

SHROPSHIRE COUNCIL AUDIT SERVICES

FINAL INTERNAL AUDIT REPORT

WME PAYROLL 2018/19

Assurance Level	Good
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Customer	West Mercia Energy
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Distribution	Nigel Evans, Director Jo Pugh, Finance Manager
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Auditors	Shelley Taylor
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Fieldwork dates	19 th September 2018
Debrief meeting	19 th September 2018
Draft report issued	21 st September 2018
Responses received	26 th September 2018
Final report issued	27 th September 2018

Introduction and Background

1. As part of the approved internal audit plan for 2018/19 Audit Services have undertaken a review of Payroll.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Audit Services would like to express their thanks to the officers who assisted during the course of the audit.

Scope of the Audit

4. The scope, incorporating the objectives of the audit, was agreed with key contacts at the commencement of the audit.

Follow up of the previous recommendations and audit of the payroll control process, including overtime claims, travel and subsistence expenses and the reconciliation process in place for transferring payroll costs into the Sage nominal ledger, using established documentation and testing.

The Payroll and Human Resources function within West Mercia Energy is an administrative and authorisation process with the actual payroll calculations, statutory deductions and payment being carried out by Shropshire Council and recharged on a monthly basis.

5. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved:
 - To ensure that previous recommendations have been implemented.
 - There are adequate segregation of duties in place.
 - Payroll data is correctly transferred and accurately processed.
 - Travel and subsistence is appropriately controlled and actioned in a timely manner.
 - Management information is produced in an accurate and timely manner and subject to review.
 - Workforce requirements and costs are appropriate to the tasks undertaken and the policies of the organisation.
6. The audit was delivered on time and within budget.

Audit Opinion

7. An opinion is given on the effectiveness of the control environment. This indicates the level of assurance that can be given based upon testing and evaluation of the system. This opinion will be reported to the Joint Committee and will inform the Annual Governance Statement which is included in the Annual Statement of Accounts. There are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

As a result of the evaluation and testing of the controls that are in place in the areas examined, from work undertaken Audit Services are able to give the following assurance opinion:

Good	There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.
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8. Responsibility for the maintenance of a sound system of internal control rests with management. The audit process is designed to provide a reasonable chance of discovery of material weaknesses in internal control by means of sample testing. It cannot however guarantee absolute assurance against all material weaknesses, the overriding of management controls, collusion, or instances of fraud or irregularity.
9. Audit recommendations are rated Fundamental, Significant, Requires Attention or Best Practice according to their level of priority. Details are included in the Exception Report provided to management and the Action Plan attached at Appendix 1. Implementation of these recommendations will serve to address the risks identified and enhance the procedures that are currently in place. The following table summarises the number of recommendations made in each category:

Total	Fundamental	Significant	Requires Attention	Best Practice
2	0	0	1	1

10. The review identified the following areas where appropriate management controls were in place and operating satisfactorily and, upon which, positive assurance can be given:

✓	To ensure that previous recommendations have been implemented.
✓	There are adequate segregation of duties in place.
✓	Payroll data is correctly transferred and accurately processed.
✓	Travel and subsistence is appropriately controlled and actioned in a timely manner.
✓	Management information is produced in an accurate and timely manner and subject to review.
✓	Workforce Requirements and costs are appropriate to the tasks undertaken and the policies of the organisation.

11. Recommendations accepted by management at the previous audit have been reviewed and are detailed below:

Number of recommendations accepted by management at the last audit	4
Recommendations implemented	2
Recommendations partially implemented	-
Recommendations superseded	1
Recommendations not actioned	1

Reasonable progress has been made in the implementation of previous recommendations. Recommendations which remain outstanding are included in the attached Action Plan.

Audit Approach

12. The approach adopted for this audit included:
 - Review and documentation of the system.
 - Identification of key controls.
 - Follow up of previous recommendations.
 - Tests of controls to confirm their existence and effectiveness.
 - Evaluation of the controls and identification of weaknesses and potential risks arising from them.

13. Internal Audit report only by exception; the exception report provided to management identifies only those areas where control evaluation and audit testing revealed control weaknesses and or errors. Recommendations to improve controls or enhance existing practice are detailed against each exception and the associated risk, and are also included in the Action Plan at Appendix 1. A more detailed report covering all of the work undertaken can be provided on request.

14. In accordance with the Public Sector Internal Audit Standards, recommendations will be followed up to evaluate the adequacy of management action that has been taken to address identified control weaknesses.

Ceri Pilawski
Head of Audit

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ACTION PLAN FOR PAYROLL 2018/19

Fundamental	Significant	Requires Attention	Best Practice
Immediate action required to address a major control weakness which, if not addressed, could lead to material loss.	A recommendation to address a significant control weakness where the system may be working but errors may go undetected.	A recommendation aimed at improving the existing control environment.	Suggested action which aims to improve best value, quality or efficiency.

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/Partially	Management Response	Lead Officer	Date to be Actioned
2.1	1	The Working Hours Policy should be reviewed as soon as possible. If no amendments are necessary a note should be placed on the footer of the document informing the reader that the policy will be valid until further notice. (Updated from the recommendation agreed in 2017/18)	Best Practice	Yes	Agreed	Julie Wassall	Immediately
2.2	2	The following clause should be added to the Hours of Work policy for the avoidance of doubt: Overtime claim forms should be normally be submitted for approval on a monthly basis unless a separate agreement has been reached with	Requires Attention	Yes	Agreed	Julie Wassall	Immediately

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
		your Line Manager. As a maximum, claims must not exceed more than one quarter (three months) before submission.					