EXTRACTS FROM AUDIT REPORTS WITH MODERATE OR LOW LEVEL OF ASSURANCE ISSUED QUARTER 1 2011/12

ICT Business Applications: Human Resources and Payroll – 30 June 2011

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1.   INTRODUCTION

1.1   In accordance with the Audit Plan for 2011/12, an examination of the above subject area was undertaken and this report presents the findings and conclusions for information and action where appropriate.

1.2   This report outlines the approach to the audit and presents the findings and conclusions arising.

2.   SCOPE AND OBJECTIVES OF AUDIT

2.1   The examination was undertaken to assess the adequacy of key controls in place for the applications supporting human resources management and payroll operations to ensure the completeness, accuracy, security and effectiveness of data input, processing and output. These controls may be provided either by programming and configuration within the application systems or by manual controls exercised by users.

2.2   The review focused upon the key IT application controls based on the following system control objectives:

- an appropriate level of control is maintained over input and output to ensure completeness and accuracy of data;

- a complete audit trail is maintained which allows an item to be traced from input through to its final resting place, and the final result broken down into its constituent parts;

- data and systems are held securely and the application service is delivered to the required standards; and

- controls are in place to avoid breaches of any law, statutory, regulatory or contractual obligations, and of any security requirements.

2.3   The audit approach was based on the CIPFA Computer Audit Guidelines and related matrices covering application controls and outsourcing of computer services. The expected controls under these Guidelines are categorised into the following areas:

(1)   user security control;
(2)   parameter data;
(3)   transaction input;
(4)   control of system output;
(5)   audit trail;
(6)   system availability; and
(7)   delivery of outsourced service.

2.4   The audit approach was to evaluate the controls using internal control questionnaires from the CIPFA Guidelines with evidence obtained from:

§   consultation and discussion with the Payments Manager; and

§   inspection and analysis of relevant documentation, system reports, displays, data exports, etc.

3.   AUDIT FINDINGS

3.2   System Environment

3.2.1 There are currently two applications supporting the Council's human resources management functions. Payroll operations are run on a Warwickshire County Council application built on the Oracle Human Resources Management System (HRMS), while the remainder of human resources functions are supported by an in-house hosted application of a software product called Snowdrop. The Council's use of HRMS originates from a joint development and operational partnership with the County Council dating back to 2001, although the partnership was never formalised (a draft partnership agreement was drawn up in 2003 but never formally adopted despite continued efforts on the District side to obtain sign-up from the County Council).

3.2.2 An approved project is underway to migrate all of the human resources functions on Snowdrop to HRMS with implementation to be completed by October 2011. It is anticipated that the provisions of the draft agreement will come under automatic review from that time (seeking a service level agreement is included as a priority action in the project scope). Given this development, Snowdrop has been excluded from the audit scope on this occasion with attention focused exclusively on the HRMS.

3.2.3 HRMS is accessed by Warwick District users from designated work stations connected to the County Council server environment via a secure encrypted web link.

3.3   User Security Controls

3.3.1 Warwick District Council is designated as a separate business group within HRMS, thereby partitioning the District employee database making it inaccessible to all other client groups within and external to the County Council. Reflecting the centralisation of payroll operations, the user base at the District is relatively small and close-knit with a total of 9 current users all but one of whom are in Finance.

3.3.2 Of the eight Finance officers, four are operational users with payroll responsibilities and the remainder are Internal Audit users that have view and report generation permissions only. The sole non-Finance user is an Application Support Officer in ICT Services.

3.3.3 Each user has a unique ID and password and is subject to system-enforced password disciplines generally consistent with good security practice. Access control is further reinforced by a restriction on work stations from which a connection to the system can be obtained, requiring additional configuration that only ICT Services can perform under the corporate PC lock-down policy.

3.3.4 The four operational users comprise the Payments Manager and three staff in the Payments Section. All have group settings enabling performance of relevant day-to-day operations (staff movements, transaction input and pay adjustments).

3.4 Parameter Data

3.4.1 The Payments Manager and the Application Support Officer have additional permissions for local parameter changes (mainly establishment post details, salary grades/point tables). The County Council exercises full control over system-wide parameters (e.g. tax tables) and reserves for their own system support staff access rights to change key parameters specific to Warwick District Council. In the latter case, such changes would only be performed on written instruction from the Payments Manager.

3.5 Transaction Input

3.5.1 Within the system, control of transaction input is exercised through access restrictions and validation and against parameters and standing data with automatic calculation where applicable. In tandem with this is a regime of pre-authorisation based on standard input forms retrievable from the Council's Intranet and authorised signatory lists with specimen signatures held by Payments.

3.5.2 Transaction input is a continuous process operating as relevant forms arrive at the Payments Office, subject to published deadlines for inclusion in each monthly pay run (payrolls are run only once each month).

