testing that could be undertaken as part of this audit review.

## 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
<b>Audit Opinion</b>				

### 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			3		
Leavers to payroll			3		
Variations to Pay			2		
Standing Data			1		
Management Reports					
		<b>Total</b>	<b>9</b>	<b>1</b>	

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 now 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.

##### **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 limits the audit checks that can be undertaken on payroll records and their accuracy and means that the integrity of payroll transactions cannot be confirmed.
- The retention of supporting documentation and maintaining an audit trail for payroll transactions on Agresso by BT was an area of concern. The ability to validate transactions is compromised where off system records are maintained by BT such as email communications with line managers requesting and authorising payments such as overtime, ad hoc allowances and maternity pay.
- The lack of co-operation and assistance from BT with the payroll review was an area of concern. Although a number of requests were made for standard payroll reports (amendments to pay, standing data listings, sickness reports) these were not provided. This restricted the level of transaction testing that could be carried out as part of this review.
- Details of anomalies and queries identified through transaction testing were passed onto BT for further clarification although no response has been received addressing the queries raised.
- Reliance cannot be placed over the integrity and accuracy of payroll performance reports produced by BT due to the impact of known errors which occurred at the commencement of the service.
- 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 noted on Agresso as part of transaction testing undertaken.
- Reliance cannot be placed on leavers being removed from the payroll on a timely basis and that there are no overpayments or that employees may still be on the payroll even though they have left. This is due to the incomplete audit trail noted on Agresso as part of transaction testing.
- 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 relied upon. Errors and omissions were noted over standing data on Agresso as part of transaction testing undertaken.

## **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
- Programme Assurance Manager for MSP
- 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
Medium	<p>As at February 2017, BT had delivered the following from the agreed BT Recovery Plan:</p> <ul style="list-style-type: none"> <li>• Payroll Recovery Plan: 29 out of 42 items (69%)</li> <li>• HR Recovery Plan: 36 out of 54 items (67%)</li> </ul> <p>Each item was part of the overall BT Recovery Plan (323 items) agreed with the three Councils that would enable BT to achieve a steady state of operation for the Agresso application.</p> <p>As at February 2017, the BT Shared Service Centre operational performance figures showed the following open (unresolved) incidents from a total of 2,596 open incidents covering all service areas (Finance, HR, Payroll, Pensions and Support):</p> <ul style="list-style-type: none"> <li>• 512 Payroll incidents</li> <li>• 752 HR incidents</li> </ul> <p>The most recent Payroll Performance data available from the monthly report to members was for December 2016 and showed the following payroll accuracy against a performance target of 99.8%:</p> <ul style="list-style-type: none"> <li>• WCC 99.3%</li> <li>• H&amp;F 98.9%</li> <li>• RBKC 99.2%</li> </ul> <p>Payroll accuracy has been a major concern across the three Councils and whilst there has been some improvement, concerns remain over the robustness and accuracy of the</p>	<p>There is a risk that where the performance of the payroll service falls below the agreed performance levels, this can have a detrimental impact on the confidence in the ability of BT to deliver a payroll service to the requisite standard as per the contract specification.</p> <p>There is also the risk that where the robustness, integrity and transparency of performance data produced by BT cannot be verified, this has a detrimental impact on the reliability and confidence over the data being an accurate and true reflection of actual performance.</p>	<p>1.1 The ICF should ensure that the payroll related performance monitoring and reporting arrangements are resolved with BT such that the arrangements are transparent and robust.</p>

figures reported by BT since they do not take into account known issues or errors such as pensions, sickness, unpaid leave and under/over payments. Whilst the reporting of current payroll performance data over the last six months has been stable, there are issues over the impact that historical errors may have on the performance statistics and work is currently ongoing with BT and the ICF to address this.

The reporting of payroll under and overpayments is an area of concern. Despite a number of requests to the Intelligent Client Function, Audit were not provided with the most the recent report showing this information. Audit were informed by the ICF that due ongoing discussions with BT on the accuracy of the report, an agreed report could not be released for information purposes until both parties had signed off the final version of this report.

