INTERNAL AUDIT PROGRESS REPORT

SOUTH KESTEVEN DISTRICT COUNCIL

July 2025

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CONTENTS

SUMMARY OFJULY 20252025/26 WORK

INTERNAL AUDIT

This report is intended to inform the Governance and Audit Committee of progress made against the 2025/26 internal audit plan. It summarises the work we have done, together with our assessment of the systems reviewed and the recommendations we have raised. Our work complies with Public Sector Internal Audit Standards. As part of our audit approach, we have agreed terms of reference for each piece of work with the risk owner, identifying the headline and sub-risks, which have been covered as part of the assignment. This approach is designed to enable us to give assurance on the risk management and internal control processes in place to mitigate the risks identified.

INTERNAL AUDIT METHODOLOGY

Our methodology is based on four assurance levels in respect of our overall conclusion as to the design and operational effectiveness of controls within the system reviewed. The assurance levels are set out in Appendix 1 of this report and are based on us giving either 'substantial', 'moderate', 'limited' or 'no'. The four assurance levels are designed to ensure that the opinion given does not gravitate to a 'satisfactory' or middle band grading. Under any system we are required to make a judgement when making our overall assessment.

2025/26 INTERNAL AUDIT PLAN

We have made good progress in the delivery of the 2025/26 audit plan.

We have completed and are pleased to present the following final report to this Governance and Audit Committee meeting:

▸ Payroll Access.

Planning is underway in respect of the following audits:

▸ Voids Management

We anticipate presenting this final report at the next Governance and Audit Committee meeting.

REVIEW OF 2025JULY 2025/26 WORK

AUDIT	EXEC LEAD	GOVERNANACE AND AUDIT COMMITTEE	PLANNING	FIELD WORK	REPORTING	DESIGN	EFFECTIVENESS
Climate Plan	Debbie Roberts	18 June 2025	✓	✓	✓	M	S
Payroll Access	David Scott	23 July 2025	✓	✓	✓	M	S
Voids Management	Alison Hall-Wright	24 September 2025	✓	✓			
Performance Management	Debbie Roberts	13 November 2025	✓				
Treasury Management	David Scott	21 January 2026	✓				
Building Control	Emma Whittaker	21 January 2026	✓				
IT Strategy	Gary Andrew	21 January 2026	✓				
Account Payables	Rikki Wiltshire	21 January 2026	✓				
Market Services	Kayleigh Boasman	18 March 2026	✓				
Main Financial Systems	David Scott	18 March 2026	✓				

PAYROLL ACCESS

SRR REFERENCE:

4 – INEFFECTIVE FINANCIAL MANAGEMENT.

6. UNABLE TO MAINTAIN AND BUILD SUFFICIENT STAFFING CAPACITY AND CAPABILITY

14. SIGNIFICANT FRAUD/THEFT SUCCESSFULLY COMMITTED AGAINST THE COUNCIL

Design Opinion	M	Moderate	**Design Effectiveness**	S	Substantial
Recommendations	0	2	0		
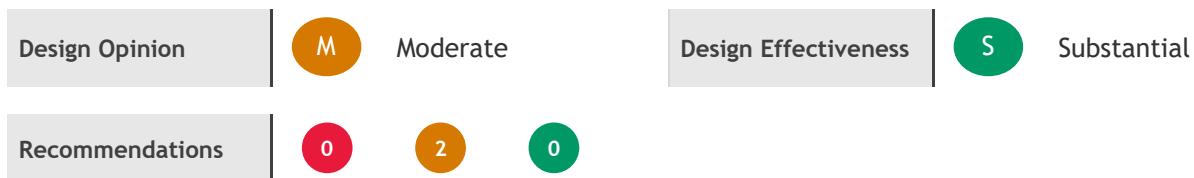
SCOPE

BACKGROUND

▸ Every organisation requires employees to assist in meeting their goals and objectives. The cost of employing staff is reflected in salaries and wages and the associated benefits. The main purpose of a payroll department is to pay employees and remit associated deductions, taxes, and benefits. Internal controls are necessary for this department to function effectively, efficiently and within the parameters set by management.

