



NOTTINGHAM CITY HOMES

HIGH LEVEL REVIEW OF THE PAYMENTS, PAYROLL & INCOME ARRANGEMENTS

Report issued:	September 2008
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Audit Plan:	2008/09
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The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

Business Assurance

High Level Review of the Payments, Payroll & Income Arrangements

- EXECUTIVE SUMMARY -

INTRODUCTION

1. TIAA has reviewed the high level control arrangements for the payments, payroll and income systems at Nottingham City Homes. The review was carried out in August 2008.

OVERALL ASSESSMENT

2. From the work carried out, which did not include any detailed testing, the evaluations of the adequacy of the internal controls procedures were established (figure 1 below). These internal controls procedures can only provide reasonable and not absolute assurance against misstatement or loss.

Figure 1- Assessment of Internal Control Arrangements

Procedure	Assessment
Payments	Reasonable Documented Control
Payroll	Limited Documented Control
Income	Reasonable Documented Control

KEY FINDINGS

3. The following significant matters were identified which need to be addressed within the procedures in order to strengthen further the control environment.

Payroll

- BACS transfers for net pay payments are not authorised by NCH staff prior to processing.
- Personal Data held on the organisation's payroll is not adequately secured as the system can be accessed by Council staff (and vice versa).

Income

- The Financial Regulations do not make reference to who has overall responsibility for income.

MANAGEMENT RESPONSES

4. Management comments on the recommendations made in this review and a timetable for their implementation are shown in the Management Action Plan.



MANAGEMENT ACTION PLAN

Para. Ref.	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
PAYMENTS					
14.1	<p>The Financial Regulations and procedures be amended to include reference to: -</p> <ul style="list-style-type: none"> • Payment is only made on invoices addressed to the organisation. • Supplier records are only set up when independent collaborative has been checked. • Suspense accounts are regularly reviewed and cleared. 	3	<p><i>Consideration to be given to which Internal Audit recommendations should be addressed in the Financial Regulations and which in procedural documents.</i></p> <p><i>All proposed amendments to the Financial Regulations are maintained on a summary register within finance and the Company's Standing Orders will be revised in 2009.</i></p>	<p><i>Update of the Company's Financial Regulations – End of May 2008.</i></p> <p><i>Finalisation of financial procedures – End of December 2009.</i></p>	<p><i>Darren Phillips</i> <i>Head of Finance (Company)</i></p>
PAYROLL					
16.2	BACS transfers for net pay payments be authorised by NCH staff prior to processing.	1	<p><i>The City Council is responsible for processing and managing the Company's payroll and payment systems (including BACS) under a Service Level Agreement (SLA).</i></p> <p><i>Discussions to be held with the City Council to identify a mechanism for the Company to agree BACS net pay totals to the payroll system, and authorise them, prior to processing for payment.</i></p>	<p><i>December 2008.</i></p>	<p><i>Darren Phillips</i> <i>Head of Finance (Company)</i></p>

PRIORITY GRADINGS

1	URGENT	Fundamental control issue on which action should be taken immediately.
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2	IMPORTANT	Control issue on which action should be taken at the earliest opportunity.
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3	ROUTINE	Control issue on which action should be taken.
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High Level Review of the Payments, Payroll & Income Arrangements

Para. Ref.	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
16.3	The operation of the inter-company account be reviewed to establish confidentiality of NCH payroll data.	1	<p><i>Continued use of the One World application is due to be assessed against NCH's future requirements, which will become clearer in the longer term. This process will include consideration of the risks associated with service delivery and ongoing data privacy issues, but will be dependent on the timetable of actions associated with the implementation of the City Council's IT Strategy.</i></p> <p><i>Consideration to be given to the possibility of amending the data transferred from the payroll system to the ledger to improve confidentiality.</i></p>	<p>2010/11</p> <p>End of September 2008.</p>	<p><i>Julie Crook</i></p> <p><i>Director of Finance, ICT and Governance</i></p>
16.4	Delegated powers of employees in relation to the payroll function set out in Financial Regulations or other document approved by the Board.	2	<p><i>Consideration to be given to which Internal Audit recommendations should be addressed in the Financial Regulations and which in procedural documents.</i></p> <p><i>All proposed amendments to the Financial Regulations are maintained on a summary register within finance and the Company's Standing Orders will be revised in 2009.</i></p>	<p><i>Update of the Company's Financial Regulations – End of May 2009</i></p> <p><i>Finalisation of financial procedures – End of December 2008</i></p>	<p><i>Darren Phillips</i></p> <p><i>Head of Finance (Company)</i></p>

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High Level Review of the Payments, Payroll & Income Arrangements

