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Internal Audit Report
Key Control Testing – Accountancy
Services 2022/23
Date: July 2023

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Background and Context

Financial and accountancy services of the South and East Lincolnshire Councils Partnership (SELCP) are provided by Public Sector Partnership Services Ltd, using the Unit4 Business World system (Unit 4).

The system went live for East Lindsey District Council (ELDC) and South Holland District Council (SHDC) 1st April 2021 and for Boston Borough Council 21st July 2022.

Scope

Key control testing is undertaken each year on finance systems and processes to enable the Head of Internal Audit to form an opinion on the Council's financial control environment and to help External Audit's control evaluation.

The purpose of this review was to provide independent assurance that accounting records are materially accurate and that financial controls in place are sound.

The review covered the following accountancy services and objectives:

General Ledger Maintenance

Manual journals appropriately authorised.

Control Accounts

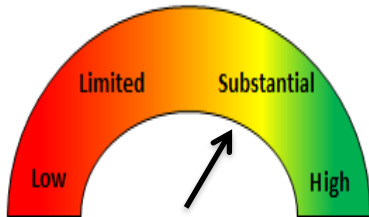
Payroll/Debtors/Creditors control account reconciliations are undertaken regularly including reconciliations between opening and closing Trial Balance.

Due to time constraints and the availability of key staff we were unable to cover the following elements of the review, originally scoped to be included:

- Review of Suspense account
- Treasury Management
- Bank Reconciliation

We would like to thank those PSPS Ltd Finance staff contacted for their time and assistance during this review.

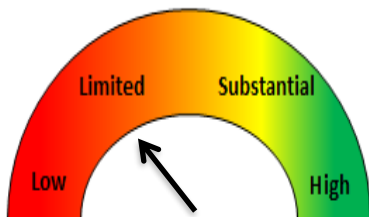
Executive Summary



Substantial Assurance:

Journals

Risk	Rating (R-A-G)	Recommendations	
		High	Medium
<u>Journals:</u>			
Risk 1 – Errors are not detected leading to inaccurate/ineffective financial reporting and decision making.	Amber	0	1
Risk 2 – Inadequate processes are in place resulting in non-compliance with regulatory requirements e.g. Accounting Standards or internal policies.	Green	0	0
Risk 3 – Fraudulent activity is not detected which could lead to both financial and reputational damage.	Green	0	0



Limited Assurance:

Control Account Reconciliations

Risk	Rating (R-A-G)	Recommendations	
		High	Medium
<u>Control Account Reconciliations:</u>			
Risk 1 – Errors are not detected leading to inaccurate/ineffective financial reporting and decision making.	Red	2	3
Risk 2 – Inadequate processes are in place resulting in non-compliance with regulatory requirements e.g. Accounting Standards or internal policies.	Red	1	1
Risk 3 – Fraudulent activity is not detected which could lead to both financial and reputational damage.	Green	0	0

Key Messages



Overall, key controls for the input and authorisation of manual journals are operating effectively, we are therefore able to give a **substantial** assurance opinion in this area.

Key controls for reconciliation of the Accounts Receivable and Accounts Payable control accounts were also found to be operating effectively, however due to issues identified in respect of the Payroll control account reconciliation i.e. lack of regular reconciliation, significant variances identified, timeliness of corrections etc, we have only been able to award a **Limited** assurance opinion in this area.

Our overall Audit testing for SELCP confirmed that:

General Ledger Maintenance:

Journals

- ✓ Manual journals are processed through Workflow within Unit 4. Clear guidance is available to confirm how to enter/approve journals within the Finance System.
- ✓ Journals are appropriately approved in a timely manner. Approval groups set up within Workflow, ensure journals are reviewed/approved by an appropriate line manager and segregation of duties (between input and approval) is enforced.
- ✗ In 2/15 cases evidence was not available to support the journal. Whether the journal had been accurately input could therefore not be confirmed. A facility within Unit 4 that allows journal documentation to be attached is not being fully utilised.