▸ It is important that payroll records are held securely with only authorised personnel able to access these records. Additionally, it is important that there is a robust process for ensuring that only valid staff are paid at the correct rates for service provided and that complete and accurate statutory and other deductions are made.

▸ The role of IT Services is essential to the delivery of all services and is fundamental to most business change programmes across an organisation. The payroll system contains sensitive, personal and financial data and represents significant expenditure for the Council. Therefore, robust controls are needed to limit system access, fraud prevention and maintaining the accuracy of payments to staff.

▸ South Kesteven District Council's (the Council) payroll was previously outsourced and delivered through North Kesteven District Council between 2019 and early 2021, due to lack of capacity within the Council payroll team. In April of 2021, the Council brought the service back in house.

▸ The payroll system is administered through the iTrent management system for an employee headcount of approximately 570, managed by the Payroll Team. Most processes in the iTrent system integrate into the Council's main financial system - eFinancials, although plans are underway for a transition to a more robust financial system in Q3 of 2025 for complete integration of iTrent processes.

PURPOSE

The purpose of this audit is to provide assurance over the effectiveness of the Council's payroll controls and system access management by examining:

▸ User access rights and permissions mapping
▸ Segregation of duties in system roles
▸ Super user access monitoring
▸ Audit trail monitoring and review.

AREAS REVIEWED

As part of the scope of this audit the following areas were reviewed:

▸ Five users with additional access rights to assess the Council's arrangements for managing access to the iTrent payroll system, including the assignment of super user access rights and the adequacy of user account reviews, to ensure access privileges are appropriately restricted and reviewed on a regular basis.

▸ Four requests for changes to employee bank details received and processed by the Payroll team between October 2024 and March 2025 to ensure accuracy, adequate segregation of duties, documentation retained with appropriate authorisation and verification steps in place to prevent unauthorised or erroneous payments.

▸ Eight leavers (from January – November 2024) to assess timely access revocation and removal from iTrent and associated systems.

▸ Walkthrough of the systems to assess the configuration of segregation of duties between Payroll and HR teams within iTrent, to assess whether system roles align with operational responsibilities and provide appropriate control over sensitive transactions.

▸ Walkthrough of the payroll control account reconciliation process for the period covering December 2024 to April 25 for evidence of timely preparation and review, to prevent unauthorised changes to payroll standing data.

▸ Council's use of audit trail functionality and user activity logs within iTrent, particularly for super user actions, to evaluate whether critical payroll activities are adequately recorded and reviewed.

AREAS OF STRENGTH

We identified the following areas of good practice:

▸ A change request form is completed for all role changes within the Council. The form is approved by the relevant line manager and as hierarchical access rights are pre-programmed into iTrent for each position, they are amended automatically when a role is assigned to an employee.

▸ Payroll control account reconciliations are performed monthly and since April 2025 have been reviewed and approved by management. Evidence from the iTrent system is held alongside the reconciliations to provide an audit trail of the figures used. Documenting the approval of reconciliations is important because it provides a clear record of the review process. This helps ensure transparency and accountability, making it easier to identify and correct any anomalies in the reconciliations.

▸ At the time of the review, all leavers selected for sample testing had been removed from the system and were therefore not able to access iTrent. This helps to ensure data security and protection of sensitive information, preventing data breaches from occurring. This action helps maintain the integrity and confidentiality of the Council's payroll data, safeguarding both the Council and its employees.