As at March 2017, payroll overpayments being actively recovered as sundry debtors by BT since April 2015 are shown below. A significant 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 the Councils and BT:

	<b>No invoices</b>	<b>Outstanding balance</b>	<b>Original balance</b>
WCC	94	£83.3k	£200.7k
H&F	81	£55.1k	£142.7k
RBKC	57	£113.4k	£159.3k
<b>Total</b>	<b>232</b>	<b>£251.8k</b>	<b>£502.7k</b>

Audit are unable to provide assurance on the accuracy and integrity of data reported by BT due to the lack of clarity and transparency over how the various payroll performance data is compiled and calculated.

**Management Response**

This is currently being resolved with BT which has yet to complete an under and over payments report that meets the requirements of the councils. As part of the resolution of over and underpayments we will agree with BT how historic errors should be accounted for in the payroll accuracy figures. This will give us the foundation for robust future reporting of performance against this key performance indicator which BT are contractually obliged to meet (99.8% payroll accuracy month on month).

**Responsible Officer**

Intelligent Client Function

**Deadline**

July 2017

## 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 October 2016. 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>376</td> <td>20</td> </tr> <tr> <td>H&amp;F</td> <td>212</td> <td>20</td> </tr> <tr> <td>RBKC</td> <td>342</td> <td>20</td> </tr> <tr> <td><b>Total</b></td> <td><b>930</b></td> <td><b>60</b></td> </tr> </tbody> </table> <p><b>Testing Methodology:</b> 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"> <li>-New starter form present, authorised and properly completed.</li> <li>-New starter role approved and accurately recorded on Agresso.</li> <li>-New starter form submitted, processed and checked by second officer in timely manner.</li> <li>-New starter details accurately input onto Agresso (personal/bank details, tax code, salary, deductions, benefits).</li> <li>-All supporting documentation retained under the Document Archive folder (right to work, P45, references).</li> <li>-First salary payment made on time and is correct.</li> </ul>	Council	New Starters	Sample tested	WCC	376	20	H&F	212	20	RBKC	342	20	<b>Total</b>	<b>930</b>	<b>60</b>	<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>There is a risk that where relevant information relating to a new starter is not provided or disclosed to BT by managers, delays can occur in setting up the new starter and errors and omissions can occur in the new starters pay.</p>	<p>2.1 The ICF should ensure that BT maintain a full audit trail for all new starter transactions on Agresso.</p> <p>2.2 The ICF should liaise with Retained HR to ensure appropriate communications are sent to all business managers reminding them of the importance of completing the new starter form disclosing all relevant details for the new starter and submitting this to BT through the Service Now portal on a timely basis.</p> <p>2.3 The anomalies and queries identified by Audit should be referred to BT for resolution and corrective action where appropriate.</p>
Council	New Starters	Sample tested																
WCC	376	20																
H&F	212	20																
RBKC	342	20																
<b>Total</b>	<b>930</b>	<b>60</b>																

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

	<b>WCC</b>	<b>H&amp;F</b>	<b>RBKC</b>
New Starter Form (NSF) retained on Agresso	2/20	12/20	4/20
NSF fully completed	1/2	9/12	1/4
NSF authorised by manager	2/2	1/12	1/4
NSF dated by manager	2/2	11/12	4/4
NSF dated by BT	0/2	0/12	2/4
First salary paid on time and correct	20/20	20/20	19/20
Bank details accurately input	a)	a)	a)
Tax code correct	a)	a)	a)
Pension opt out processed correctly where present	2/2	1/1	6/6
Occupation Health Forms retained	3/20	13/20	17/20
Occupational Health tab on Agresso completed with details by BT	17/20	17/20	20/20
P45/46 retained b)	3/20	16/20	4/20
References retained on Agresso	2/20	12/20	17/20
Signed employment contract retained	1/20	9/20	15/20
Verification of ID retained	1/20	14/20	17/20

a) Audit did not have sufficient Agresso access privileges to undertake this check

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

As a result of the anomalies and queries identified from transactional testing and the absence of a full audit trail, Audit are unable to provide assurances on the robustness and integrity of the new starter process across the three councils.