Key Messages



Control Account Reconciliations:

Accounts Receivable & Accounts Payable

- ✓ Automatic reconciliation between the General Ledger and the AR and AP control accounts is carried out within Unit 4. No manual reconciliation/intervention is required.
- ✗ Reports/screen prints are produced monthly to confirm reconciliation, however an AR Listings Report is recommended to further support this reconciliation.
- ✗ Reconciliations are carried out regularly on a monthly basis but need to be signed and dated as evidence of independent reviews undertaken.
- ✓ Reconciliation between the 21/22 closing and 22/23 opening balances can be clearly evidenced.

Payroll

- ✗ Payroll control account reconciliations have not been completed on a regular monthly basis. Reconciliations did not commence until September 2022, furthermore, only one reconciliation was undertaken in January 2023 and none in February 2023.
- ✗ Review of reconciliations identified variances due to coding errors i.e., Payroll System codes were mapped to incorrect account codes within the Finance System. Whilst errors were identified and explanations recorded during the year, most were not corrected until the year end.
- ✗ Senior management at PSPS and SELCP were not formally advised of delays in reconciliations during 22/23 or the key issues being identified i.e., mapping/coding errors, no formal escalation process exists.
- ✗ Queries raised with the Payroll Team remained outstanding for significant periods of time, i.e. 3 – 6 months. There were also queries raised by HALO ticket that were closed before being resolved. Whilst 'chase' e-mails on occasion were sent to the Payroll Team, there has been no escalation of outstanding queries to senior officers.

Executive Summary

- ✘ Reconciliations have not been signed or dated by the officer preparing, or by the reviewer.
- ✘ The PSPS Finance Officer responsible for carrying out reconciliations was on maternity leave until August 2022 and has now left the employ of PSPS (May 23). Responsibility for payroll reconciliations in future has yet to be assigned.

Whilst the above issues within Payroll Control accounts have been identified, we acknowledge:

- ✓ The payroll control account reconciliation spreadsheet, re-designed in August 2022, provides a clear detailed analysis of individual variances with full explanations and required actions.
- ✓ Review of March 2023 reconciliations confirms a significant reduction in the number and value of variances. Most variances identified were corrected by year end with only minor variances to be resolved.

Resource issues and changes in key personnel within the Payroll Team during the financial year 22/23, has also impacted on prompt resolution of queries.

We would like to thank the staff who provided their time and assistance to support the completion of the review.

Executive Summary

Managing your risks



Good risk management, including maintaining risk registers, helps you to identify, understand and reduce the chance of risks having a negative impact on achievement of your objectives.

During our audit work we identified three high risk areas re the lack of regular payroll reconciliations, the delay in correction of coding/mapping errors and the lack of formal process to ensure senior management are informed of significant issues affecting payroll reconciliation or key issues that may impact on budget reporting/monitoring. We feel these should be considered for inclusion on your service operational risk register.

Management Response

Management Response



The findings and actions set out in this report are accepted, and work has already begun which will help to improve processes and procedures. We will continue to work closely with colleagues to ensure recommendations identified as part of this audit are implemented and maintained.

With reference to the informal arrangements for payroll control account reconciliations not taking place during the annual closedown of accounts process, this is mainly due to the capacity of key officers and is driven by the dates set by central government. I can confirm processes have already been put in place for this work to commence more regularly throughout the year.

I would like to thank the Auditors for the discussions in relation to the findings through this audit.

