



NOTTINGHAM CITY HOMES

## HIGH LEVEL REVIEW OF THE PAYMENTS, PAYROLL & INCOME ARRANGEMENTS

<b>Report issued:</b>	August 2009
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<b>Audit Plan:</b>	2009/10
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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 July 2009.

### 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	<b>Substantial Documented Control</b>
Payroll	<b>Reasonable Documented Control</b>
Income	<b>Substantial Documented Control</b>

### KEY FINDINGS

3. The key control and operational practice findings that need to be addressed in order to strengthen the control environment are set out in the Management and Operational Effectiveness Action Plans. The prioritisation of the findings are summarised below (figure 2):

Figure 2 - Summary of Priorities of Findings

Area	Urgent	Priority	Routine	Operational
Payments	-	-	-	-
Payroll		-	1	
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**

**PRIORITY 1, 2 AND 3 RECOMMENDATIONS**

Risk	Finding	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
Failure to direct the process through approved policy & procedures.	Although operating in practice, the documented procedures and Financial Regulations do not make reference to some expected payroll controls.	<p>Documented procedures be amended to make reference to:</p> <ul style="list-style-type: none"> <li>• Changes to bank details and voluntary deductions are authorised in writing by the employee.</li> <li>• All amendments to direct credit instructions are reported directly to employees by the finance department.</li> <li>• All amendments made to annual salary or rates of pay and allowances are subject to independent authorisation. Payroll calculations for a sample of pay records are independently checked following changes to pay structures, taxation rates, national insurance contributions, etc.</li> <li>• Timetables for the receipt of input are established and enforced.</li> </ul>	3	<p><i>Starter/Leaver and Variations to contract procedures will be a priority.</i></p> <p><i>Other procedures such as system, establishment and annual pay/incremental increases will follow.</i></p> <p><i>Draft to be available by end August 2009 and recommendations to be incorporated as required.</i></p>	End of December 2009	Mary Mayes – Head of HR

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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**OPERATIONAL EFFECTIVENESS MATTERS**

<b>Item</b>	<b>Management Comments</b>
None identified.	

ADVISORY NOTE

Operational Effectiveness Matters need to be considered as part of management review of the procedures, rather than on an one-by-one basis

**- DETAILED REPORT -****SCOPE AND LIMITATIONS OF THE REVIEW**

5. The review considered the documented procedures for the income, payroll and payments arrangements operated by the Company.
6. The scope of the review did not include detailed compliance testing.
7. The limitations and the responsibilities of management in regard to this review are set out in the Annual Plan.

**ASSESSMENTS OF THE KEY RISK CONTROL OBJECTIVES**

8. This review identified and tested the controls that are being operated by the Company and an assessment of the combined effectiveness of the controls in mitigating the key control risks is provided. The assessments are:

<b>Substantial Assurance</b>	robust series of internal controls in place which should ensure continuous and effective achievement of the control objective.
<b>Reasonable Assurance</b>	reasonable number of internal controls in place, however may not be operated all the time.
<b>Limited Assurance</b>	the controls in place are not sufficient to ensure the continuous and effective achievement of the control objective.
<b>No Assurance</b>	fundamental breakdown or absence of core internal controls.

**MATERIALITY**

9. 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 Company. This review did not consider the controls within the other operating systems.

**RELEASE OF REPORT**

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

Date draft report issued:	17 <sup>th</sup> July 2009
Date revised draft report issued:	11 <sup>th</sup> August 2009
Date management responses recd:	14 <sup>th</sup> August 2009
Date final report issued:	17 <sup>th</sup> August 2009

## AUDIT FINDINGS

### DOCUMENTED CONTROLS

11. 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:
- Additions to the Financial Regulations as recommended on the previous internal audit conducted in August 2008 are currently held in a Register of Standing Orders Updates. These will be considered for inclusion when the Standing Orders are revised in September 2009.

#### Payments

12. The following matters were identified:
- 12.1 The Financial Regulations are dated May 2008 and make reference to the payment arrangements.
- 12.2 The procedures relating to the processing of payments and through the system are contained within the One World system and are continually updated by the One World team.

#### Payroll

13. The following matters were identified:
- 13.1 The internal audit review carried out in August 2008 recommended that:  
Documented procedures be amended to make reference to:
- 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.
  - Emergency Payroll procedures be documented.
- At the time of the current review these recommendations had not yet been implemented. The original implementation date of December 2008 was extended to August 2009 as the Company are currently reviewing and updating its financial policy and procedure documents.
- 13.2 The internal audit review carried out in August 2008 recommended that:
- Ongoing monitoring be carried out by the Finance Department to identify any significant changes in individual member of staff claims. At the time of the current review this recommendation had not yet been implemented.

Discussions with the Head of Finance (Company) identified that NCH has drafted a new Employee Expenses policy and had discussions with NCC about processing all expenses through the payroll system which will enable monitoring of individual member of staff claims. Implementation will be completed post consultation with the Unions.

13.3 Although operating in practice, neither the documented procedures or Financial Regulations make reference to:

- Changes to bank details and voluntary deductions are authorised in writing by the employee.
- All amendments to direct credit instructions are reported directly to employees by the finance department.
- All amendments made to annual salary or rates of pay and allowances are subject to independent authorisation. Payroll calculations for a sample of pay records are independently checked following changes to pay structures, taxation rates, national insurance contributions, etc.
- Timetables for the receipt of input are established and enforced.

*Recommendation: The documented payroll procedures be amended to include these requirements.*

## **Income**

14. The following matters were identified:

14.1 Updated Cash and Banking Procedures were prepared in March 2009.

14.2 The One World System generates invoices. Nottingham City Council, under an SLA, manages the collection of non-rental income. This is supplemented by work conducted by staff of Nottingham City Homes relating to income such as service charges, schools income and others.

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