**Management Response**

The ICF is working with BT SSC on the improvement of all payroll processes through the recovery plan and will continue to do so as part of completing that plan. We will also reinforce with retained HR the importance of ensuring that line managers and employees take responsibility for those parts of the process for which they are responsible. As part of the follow up to the audit the Programme Assurance Manager will review with the BT Service Assurance Manager the specific gaps in the records identified by Internal Audit with objective of agreeing lessons to be learned to prevent the future recurrence of such gaps. We will focus particularly on understanding why there is what appears to be a significantly worse position for Westminster on a number of the areas tested and what action is needed to address this.

Responsible Officer	Deadline
Intelligent Client Function Retained HR for WCC, RBKC and H&F	July 2017

### 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 October 2016. 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>284</td> <td>20</td> </tr> <tr> <td>H&amp;F</td> <td>232</td> <td>20</td> </tr> <tr> <td>RBKC</td> <td>452</td> <td>20</td> </tr> <tr> <td><b>Total</b></td> <td><b>968</b></td> <td><b>60</b></td> </tr> </tbody> </table> <p><b>Testing Methodology:</b> 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"> <li>-Leavers details are entered against employee record</li> <li>-Leavers details completed by line manager/submitted to BT in timely manner</li> <li>-Leaver details accurately input on Agresso by BT</li> <li>-Correct final pay based on last day of service</li> <li>-Supporting leaver documents retained (i.e. resignation letter)</li> <li>-P45/46 copy retained (best practice)</li> <li>-Leaver removed from payroll in timely manner</li> <li>-Salary deductions made to recover any overpayment or allowance (i.e. travel allowance)</li> </ul>	Council	Leavers	Sample tested	WCC	284	20	H&F	232	20	RBKC	452	20	<b>Total</b>	<b>968</b>	<b>60</b>	<p>There is a risk that where the full audit trail for leavers is not maintained in Agresso, the accuracy and completeness of payroll transactions for leavers cannot be independently verified and checked as being correct.</p> <p>There is a risk that where relevant information relating to leavers is not provided or disclosed to BT by managers on a timely basis, salary overpayments can occur where a leaver is not removed from the payroll on a timely basis.</p> <p>There is a risk that errors and omissions remain undetected and uncorrected where the integrity of the leaver process cannot be relied upon.</p>	<p>3.1 The Intelligent Client Function should ensure that BT maintain a full audit trail for leaver transactions on Agresso.</p> <p>3.2 The Intelligent Client Function should liaise with Retained HR to ensure that appropriate communications are sent to all business group managers reminding them of the importance of complying with the leavers notification process and submitting appropriate information to BT through the Service Now portal on a timely basis.</p> <p>Also see Recommendation 2.3 above</p>
Council	Leavers	Sample tested																
WCC	284	20																
H&F	232	20																
RBKC	452	20																
<b>Total</b>	<b>968</b>	<b>60</b>																

**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	9/20	14/20	6/20
Leave date agreed with manager reconciles with leave date entered by BT (a)	9/20	14/20	6/20
SN10 form (where completed) retained on Agresso	11/20	6/20	14/20
SN10 form (where completed) contains all relevant information (b)	8/11	3/7	9/14
SN10 form (where completed) authorised by line manager (c)	0/11	1/7	0/14
Last day service notified agrees with Agresso entry (d)	19/20	17/20	17/20
Leaver removed from payroll in timely manner (e)	20/20	18/20	17/20
Potential overpayments made (f)	3/20	6/20	3/20
Final salary unable to determine if correctly calculated (g)	5/20	6/20	7/20

Following findings also noted in relation to the above:

- (a) Audit unable to view workflow approval log for leavers to verify this action
- (b) SN10 forms had missing information such employee name, job title, reason for leaving and resignation date.
- (c) Audit unable to determine line manager due to missing information on the employee record on Agresso
- (d) Leave date incorrectly shown as default 31.12.2099 for three RBKC and three H&F employees.