3.5.3 Input documents are physically marked (lined through) after entry to prevent duplicate input and are stored within the Payments Office in such a way as to enable system entries to be traced to source. Documents supporting staff movements and special transactions are scanned to an electronic document repository with appropriately restricted access.

3.6 Control of System Output

3.6.1 All printed output is produced within the Payments Office and processed by a small team of experienced staff. Lock codes are used to control release of output to the printer to keep it together and ensure completeness.

3.6.2 A transaction trail is maintained from which control totals for posting to the ledger and BACS submissions can be broken down and reconciled if required.

3.7 Audit Trail

3.7.1 The effectiveness of controls relating to the system audit trail was confirmed through a demonstration that all operational input can be traced to the users through front-end display.

3.8 System Availability

3.8.1 Given the outsourced nature of the system, gaining assurance on system availability tends to mean drawing on the contractual terms of the provider that again points towards the draft Partnership Agreement.

3.8.2 The draft Partnership Agreement document contains a schedule devoted to service standards which includes:

- standard times of server availability;
- agreement of planned down time;
- monitoring, review and reporting of down time generally;
- backup and restore arrangements;
- upgrade and product support; and
- disaster recovery.

3.8.3 The Agreement does not give explicit 'right of access' for Warwick District management or auditors to evaluate the County Council arrangements for the above areas. Ongoing working relationships have, however, fostered a willingness to share information on internal audits undertaken. Accordingly, a report from a recent internal audit on the HRMS IT application controls at the County (undertaken by the same IT audit partner that supports Warwick District) has provided substantial assurance that the applicable risks are being effectively managed.

3.9   Delivery of Outsourced Service

3.9.1 While the draft Partnership Agreement establishes the basis of sound governance arrangements for assurance of service delivery that meets expected standards, several key elements of these have not been formally implemented. Particular examples of this are consultations on system operational and development issues and change requests that tend to be dealt with informally rather than through formally constituted officer groups and procedures with record trails.

3.9.2 In effect, assurance of delivery of the service to expectations relies on maintaining good working relationships and continuity of staff. It is acknowledged that the outsourcing arrangement does not fit with the usual commercially outsourced service model by virtue of the supplier being a local authority (moreover a major 'partner' authority under the Local Strategic Partnership) and the service being provided free of charge.

3.9.3 The County Council has offered continuation of free support when the human resource management migration to HRMS is implemented.

3.9.4 It is noted from the audit report referred to in 3.8.3 above that change management has been flagged up on the County Council side as not having been formalised. If the audit recommendations arising are accepted, it is likely that change requests from the District will automatically have to fall in line.

3.9.5 In pursuit of agreed standards for the expanded service, management should ensure that there remains one single agreement between the District and the County for the whole of the HRMS system and that the elements of governance enshrined in the current draft (particularly in terms of the roles of the Partnership Board and Warwick District Council Operational Panel) are retained.

5.   CONCLUSIONS

5.1   The findings from the examination give MODERATE assurance in respect of the HRMS application that:

- due control over data is established at the earliest possible point in the complete cycle of activity and maintained throughout the system;

- the system contains a reasonable level of control that balances the cost and practicality against the benefit to be gained from applying controls;

- accountability for key system processes and outsourced service provision has been assigned to nominated officers with appropriate skills and training; and

- appropriate service standards are defined and adherence to them monitored.

5.2   The main factor qualifying the assurance is the absence of a formal service agreement with Warwickshire County Council with attendant failure to implement key elements of the governance arrangements and change control procedures advocated in the draft document. While it is acknowledged that the less formal arrangements in place have worked well enough in the past, the impact that the imminent expansion of the service will have on the risk scenario must be considered. It in this light that adoption of a service agreement encompassing the whole of the HRMS and formalisation of monitoring and review arrangements are seen as becoming more of a priority.

6.   RECOMMENDATIONS

6.1   A formalised single service agreement for the HRMS system should be sought with Warwickshire County Council encompassing service standards for both the payroll and and human resource management functions.

6.2   Formal arrangements for monitoring, review and reporting against agreed service standards for the HRMS system should be considered along the lines of those advocated in the draft Partnership Agreement.

Assurance Opinion: Moderate.

Grants to Voluntary Organisations – 13 June 2011

1. INTRODUCTION

1.1 As part of the 2011/2012 Audit Plan an audit was recently completed on the systems and procedures in place to manage the payment of grants to voluntary organisations (VOs).

1.2 This report outlines the approach to the audit and presents the findings and conclusions arising.

2. SCOPE AND OBJECTIVES

2.1 The audit was undertaken in order to establish and test the controls in place over the management of grants paid to VOs, both under the Small Grants Scheme and for those organisations with whom the council has a service level agreement (SLA).

