Payroll

City of York Council

Internal Audit Report 2018/19

Business Unit: Customer and Corporate Services
Responsible Officer: Director, Customer and Corporate Services
Service Manager: Head of Human Resources & OD
Date Issued: 15th February 2019
Status: Final
Reference: 10200/011

	P1	P2	P3
Actions	0	2	4
Overall Audit Opinion	Substantial Assurance		

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Summary and Overall Conclusions

Introduction

Payroll are responsible for processing salaries, calculating deductions, processing timesheets and ensuring that the service complies with all relevant statutory rules and regulations.

The council has in total 4635 employees and an approximate employee expenditure of £128 million per annum. The payroll team is also currently responsible for providing payroll services to 16 external clients.

Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls within the system ensure that:

- Payments are only made to genuine staff and are accurate;
- Payroll transactions are correctly accounted for within the payroll system and general ledger;
- All payments are processed in accordance with the council's Financial Regulations and other relevant legislation and guidance;
- Relevant, accurate and timely performance information is produced and appropriate action is taken where necessary.

The audit reviewed those pay elements that were considered highest risk during the planning stage. Those elements not tested will be reviewed as part of the 2019/20 Payroll audit. The audit also included a review of the actions the council has taken to address the IR35 legislation.

Key Findings

Overall, the audit confirmed that payroll transactions at the council are being processed accurately, efficiently and with the correct authorisation. Deviance reports are produced by the payroll team each month to enable investigation into any payments that are being made outside of usual parameters. It was confirmed that there was a key separation in duties between producing these reports and the checking of the deviances included. The HR Business Centre (HRBC) is responsible for checking these reports and it was found that although these reports are reviewed each month, the deviances are not always checked, in full, in time for the final payroll transaction. It was found that priority is given to the processing of payroll documentation, a duty which is also with the HRBC, to ensure that all employees are paid correctly and on time.

Testing confirmed that, for a sample of employees absent from work, pay was being correctly calculated and absences were accurately reflected in each pay slip. For those employees who had taken maternity leave, details from MATB1 forms were being correctly processed and supporting documentation was available in all instances. However, for three of ten sickness absences, there was no self-certification form available in the employee's personnel file to support their record of absence.

During the time taken to finalise the audit report, the system used for absence management changed. This audit reviewed the process used for recording absences alongside supporting documentation, but it has since been confirmed that this process is now redundant. As a result of these changes, any actions raised as a result of testing of the old system would not be relevant. The movement to a more automated absence management system has taken place, where some potential issues have been suggested. The new absence management system will be prioritised in the following audit of this area.

New starters at the council were being paid accurately and promptly following their recruitment; with each new starter having appropriate documentation in place. Similarly, it was found that employees leaving the council were paid up to the end of their employment, where it was confirmed that payments were then being stopped appropriately. All documentation was available to support those employees leaving the council, however it was confirmed that there is currently no formal procedure in place for retaining the employment and personal information of ex-employees. Testing revealed that, for all of the leavers in the sample, their personnel files were being stored alongside current employees and there was no housekeeping procedure in place to ensure that files of ex-employees are being deleted in line with retention guidance.

The number of advances and overpayments being made each month is of small value in comparison with the total value of the payroll. However, it was noted that clerical errors by the HRBC resulted in advances worth approximately £11,200 having to be made to employees during the period between October 2017 and March 2018. Inaccurate processing of payroll paperwork also meant that overpayments of £8,931 were incorrectly made to staff within that same six month period. There was evidence available to largely support the recovery of these overpayments.

Overall, the payroll is functioning within the guidelines of the Financial Regulations and it was evident that there was sufficient guidance in place to ensure that staff are able to submit and process payroll documentation appropriately and on time.

A review of IR35 processes confirmed that quarterly meetings are being held to discuss the progress being made surrounding the legislation. This part of the audit also found that work has been undertaken to ensure that both existing workers have their IR35 status reviewed and new starters are assessed as part of primary employment checks. The council is using the HMRC IR35 tool in these checks and retaining the results of these to support any decisions.

Overall Conclusions

At the time of the audit[1], the arrangements for managing risk were good with few weaknesses identified. An effective control environment was in operation, but scope for further improvement was identified. Our overall opinion of the controls within the system was that they provided Substantial Assurance.

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[1] Fieldwork was carried out between November 2017 and April 2018.

1 Retention of Personal Information for Leavers

Issue/Control Weakness	Risk
There is currently no formal procedure in place to store the employment and personal information of employees who have left the council. Their details are being kept alongside current employees and there is no housekeeping process in place to delete files when necessary.	Personal information of ex-employees is kept for longer than necessary and this is potentially a breach of Data Protection legislation.

Findings

There is currently no formal procedure in place to ensure that the employment and personal documentation of leavers is retained for an appropriate length of time and separately from current employees. For the full sample of leavers that were tested, their documentation was available but this was being kept under the same Documentum folder as current employees. It was confirmed that there is currently no housekeeping procedure in place to ensure that personnel files are deleted when necessary.