<p>(e) Includes an RBKC leaver that appears to have been removed from payroll 17 days earlier than their actual leave date.</p> <p>(f) Further investigation revealed two confirmed overpayments of £3,676 and £1,750 for H&amp;F and two overpayments for RBKC which are “parked” awaiting further review by BT. The remaining anomalies could not be verified due to the insufficient supporting documentation being retained.</p> <p>(g) Due to insufficient supporting documentation being retained.</p> <p>The amount of supporting documentation retained for leavers was limited or incomplete making it difficult to verify whether payments made such as redundancy, compromise agreements, payments in lieu, had been correctly made and authorised or represented potential overpayments.</p> <p>Payroll related queries and incidents are reported to BT through the Service Now portal by council employees. However, these communications are not uploaded onto Agresso as supporting evidence where issues have been raised and resolved.</p> <p>Audit were informed by the ICF that although Service Now forms must be added to personal files there is no requirement in the service agreement with BT that they add records of incidents and queries dealt with outside the Service Now portal.</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"> <li>• Robustness and integrity of the leavers process.</li> <li>• Leavers being promptly removed from the payroll.</li> <li>• Overpayments have not occurred.</li> <li>• There are no employees on the payroll who have left but are still being paid through the payroll.</li> </ul>		

## Management Response

We are working with BT SSC on the improvement of all payroll processes through the recovery plan and will continue to do so as part of completing that plan. We will also reinforce with retained HR the importance of ensuring that line managers and employees take responsibility for those parts of the process for which they are responsible.

As part of the follow up to the audit the Programme Assurance Manager will review with the BT Service Assurance Manager the specific gaps in the records identified by Internal Audit with objective of agreeing lessons to be learned to prevent the future recurrence of such gaps. We will also examine when and how it may be necessary for information provided outside Service Now to be incorporated into the employee record on Agresso.

### Responsible Officer

Intelligent Client Function  
Retained HR for WCC, RBKC and H&F

### Deadline

July 2017

#### **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. These reports were not provided.</p> <p>Audit were, however, able to use other payroll based reports already in circulation from BT to extract the following variations to pay across the three council payrolls for the period October 2015 to September 2016;</p> <ul style="list-style-type: none"> <li>• Overtime Payments</li> <li>• Honoraria Payments</li> <li>• Variable Payments (relocation expense, professional fees, work permit expenses etc.)</li> </ul> <p><b>Testing Methodology:</b> A sample of 20 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><b>Key Findings:</b> the following findings were noted from transactional testing for each Council:</p> <table border="1"> <thead> <tr> <th>Variation to pay WCC</th> <th>Sample size WCC</th> <th>Evidence retained WCC</th> </tr> </thead> <tbody> <tr> <td>Overtime payment (a)</td> <td>20</td> <td>Not tested</td> </tr> <tr> <td>Honoraria payment (b)</td> <td>20</td> <td>10</td> </tr> <tr> <td>Variable payment (c)</td> <td>20</td> <td>4</td> </tr> </tbody> </table>	Variation to pay WCC	Sample size WCC	Evidence retained WCC	Overtime payment (a)	20	Not tested	Honoraria payment (b)	20	10	Variable payment (c)	20	4	<p>There is a risk that where supporting evidence and authorisation relating to overtime, honoraria and variable payments are not retained on Agresso, the audit trail is incomplete and the accuracy of payments made cannot be determined.</p> <p>There is a risk that errors and omissions may occur in the absence of line manager authorising overtime, honoraria and variable payments.</p>	<p>4.1 The Intelligent Client Function should ensure that BT maintain a full audit trail of supporting documentation and authorisation for all variation and changes to pay for employees on Agresso.</p> <p>Also see Recommendation 2.3 above</p>
Variation to pay WCC	Sample size WCC	Evidence retained WCC													
Overtime payment (a)	20	Not tested													
Honoraria payment (b)	20	10													
Variable payment (c)	20	4													
	<p>(a) Range from £448 to £2,163.            (b) Range from £254 to £5,000.            (c) Range from £113 to £4,350. Latter relates to one off payment for sponsoring foreign national, other payments relate to moving, relocation, professional fees and general expenses incurred by employees.</p>														