2.2 The control objectives examined were as follows:

2.3 Small grants

- Organisations are aware that grants are available.
- Grants are only approved for relevant projects and
- Payments are made appropriately.

2.4 Service level agreements

- SLAs are appropriately entered into with organisations whose objectives and activities contribute towards achieving the council's objectives.
- Performance monitoring is undertaken with non-compliance being dealt with and
- Payments are made appropriately.

3. BACKGROUND

3.1 Grants to VOs are dealt with by the Joint Area Partnership Team in Corporate and Community Services.   The budget for grants in 2011/2012 is around £390,000.

3.2 The audit was undertaken during a transitional period as far as grants are concerned. A number of reports have been submitted to Executive over the last 18 months concerning a review of SLAs and the introduction of a new integrated grants scheme.

3.3 A new scheme is to be introduced in April 2012 to replace the current small grants scheme and the grants paid under SLAs. The new scheme will also include the other grants paid by the council – sporting, cultural and rural initiatives – in order to achieve a degree of consistency and to provide a single point of access.

3.4 The major change with the new scheme will be the introduction of a commissioning aspect under which certain organisations will be invited to tender for work.

4. FINDINGS

4.1 The audit was undertaken at a time when the traditional scope of the audit was still in place, but effectively at an end, and its replacement was in the throes of being developed. It was undertaken early in the year in case there were any findings or recommendations that might be used to inform the development process. As the audit progressed some shortcomings with the existing arrangements were evident but it was also evident that the outline proposals for the new integrated scheme had addressed them.

4.2 The audit concerned itself primarily with the grants paid under SLAs, although the small grants scheme was examined briefly. Ordinarily there would have been some recommendations resulting from the audit but as the current arrangements are something of a holding situation pending the start of the new scheme it would seem fatuous to make any. The control weaknesses with the current arrangements will be evident later but they do not represent any real risk.

4.3 Small Grants Scheme

4.3.1 The Community Development Small Grants Scheme has a budget of £11,500 in the current year. Four grant payments for 2010/2011 were examined and found to be in order.

4.3.2 The availability of the scheme is promoted by various agencies but not currently by the Council's website pending the new integrated scheme.

4.4 Service Level Agreements

4.4.1 SLAs were introduced around the year 2000 when it became apparent that the council received little or no feedback from its major grant recipients to demonstrate how the grant was being used and that the organisations' activities were aligned with council policies and objectives. Accordingly all organisations receiving a grant of £5,000 or above were required to enter into an SLA.

4.4.2 There are currently has 18 SLAs in place with payments in 2011/2012 ranging from £5,400 to £102,100. Most of the SLAs expired on 31st March 2011 and none of them have been signed on behalf of the Council.

4.4.3 Continuation of the grant payments to 31 March 2012 has been approved by the council following submission of reports on the new scheme and the necessary transitional arrangements and through the annual budget approval process – each SLA has its own cost centre and budget in TOTAL. It is not an ideal situation that current SLAs are not in place but given the development of a new scheme and the major changes that recipients will be facing this year it is not viewed as a significant risk.

4.4.4 Compensating features are that all grant recipients have been given adequate notice of the termination of the current grant scheme and that the council has approved budgets for grants for the current year and the continuation of the current funding arrangements until 31st March 2012.

4.4.5 The SLAs all follow a standard template and contain sections on objectives, outcomes and performance. Historically it has been difficult to define these for some organisations and they have tended to be geared towards the objectives and priorities of the organisation rather than those of the Council.

4.4.6 The introduction of a commissioning approach whereby work is packaged and defined and then voluntarily organisations tender for it should put the council in better position to deliver its priorities under the Sustainable Community Strategy and to demonstrate value for money for grant expenditure.

4.4.7 The grant payments under SLAs for 2010/11 were examined and all were in accordance with the terms of the SLAs and the approved budgets.

5   SUMMARY AND CONCLUSIONS

5.1   The current arrangements for making grants to voluntary organisations have been in place for a number of years and although not perfect in some respects they have remained unaltered. They have been well managed from a financial control point of view but less so in demonstrating that supporting some of the organisations has specifically contributed to achieving the council's objectives.

5.2   The introduction of a new integrated grants scheme should offer significant improvements all round particularly with regard to demonstrating value for money and that the work undertaken by voluntary organisations contributes directly to the council's priorities and objectives.

5.3   The current transitional arrangements for the payment of grants have been approved by the council but they are very informal in that in most cases no formal agreements exist. On that basis the audit is able to provide a MODERATE degree of assurance that the systems and procedures in place to manage the payment of grants to voluntary organisations are appropriate and working effectively.

Assurance Opinion: Moderate.