Agreed Action 1.1

A review of the personal data held on Documentum is currently being considered as part of a HR GDPR action group along with the HR and Business support team. As part of this review, the process for leavers and the retention of their documents on Documentum will be addressed. A processing plan will be devised to ensure that information is only stored on Documentum in line with HR retention policy.

Priority	2
Responsible Officer	Head of Human Resources and Head of Business Support
Timescale	28 February 2019

Agreed Action 1.2

The renewal of iTrent in 2018 came with a GDPR module that enables the redaction of information held on the system. This redaction function will help to ensure that information is held in line with HR retention policy. A plan will be devised to ensure that this function is used to its full potential and guidelines are met.

Priority	2
Responsible Officer	Resourcing HR Manager
Timescale	28 February 2019

2 Deviance Checking

Issue/Control Weakness	Risk
It was confirmed that deviance reports do not always get checked, in full, each month.	Payments may be made incorrectly.

Findings

Frequent reconciliations of the payroll were confirmed during testing and it was evident that monthly deviance reports are produced as part of these key checks.

There was a key separation of duties between the production and the checking of deviance reports. However, it was confirmed that deviance reports do not always get checked, in full, each month. The HRBC are responsible for checking deviances, however the processing of payroll documentation is also within the team's duties, and this often takes priority to ensure that employees are paid correctly and on time.

Agreed Action 2.1

A review process, whereby samples of completed forms will be quality assured throughout the month, will be introduced. It is accepted that deviance checking is completed in full each month, but not all checks are completed in time for the final pay run.

By introducing a more continual quality assurance procedure, headed by the team leader, this will help to lower the amount of errors submitted to payroll and alleviate some of the need to complete full deviance checks.

This quality assurance process will also allow the manager to highlight any training needs required by staff.

Priority	3
Responsible Officer	Business Support Manager
Timescale	31 March 2019

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3 Overpayments

Issue/Control Weakness	Risk
For the period between October 2017 and March 2018, clerical errors by the HRBC resulted in overpayments totalling £8,931.38.	If not recovered, a large amount of avoidable overpayments could lead to a financial loss to the council.

Findings

During the period October 2017 to March 2018, testing confirmed that the total amount of overpayments made was £25,210.36. It was evident that some of the overpayments made during this period were due to issues including service areas not submitting the correct paperwork. However, by reviewing the information available on monitoring spreadsheets, it was confirmed that clerical errors made by the HRBC, between October 2017 and March 2018, resulted in overpayments to the total value of £8,931.28.

Agreed Action 3.1

The quality assurance procedure in action 2.1 will help to identify errors in payment before they are submitted for final authorisation.

Late and incorrect paperwork, submitted by managers, will also be monitored. Reminders will be sent to advise managers to submit paperwork on time and where managers repeatedly submit paperwork that is late or incorrect; these individuals will be contacted and advised on the correct procedures.

Priority	3
Responsible Officer	Business Support Manager
Timescale	28 February 2019

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4 Record of Overpayments

Issue/Control Weakness	Risk
There are gaps within the information contained on the monitoring spread sheet. Some overpayments were missing monetary values and some did not have any commentary of recovery action taken against them.	Detail of overpayment is unclear. Recovery action is not taken against overpayments. Alternatively, employees who have already repaid an overpayment are approached for payment again.

Findings

It was confirmed that some overpayments are unavoidable and outside of the control of the HRBC. On review of overpayment reports between October 2017 and March 2018, overpayments ranged between approximately £2,000 and £9,000 each month; amounts that are of small value in comparison with the total value of the payroll.

Testing confirmed that a spread sheet is set up each month in order to monitor all overpayments made and, for the most part, information detailing each overpayment was available. However, it was found that there are some inconsistencies within these reports, with gaps in overpayment values and the commentary explaining recovery action taken. The spread sheet is a central record and should be complete and updated to record recovery action.

Agreed Action 4.1

The requirement for a record of overpayments will be raised in the team meeting and addressed as necessary.	Priority	3
	Responsible Officer	Business Support Manager
	Timescale	28 February 2019

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5 Advances

Issue/Control Weakness	Risk
During the six month period tested, 19 advances had to be made due to clerical errors within HRBC. The monetary value of these advances was approximately £11,200.	Employees are paid incorrectly.

Findings

A review of advances made between October 2017 and March 2018 confirmed that advances ranged between £11,000 and £33,000 each month. These figures do include settlement payments made to employees and therefore the overall value on each report is inflated.

However, during the six month period tested, 19 advances had to be made due to clerical errors in HRBC. The total monetary value of these advances was approximately £11,217.87.

Agreed Action 5.1

The introduction of the quality assurance procedure referred to in action 2.1 will help to reduce errors made by the HRBC. These checks will also help to highlight any training needs required by staff in this area.	**Priority**	3
	Responsible Officer	Business Support Manager
	Timescale	30 April 2019

Audit Opinions and Priorities for Actions

Audit Opinions
Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit. Our overall audit opinion is based on 5 grades of opinion, as set out below.

Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions	
Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

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