Para. Ref.	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
16.1	<p>Documented procedures be amended to make reference to: -</p> <ul style="list-style-type: none"> Periodic reconciliation of employees held on the HR system to the payroll system. All amendments to standing payroll master file information are authorised. The association's payroll procedures and computer systems programs do not permit payment to any employee unless an authorised post is recorded. The salaries and wages payroll tabulations are approved by an authorised member of staff for all employees in receipt of an amendment to their basic gross pay resulting from agreed bonus awards and national pay award settlements. 	2	<i>The Company is currently reviewing and updating its financial policy and procedure documents. Existing or newly established documents will be updated to address the current weaknesses identified by recommendation 16.1.</i>	End of December 2008.	Mary Mayes Head of Human Resources
16.5	Timetables be established for the receipt and input of data for monthly paid employees.	3	<i>Discussions to be held with the relevant stakeholders, notably NCH HR and the City Council's payroll department, and a timetable established and communicated to managers.</i>	End of September 2008.	Mary Mayes Head of Human Resources
16.6	Ongoing monitoring be carried out by the Finance Department to identify any significant changes in individual member of staff claims.	3	<i>The City Council is in the process of introducing the payment of all staff expenses through the payroll system. NCH is hoping to adopt a similar system which will facilitate the review of staff expenses by individual employees and enable finance to monitor significant changes.</i>	End of March 2008.	Darren Phillips Head of Finance (Company)

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High Level Review of the Payments, Payroll & Income Arrangements

Para. Ref.	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
16.7	Emergency payroll procedures be documented.	3	<i>The Company is currently reviewing and updating its financial policy and procedure documents. Existing or newly established documents will be updated to address the current weaknesses identified by recommendation 16.1.</i>	<i>End of December 2008</i>	<i>Mary Mayes Head of Human Resources</i>
INCOME					
18.1	Documented authorities in relation to income be prepared.	2	<i>Consideration to be given to which Internal Audit recommendations should be addressed in the Financial Regulations and which in procedural documents. All proposed amendments to the Financial Regulations are maintained on a summary register within finance and the Company's Standing Orders will be revised in 2009.</i>	<i>Update of the Company's Financial Regulations – End of May 2009. Finalisation of financial procedures – End of December 2008.</i>	<i>Darren Phillips Head of Finance (Company)</i>
18.2	The Financial Regulations be amended to make reference to who has overall responsibility for income.	2	<i>As above.</i>	<i>Update of the Company's Financial Regulations – End of May 2009. Finalisation of financial procedures – End of December 2008.</i>	<i>Darren Phillips Head of Finance (Company)</i>

PRIORITY GRADINGS

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High Level Review of the Payments, Payroll & Income Arrangements

Para. Ref.	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
18.3	<p>Documented procedures for income collection points in regional offices be amended to include: -</p> <ul style="list-style-type: none"> • A receipt is issued for each income transaction received. • All income receiving points to which the public have access are secure. • Arrangements are in place to deal with any unauthorised attempts to access the area. 	3	<i>The Company is currently reviewing and improving its financial policy and procedure documents – including cash collection. Existing or newly established documents will be updated to address the current weaknesses identified by recommendation 18.3.</i>	End of December 2008.	<p>Darren Phillips</p> <p>Head of Finance (Company)</p>

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SCOPE AND LIMITATIONS OF THE REVIEW

5. The review considered the documented procedures for the income, payroll and payments arrangements operated by the Association.
6. The scope of the review did not include detailed compliance testing.
7. The responsibility for a sound system of internal controls rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that may exist. Neither should internal audit work be relied upon to identify all circumstances of fraud or irregularity, should there be any, although the audit procedures have been designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control may not be proof against collusive fraud. Effective implementation of the recommendations made in this report by management is important for the maintenance of a reliable internal control system. Recommendations for improvements should be assessed by the Association for their full impact before they are implemented.

MATERIALITY

8. The payments, payroll & income systems provide the core end use systems. These systems rely on the controls within other operating systems to confirm that the transactions were necessary and appropriate to the requirements of the Association. This review did not consider the controls within the other operating systems.

RELEASE OF REPORT

9. The table below sets out the history of this report.

Date draft report issued:	19 th August 2008
Date management responses recd:	18 th September 2008
Date final report issued:	22 nd September 2008

- DETAILED REPORT -

10. This review identified the controls that set out in the documented procedures that have been prepared by the Association. An assessment of the completeness of the procedures in providing reasonable internal control has been provided for each of the three systems reviewed. The assessments are:

- | | |
|---------------------------------------|--|
| Substantial Documented Control | robust series of documented internal controls which should ensure continuous and effective achievement of the control objective, subject to the procedures being fully and consistently complied with. |
| Reasonable Documented Control | reasonable number of documented internal controls, however may not be operated all the time. |
| Limited Documented Control | the documented controls are not sufficient to ensure the continuous and effective achievement of the control objective. |
| No Documented Control | fundamental breakdown or absence of documented core internal controls. |

BACKGROUND

11. A review of the reports issued to the Association within the previous twelve months by the following sources identified no matters relating to payments, payroll & income.