Variation to pay H&F	Sample size H&F	Evidence retained H&F
Overtime payment (a)	20	Not tested
Honoraria payment (b)	20	2
Variable payment (c)	20	4

- a) Range from £483 to £3,605.
- b) Range from. £127 to £5,500. An overpayment of £6,970 was noted for an employee (Fostering and Adoption) between April to May 2016 due to the SN82 Notification of Allowance Form being incorrectly completed by the line manager and payment instructions misinterpreted by BT. Attempts are being made to recover this from the employee who subsequently left H&F in June 2016.
- c) Range from £32 to £1,844 including a £1,510 payment for sponsoring foreign national.

Variation to pay RBKC	Sample size RBKC	Evidence retained RBKC
Overtime payment a)	20	Not tested
Honoraria payment b)	20	6
Variable payment c)	20	6

- a) Range from £340 to £1,468
- b) Range from £120 to £35,310. Latter relates to one off ad hoc payment to a senior director with no supporting evidence retained.
- c) Range from £147 to £2,815

Audit were unable to test the overtime claims due to the lack of access to the workflow log showing managers approving the amount claimed. This will be examined as part of the 2017/18 payroll audit work where appropriate access will be requested to undertake this check although there may be some technical obstacles to overcome in order to achieve this.

Analysis of the data from the variation to pay report and examination of employee records on Agresso also identified the following issues and anomalies:

- Inconsistency in the treatment of professional fees with

	<p>some fees reimbursed net of tax whilst others reimbursed gross of tax;</p> <ul style="list-style-type: none"><li>• Payslip incorrectly filed under the wrong employee record. A payslip for an H&amp;F employee was incorrectly held under another H&amp;F employee record. This is potentially a breach of the Data Protection Act;</li><li>• Sickness documents and certificate for an WCC employee erroneously filed under an H&amp;F employee. This is potentially a breach of the Data Protection Act;</li><li>• WCC male employee aged 60 years had maternity pay adjustments between May to November 2016 which may indicate a payment error and no supporting documents or audit trail to explain the adjustments; and</li><li>• RBKC employee transferred to H&amp;F post but appears to receive pay for RBKC post beyond their leave date which may have resulted in a potential overpayment.</li></ul> <p>As a result of the number of anomalies and queries identified from transactional testing, Audit are unable to provide assurances that variations and adjustments to pay are have been authorised and processed correctly, accurately and on a timely basis on Agresso.</p>		
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## Management Response

The ICF has reviewed and resolved the incorrectly filed payslip and the incorrectly filed sickness absence documents. We are in the process of commissioning an audit which will focus specifically on the potential for the occurrence of data breaches at the BT SSC and will ensure that lessons are learned from the incorrect filing of documents identified here so that steps are taken to minimise this risk. We are investigating the two other specific incidents identified by the report.

We are working with BT SSC on the improvement of all payroll processes through the recovery plan and will continue to do so as part of completing that plan.

We will also reinforce with retained HR the importance of ensuring that line managers and employees take responsibility for those parts of the process for which they are responsible.

As part of the follow up to the audit the Programme Assurance Manager will review with the BT Service Assurance Manager the specific gaps in the records identified by Internal Audit with objective of agreeing lessons to be learned to prevent the future recurrence of such gaps.