Samantha Knowles – CFO PSPSL
28th June 2023

Action Plan

1	Risk Description	Current Rating	Target Rating
	Errors are not detected leading to inaccurate/ineffective financial reporting and decision making.	AMBER	GREEN
Findings			
<p>Manual Journals:</p> <p>Testing of manual journals identified in 2/15 cases evidence was not available to support the journal. Whether the journal had been accurately input into Unit 4 could not be confirmed.</p> <p>It is acknowledged that a function exists within the system allowing documentation to be attached to manual journals. This however is not a formal requirement due to the sensitivity of some journal evidence i.e. payroll/personal data. In only 4/15 journals tested was this function utilised.</p>			
Implications			
Reasons for manual journals cannot be determined; accuracy of input cannot be confirmed.			
Recommendation(s)			Priority level
<p>Originators of journals to ensure evidence is available to support the input of all manual journals.</p> <p>Where appropriate, consideration should be given to attaching the evidence to the journal in Unit 4, allowing queries to be resolved in a timely manner.</p>			Medium
Agreed Action		Responsibility	Implementation date

Action Plan

Communications will be sent to the Finance Team to ask them to consider attaching evidence to Unit4 where appropriate, and where this doesn't involve complex spreadsheets or multiple attachments, or sensitive information. Better consideration will also be given to journal descriptions/narrative.	Deputy Chief Finance Officer Delivery	31/07/23
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Action Plan

2	Risk Description	Current Rating	Target Rating
	Errors are not detected leading to inaccurate/ineffective financial reporting and decision making.	Amber	GREEN
Findings			
<p>Control Accounts: Accounts Receivable</p> <p>Reconciliation of the Accounts Receivable control account to the General Ledger is undertaken automatically within Unit 4. Whilst General Ledger reports, including a GL AR reconciliation report, and screen prints are produced and retained to confirm reconciliation, no detailed Accounts Receivable listing reports are produced.</p> <p>It is understood that the reports are not currently produced as those for ELDC and SHDC would show an imbalance to the General Ledger, this is due to incorrect input of subscriptions on migration to Unit 4. Correction requires involvement by an external company, Embridge, to resolve.</p>			
Implications			
Reconciliation between the General Ledger and Accounts Receivable control account cannot be fully demonstrated; imbalances may go undetected/unresolved.			
Recommendation(s)			Priority level
2.1 Correction of input errors relating to ELDC & SHDC subscriptions to be resolved, contact to be made with the external company to progress.			Medium

Action Plan

2.2 Once corrected, Accounts Receivable listing reports to be produced and retained monthly by the Finance Team as part of the reconciliation process.		
Agreed Action	Responsibility	Implementation date
2.1 Corrections will be made to the subscription's issues highlighted.	Transformation Manager	31/08/23
2.2 Accounts Receivable reconciliations will include a download of the balances once resolved.	Finance Analyst (Systems)	30/09/23

Action Plan

3	Risk Description	Current Rating	Target Rating
	Errors are not detected leading to inaccurate/ineffective financial reporting and decision making.	AMBER	GREEN
Findings			
<p>Control Accounts: Accounts Receivable/Accounts Payable</p> <p>Regular monthly control account reconciliations have been undertaken for both Accounts Receivable and Accounts Payable. Independent review of these reconciliations, confirmed as carried out by the Deputy Head of Financial Services (PSPS), cannot however be evidenced.</p>			
Implications			
Inability to evidence that reconciliations have been independently checked and verified as accurate.			
Recommendation(s)			Priority level
3.1 Accounts Receivable and Accounts Payable control account reconciliations to be signed and dated as evidence of independent review.			Medium
Agreed Action		Responsibility	Implementation date
Formal sign off will be undertaken each month by the Deputy Chief Finance Officer Corporate to confirm they have been reviewed.		Deputy Chief Finance Officer Corporate	31/08/23