 AREAS OF CONCERN	Finding	Recommendation and Management Response
	Changes to employee bank details are not subject to independent review for appropriateness or approval. In one case, payment was made to a third-party account (an employee's friend's account), increasing the risk of fraudulent activity or salary misdirection going undetected. (Finding 1 – Medium)	A. The Senior Exchequer Officer, in consultation with the Senior HR Officer, should progress discussions with iTrent to finalise and implement automated reporting of all changes to standing data. This should include date and time of when the change was made, user ID and the before and after values subject to change. The report should then be reviewed on a pre-determined basis to identify any anomalies and results of the review should be reported to the Assistant Director of Finance Management Response Officers have scoped out and commissioned the required works with ITrent to create the required audit report. Once in place this report will then be reviewed by the Assistant Director of Finance as part of the monthly payroll approval process. Responsible Officer and Implementation date Senior Exchequer Officer 30 November 2025

	User logs are not produced for super users/administrative users to ensure all actions are appropriate. In addition, super users/administrative users are able to access both payroll and HR functions, increasing the risk of fraudulent behaviour (Finding 2 – Medium).	A. The Systems and Exchequer Manager should review all super user/system administrator profiles and implement a principle of least privilege, restricting access to modules and functions that are not required for the individual's role. Discussions with the provider should explore technical options to segment access without compromising operational efficiency. B. Systems and Exchequer Manager should work with the provider to enable logging of all user activity, including system administrator actions. This should be supplemented with periodic reviews by a designated officer to identify unauthorised changes, suspicious activity, or access to restricted modules. Management Response A – work is being undertaken with ITrent to review the user role set up to ensure all user access within the HR and Exchequer teams are aligned with the requirements of their roles and the number of system admin roles limited to 2 specific roles. Responsible Officer and Implementation date Senior Exchequer Officer 30 November 2025 Management Response B – this will be picked up as part of the new audit report being created as referred to the previous recommendation Responsible Officer and Implementation date Senior Exchequer Officer 30 November 2025

CONCLUSION

We conclude that the Council has a Moderate design of controls and a Substantial operational effectiveness of controls in place for its payroll system, particularly in relation to system access and the safeguarding of payroll standing data.

Control Design

The control design is assessed as Moderate because while some foundational processes are in place to support payroll operations, there are some gaps that weaken the overall control framework. Specifically:

- Reports of changes to standing data are not currently produced therefore reviews of changes do not take place
- The iTrent system does not currently restrict system administrator access, meaning users with elevated rights can access all modules—including HR functions—regardless of role relevance, undermining segregation of duties
- There is no mechanism to monitor or log super user activity, meaning changes made to sensitive payroll data cannot be independently verified or reviewed.

Control Effectiveness

The control effectiveness is assessed as Substantial due to the existence of controls which are operating effectively to maintain the integrity of payroll processing.

- Based on the testing performed throughout the audit, no instances of malpractice were identified, including the prompt removal of leavers access rights from the system. Changes to standing data are predominantly performed using employee self-service access and as such, errors are likely to be identified at an early stage by the employee
- Monthly reconciliations of the payroll control account are performed, reviewed and approved by management, demonstrating management oversight of the process.

In conclusion, the controls in place are consistently applied and provide a level of assurance over the access to and accuracy of the payroll system.

KEY PERFORMANCE INDICATORS

QUALITY ASSURANCE	KPI	RAG RATING
The auditor attends the necessary, meetings as agreed between the parties at the start of the contract	All meetings attended including Governance and Audit Committee meetings, pre-meetings, individual audit meetings and contract reviews have been attended by either the Partner or Audit Manager.	G
Positive result from any external review	Following an External Quality Assessment by the Institute of Internal Auditors in May 2021, BDO were found to 'generally conform' (the highest rating) to the International Professional Practice Framework and Public Sector Internal Audit Standards.	G

DELIVERY	KPI	RAG RATING
Completion of audit plan	More than 75% of the Plan is completed and the remaining either at fieldwork or reporting stage, representing significant progress and likelihood of full completion of the plan by March 2025.	G

APPENDIX I

OPINION SIGNIFICANCE DEFINITION

LEVEL OF ASSURANCE	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION	FINDINGS FROM REVIEW
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate	In the main, there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally, a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non-compliance with some controls, that may put some of the system objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non-compliance and/or compliance with inadequate controls.

RECOMMENDATION SIGNIFICANCE DEFINITION

RECOMMENDATION SIGNIFICANCE	
High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

FOR MORE INFORMATION:

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BDO