### Responsible Officer

Intelligent Client Function

### Deadline

August 2017

## 5. Standing Data – Transaction Testing

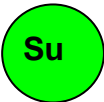


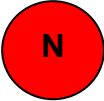
Priority	Issue	Risk	Recommendation
High	<p>Audit requested a number of reports from BT showing standing data information of employees on the three Council payrolls such as name, address, bank details, National Insurance number. This report was not provided.</p> <p>Audit were able to use other payroll reports already in circulation 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 2016 and comprised approximately 9,300 entries.</p> <p><b>Testing Methodology:</b> 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><b>Key Findings:</b> the following was noted from the analytical review of standing data:</p> <ul style="list-style-type: none"> <li>• One WCC employee had a date of birth recorded as 01.01.1901;</li> <li>• One H&amp;F employee had a date of birth recorded as 28.04.2016;</li> <li>• One H&amp;F employee with date of birth 25.09.1987 commenced employment on 07.01.2003 at which point they would have been 15.8 years old;</li> <li>• Two WCC employees and one H&amp;F employee did not have a home address showing against their personal record on Agresso; and</li> <li>• An additional 400 potential anomalies were identified from the data analytic exercise which could not be fully reviewed as part of this exercise due to time constraints. These will</li> </ul>	<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 ensure that the errors, anomalies and discrepancies identified by Audit with payroll standing data are referred to BT for resolution and corrective action where appropriate.</p>



	<p>be picked up as part of the next key system review of payroll in 2017/18.</p> <p>Audit also noted the following payroll and related HR issues:</p> <ul style="list-style-type: none"> <li>• Annual leave balance report extracted from Agresso as at January 2017 identified 421 permanent employees (278 WCC, 66 H&amp;F and 77 RBKC) with a nil annual leave allocation on Agresso for 2016/17. There is 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 have to maintain manual records to record all annual leave taken;</li> <li>• Personnel records from legacy HR systems had not been transferred across to Agresso for all employees that were in post prior to April 2015;</li> <li>• Issues over the input and reporting of sickness levels. This is a known issue that is the subject of a separate audit review.</li> </ul> <p>As a result of the number of anomalies and queries identified from transactional testing, Audit are unable to provide assurances over the accuracy of changes and amendments made to standing data and that these have been authorised and processed correctly, accurately and on a timely basis.</p>		
<b>Management Response</b>			
The ICF will investigate with BT the specific incidents identified by the report with a view to understanding what has happened and learning lessons to prevent a recurrence.			
<b>Responsible Officer</b>			<b>Deadline</b>
Intelligent Client Function			August 2017

## 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
<b>High</b>	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.
<b>Medium</b>	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.
<b>Low</b>	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"> <li>Determine whether clear and up to date procedure documents are in place that reflect actual payroll processes and practice.</li> <li>Establish whether compliance with agreed procedures and practice is satisfactory.</li> <li>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.</li> </ul>
02	Reporting and Monitoring	<ul style="list-style-type: none"> <li>Establish whether appropriate management reports can be produced from Agresso for the payroll.</li> <li>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.</li> <li>Assess whether the reporting functionality within Agresso for payroll reports meets user requirements.</li> <li>Assess what action is being taken to mitigate against the risk of payroll errors reoccurring each month.</li> </ul>
03	Starters	<ul style="list-style-type: none"> <li>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.</li> <li>Authority to set up the employee is appropriate.</li> <li>Review to ensure that all relevant information relating to the new starter is retained and uploaded onto Agresso.</li> <li>Verification of correct payment made to the new starter following commencement of their employment.</li> </ul>
04	Leavers	<ul style="list-style-type: none"> <li>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.</li> <li>All appropriate leaver documentation is recorded and uploaded onto Agresso.</li> </ul>
05	Variations to Pay	<ul style="list-style-type: none"> <li>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.</li> <li>Dates for additional payments are correctly recorded to ensure under/over payments are not made.</li> <li>Verification of correct payment made to the employee in a timely manner.</li> <li>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.</li> <li>Dates for deductions are correctly recorded to ensure under/over deductions are not made.</li> <li>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.</li> </ul>
06	Changes to Standing	<ul style="list-style-type: none"> <li>Review a sample of adjustments to individual payee's standing data</li> </ul>

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

## 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	30 March 2017
Draft Report Issued	31 March 2017
Responses Received	6 April 2017
Final Report Issued	19 May 2017

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

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.