Action Plan

4	Risk Description	Current Rating	Target Rating
	Inadequate processes are in place resulting in non-compliance with regulatory requirements e.g., Accounting Standards or internal policies.	RED	GREEN
Findings			
<p>Control Accounts: Payroll</p> <p>Payroll control account reconciliations have not been completed on a regular monthly basis.</p> <p>Whilst it is understood there is an informal agreement that reconciliations will not commence until publication of the previous year's accounts (31st July 22 re the 21/22 Accounts), this has meant that no payroll reconciliations were undertaken until September 2022. Whilst evidence of this decision was requested at the time of the audit none could be provided. Furthermore, only one reconciliation was carried out in January 2023 and no reconciliations were undertaken in February 2023, due to the officer responsible being re-assigned to assist in the budget setting processes.</p> <p>Payroll reconciliation spreadsheets have not been signed or dated by the preparing officer on completion of the reconciliations, or by the Deputy Head of Financial Services (PSPS) as evidence of independent review.</p>			
Implications			
<p>Lack of regular reconciliation may impact on the integrity of financial data.</p> <p>Inability to evidence that reconciliations have been fully completed, robustly checked and independently verified as accurate.</p>			
Recommendation(s)			Priority level
4.1 To ensure Payroll Control Account reconciliations are carried out on a monthly basis, with adequate resources made available throughout the year.			High

Action Plan

4.2 Payroll reconciliation spreadsheets to be signed and dated by both the preparer and reviewer.		
Agreed Action	Responsibility	Implementation date
4.1 Payroll control accounts were caught up once the budget setting process had concluded and were therefore completed for January-March 2023. These are paused whilst the year end closedown work is completed but will be started again monthly from the end of June 2023.	Business Partner Corporate	31/07/23
4.2 Payroll control accounts will be signed off by the preparer and reviewer when completed.	Deputy Chief Finance Officer Corporate	31/07/23

Action Plan

5	Risk Description	Current Rating	Target Rating
	Inadequate processes are in place resulting in non-compliance with regulatory requirements e.g., Accounting Standards or internal policies.	AMBER	GREEN
Findings			
<p>Control Accounts: Payroll</p> <p>The officer assigned responsibility for Payroll Control Account reconciliations (since August 2022) left the employ of PSPS at the beginning of May 2023. Preceding this no reconciliations were undertaken (as highlighted elsewhere in this report). Responsibility for payroll reconciliations moving forward is yet to be formally assigned.</p> <p>It is acknowledged that in the interim, payroll reconciliations will be carried out by the Deputy Head of Financial Services (PSPS) who, as part of this process, intends to review the existing guidance notes to ensure completeness.</p>			
Implications			
Payroll Control Account reconciliations may not be undertaken consistently and as required.			
Recommendation(s)			Priority level
5.1 Responsibility for Payroll Control Account reconciliations to be formally assigned. 5.2 Review of guidance notes to be completed to ensure full comprehensive details of the reconciliation process are included.			Medium
Agreed Action		Responsibility	Implementation date

Action Plan

<p>5.1 The payroll control accounts have been formally reassigned to the Business Partner Corporate and will commence in quarter 1.</p>	<p>Deputy Chief Finance Officer Corporate</p>	<p>30/06/23</p>
<p>5.2 The process document for completion will be reviewed and agreed for the new preparer to follow.</p>	<p>Deputy Chief Finance Officer Corporate</p>	<p>30/06/23</p>

Action Plan

6	Risk Description	Current Rating	Target Rating
	Errors are not detected leading to inaccurate/ineffective financial reporting and decision making.	RED	GREEN
Findings			
<p>Control Accounts: Payroll</p> <p>Review of 3 months reconciliations for each council, Sept 22, Jan 23 and Feb 23, identified variances between the payroll control accounts and General Ledger each month. Whilst some variances, it is acknowledged, were due to timing i.e., current months deductions not yet paid over, numerous variances within individual payroll account codes were due to coding errors i.e., Payroll System codes were mapped to incorrect account codes within the Finance system, Unit 4.</p> <p>Mapping/coding errors identified by Finance when carrying out the September 2022 reconciliations continued to occur in later months. Corrective action by the Payroll Team was not carried out promptly, and in some instances was carried out incorrectly due to a lack of full understanding of the system i.e., where corrections impacted on various elements within the system.</p> <p>Review of reconciliations has confirmed that whilst most variances and mapping/coding errors could be identified and explained during the financial year, the majority of variances were not corrected until the year end as part of the March 2023 reconciliations.</p> <p>It is understood a report has now been received from CIPHR, identifying the mapping of all account codes between the Payroll and Finance Systems, this is in the process of being reviewed by Finance to ensure any final re-mapping requirements are identified and addressed. It is anticipated that this exercise will be completed in time for the May 2023 reconciliation.</p>			
Implications			
Balances within payroll financial account codes may be incorrect leading to inaccurate financial reporting and ineffective budget monitoring and decision making.			