Source	Matters raised	Referred to in this report
External Audit	None raised.	N/A
Audit Commission	None raised.	N/A

DOCUMENTED CONTROLS

12. High Level desktop tests were carried out to assess the overall operational effectiveness of the documented internal controls. The following matters, which should not be considered to be exhaustive, were identified:

Payments

13. The following matters were identified:

- 13.1 The procedures relating to the processing of payments and through the system are contained within the One World system and are updated by the One World team.
- 13.2 The Financial Regulations are dated May 2008 and contain the payments procedures.
- 13.3 Although operating in practice, the documented procedures do not include reference to:
 - Payment is only made on invoices addressed to the organisation.
 - Supplier records are only set up when independent collaborative has been checked.
 - Suspense accounts are regularly reviewed and cleared.

- (Recommendation 14.1 refers).

14.	Recommendations:	Priority
14.1	<p>The Financial Regulations and procedures be amended to include reference to: -</p> <ul style="list-style-type: none"> • Payment is only made on invoices addressed to the organisation. • Supplier records are only set up when independent collaborative has been checked. • Suspense accounts are regularly reviewed and cleared. 	3

Payroll

15. The following matters were identified:

- 15.1 Documented procedures do not make reference to: -
- Periodic reconciliation of employees held on the HR system to the payroll system being completed.
 - All amendments to standing payroll master file information are authorised.
 - The association's payroll procedures and computer systems programs do not permit payment to any employee unless an authorised post is recorded.
 - The salaries and wages payroll tabulations be approved by an authorised member of staff for all employees in receipt of an amendment to their basic gross pay resulting from agreed bonus awards and national pay award settlements.
(Recommendation 16.1 refers)
- 15.2 The internal audit review carried out in May 2007 recommended that BACS transfers for net pay payments be authorised by NCH staff prior to processing. At the time of the current review this recommendation had not yet been implemented.
(Recommendation 16.2 refers).
- 15.3 The internal audit review carried out in May 2007 recommended that the operation of the inter-company account be reviewed to establish confidentiality of NCH payroll data. At the time of the current review this recommendation had not yet been implemented.
(Recommendation 16.3 refers).
- 15.4 There are no delegated powers for employees in relation to the payroll function set out in Financial Regulations or other document approved by the Board. (Recommendation 16.4 refers).
- 15.5 There is no timetable in place for the receipt and input of data for monthly pay employees. (Recommendation 16.5 refers).
- 15.6 Monitoring is not carried out by the Finance Department to identify any significant changes in individual member of staff travel and subsistence claims. (Recommendation 16.6 refers).
- 15.7 There are no emergency payroll procedures in place. (Recommendation 16.7 refers).

16.	Recommendations:	Priority
16.1	<p>Documented procedures be amended to make reference to: -</p> <ul style="list-style-type: none"> • Periodic reconciliation of employees held on the HR system to the payroll system. • All amendments to standing payroll master file information are authorised. • The association's payroll procedures and computer systems programs do not permit payment to any employee unless an authorised post is recorded. • The salaries and wages payroll tabulations are approved by an authorised member of staff for all employees in receipt of an amendment to their basic gross pay resulting from agreed bonus awards and national pay award settlements. 	2
16.2	<p>BACS transfers for net pay payments be authorised by NCH staff prior to processing.</p>	1
16.3	<p>The operation of the inter-company account be reviewed to establish confidentiality of NCH payroll data.</p>	1
16.4	<p>Delegated powers of employees in relation to the payroll function set out in Financial Regulations or other document approved by the Board.</p>	2
16.5	<p>Timetables be established for the receipt and input of data for monthly paid employees.</p>	3
16.6	<p>Ongoing monitoring be carried out by the Finance Department to identify any significant changes in individual member of staff claims.</p>	3
16.7	<p>Emergency payroll procedures be documented.</p>	3

Income

17. The following matters were identified:

17.1 There are no documented delegated authorities relating to income. (Recommendation 18.1 refers).

17.2 The Financial Regulations state that the Director of Housing has overall responsibility for rental income but no reference is made to who has responsibility for all other income. (Recommendation 18.2 refers).

17.3 Although operating in practice documented procedures for income collection points in regional offices be amended to include: -

- A receipt is issued for each income transaction received.
- All income receiving points to which the public have access are secure.



- Arrangements are in place to deal with any unauthorised attempts to access the area.
(Recommendation 18.3 refers).

18.	Recommendations:	Priority
18.1	Documented authorities in relation to income be prepared.	2
18.2	The Financial Regulations be amended to make reference to who has overall responsibility for income.	2
18.3	Documented procedures for income collection points in regional offices be amended to include: - <ul style="list-style-type: none">• A receipt is issued for each income transaction received.• All income receiving points to which the public have access are secure.• Arrangements are in place to deal with any unauthorised attempts to access the area.	3