Action Plan

Recommendation(s)		Priority level
<p>6.1 Review of the CIPHR report to be completed to ensure all mapping requirements are correctly identified. Any corrective action required to be addressed promptly.</p> <p>6.2 Coding errors to be corrected promptly in future, with advice sought from the system providers as necessary to ensure full understanding of the impact of corrections.</p>		High
Agreed Action	Responsibility	Implementation date
6.1 This will be reviewed by Payroll Manager and Finance Business Partner as part of the reconciliation process and correction action taken as necessary.	Payroll Manager & Business Partner Corporate	30.9.2023
6.2 When coding issues are identified this will be corrected by payroll in time for next available pay run, in lines with payroll deadlines, and historic items will be resolved by the finance team.	Payroll Manager & Business Partner Corporate	30.06.2023

Action Plan

7	Risk Description	Current Rating	Target Rating
	Errors are not detected leading to inaccurate/ineffective financial reporting and decision making.	HIGH	GREEN
Findings			
<p>Control Accounts: Payroll</p> <p>Despite significant delays in carrying out payroll reconciliations during 22/23 and the volume of variances due to mapping/coding errors identified, senior management at PSPS and the Partnership were not formally advised of these delays or issues.</p> <p>There is no formal process currently in place to ensure that significant issues or unresolved queries are escalated to senior officers.</p>			
Implications			
Lack of awareness by management of key issues affecting payroll reconciliation and potential impact on budget reporting and monitoring.			
Recommendation(s)			Priority level
<p>7.1 A formal process to be introduced to ensure senior management at PSPS and key officers at the Partnership are informed of significant issues affecting payroll reconciliation. Required actions to be taken promptly within agreed timescales, and completion of actions formally notified.</p> <p>7.2 Key issues that may impact on the effectiveness of budget reporting and monitoring to be notified promptly to relevant officers within the Partnership.</p>			High

Action Plan

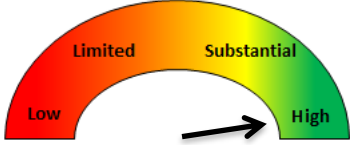
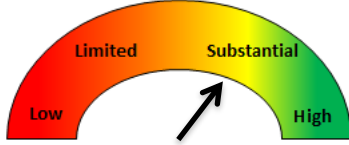
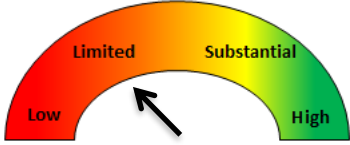
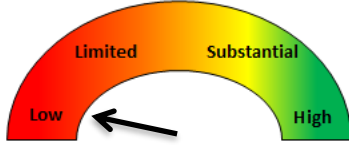
Agreed Action	Responsibility	Implementation date
7.1 A process will be introduced to ensure senior management at PSPS and key officers at the partnership are informed of significant issues affecting payroll reconciliations. Actions will be completed promptly, and key contacts will be updated.	Deputy Chief Finance Officer Corporate	31/07/23
7.2 Key issues that may impact on the effectiveness of budget reporting and monitoring will be notified promptly to relevant officers within the partnership.	Deputy Chief Finance Officer Corporate	31/07/23

8	Risk Description	Current Rating	Target Rating
	Errors are not detected leading to inaccurate/ineffective financial reporting and decision making.	AMBER	GREEN
Findings			
<p>Control Accounts: Payroll</p> <p>The Payroll reconciliation spreadsheet identifies the variance each month between the ledger and control account for each payroll account code, and whether the variance is due to timing, has been identified and corrected as part of the reconciliation process, or 'Other' i.e., requires further investigation to resolve.</p> <p>Review of 3 months reconciliations for each council identified queries raised with the Payroll Team that remained outstanding for significant periods of time i.e., 3 – 6 months. In some instances, queries raised by HALO ticket were closed before being resolved.</p> <p>Whilst 'chase' e-mails on occasion were sent to the Payroll Team, there has been no escalation of outstanding issues to senior payroll officers. It is understood the focus of Finance and Payroll staff has been to resolve mapping/coding issues, considered a greater priority.</p> <p>Review of the March 2023 payroll reconciliations confirmed that whilst most queries have now been resolved, some remain outstanding with the Payroll Team at year end:</p> <ul style="list-style-type: none"> • BBC – 4 queries - Total £530.01 • ELDC – 1 query - Total -£840.00 • SHDC – 2 queries – Total -£1,150.05 			
Implications			

Action Plan

Account codes may be over/understated, resulting in inaccurate budget reporting and ineffective monitoring.		
Recommendation(s)		Priority level
8.1 Queries raised to be resolved as soon as possible, enabling corrective action/journals to be undertaken. Where timely responses are not received, issues should be escalated to an appropriate officer(s).		Medium
Agreed Action	Responsibility	Implementation date
Staff will be advised to implement the agreed internal escalation process.	Chief Finance Officer & Head of HR	30.06.2023

Appendix 1 - Assurance Definitions

High	Substantial
<p>Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.</p>  <p>The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.</p>	<p>Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.</p>  <p>There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate, and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.</p>
Limited	Low
<p>Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.</p>  <p>The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.</p>	<p>Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p>  <p>There are either gaps in the control framework managing the key risks, or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore, the risk of the activity not achieving its objectives is high.</p>

Appendix 1 - Assurance Definitions

Risk Ratings	
Current	Reflects the residual risk after assessing the controls in place.
Target	<p>Represents what level risk an organisation may wish to take, or what level of risk is considered acceptable. Where risk ratings are not at target levels, then recommendations will be given within the report to help achieve the expected risk rating.</p> <p>In some areas the target risk rating may not be “Low” and we may be willing to accept a “Medium” target risk rating. These situations could be found where:</p> <ul style="list-style-type: none"> • An organisation wishes to realise potential opportunities and as a result has a higher risk appetite. • The area under review is so inherently risky that we accept that risk mitigation strategies are unable to achieve a “Low” target risk rating.

Action Priority	
High	Immediate management attention is required - an internal control or risk issue where there is a high certainty of: substantial loss / non-compliance with corporate strategies, policies, or values / serious reputational damage / adverse regulatory impact and / or material fines (action taken usually within 3 months).
Medium	Timely management action is warranted - an internal control or risk issue that could lead to financial loss / reputational damage / adverse regulatory impact, public sanction and / or immaterial fines (action taken usually within 6 to 12 months).

Distribution List



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Public Sector Partnership Services Ltd

Lewis Duckett – Chief Executive

Sam Knowles – Chief Finance Officer

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Ellie Stacey – Deputy Head of Financial Services

External Audit

Disclaimer

The matters raised in this report are only those which came to our attention during our internal audit work. Our quality assurance processes ensure that our work is conducted in conformance with the UK Public Sector Internal Audit Standards and that the information contained in this report is as accurate as possible – we do not provide absolute assurance that material errors, fraud or loss do not exist.

This report has been prepared solely for the use of Members and Management of the South & East Lincolnshire Councils Partnership. Details may be made available to specified external organisations, including external auditors, but otherwise the report should not be used 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.