

Title of Report:	Payroll Internal Audit Report
Committee Report Submitted To:	Audit Committee
Date of Meeting:	16th Sept 2021
For Decision or For Information	For Information

Linkage to Council Strategy (2019-23)	
Strategic Theme	Improvement and Innovation
Outcome	All – Providing effective, accessible, and sustainable local public services
Lead Officer	Audit, Risk & Governance Manager
Cost: (If applicable)	n/a

Budgetary Considerations	
Cost of Proposal	n/a
Included in Current Year Estimates	YES/NO
Capital/Revenue	Revenue
Code	n/a
Staffing Costs	Internal Staffing Cost to Complete

Screening Requirements	Required for new or revised Policies, Plans, Strategies or Service Delivery Proposals.		
Section 75 Screening	Screening Completed:	Yes/No	Date:
	EQIA Required and Completed:	Yes/No	Date:
Rural Needs Assessment (RNA)	Screening Completed	Yes/No	Date:
	RNA Required and Completed:	Yes/No	Date:
Data Protection Impact Assessment (DPIA)	Screening Completed:	Yes/No	Date:
	DPIA Required and Completed:	Yes/No	Date:

Table of Contents

Executive Summary.....	3
1 Objective	4
2 Background	4
3 Risks	5
4 Audit Approach.....	5
5 Findings and Recommendations	5-9
Appendix I: Definition of Assurance Ratings and Hierarchy of Findings.....	10
Appendix II: Limitations and Responsibilities	11

Executive Summary

This internal audit was completed in accordance with the approved annual Internal Audit Plan for 2021/22. This report summarises the findings arising from a review of Payroll which was allocated 8 days. The area of Payroll was previously audited in 2017/2018 receiving an overall level of assurance of satisfactory.

Through our audit we found the following examples of good practice:

- Changes to standing data are restricted and are only made after appropriate authorisation.
- All changes to standing data are recorded on the payroll system to allow for checking and audit.

A number of areas have been highlighted in this report where controls could be enhanced. The following table summarises the total number of recommendations from our audit (all recommendations being accepted by management):

Risk	Number of recommendations & Priority rating		
	1	2	3
Changes to payroll standing data may not be adequately controlled and processed promptly leading to unauthorised access and fraudulent activity.	-	2	-
Sensitive payroll data is not adequately protected leading to unauthorised access to payroll information and fraudulent activity.	-	-	1
Starters and Leavers may not be properly added or removed from the payroll system in a timely manner leading to dummy employees being registered on the payroll system and incorrect continuation of salary in the case of leavers.	-	-	2
Total recommendations made	-	2	3

Based on our audit testing we are able to provide the following overall level of assurance:

Satisfactory

Overall, there is a satisfactory system of governance, risk management and control. While there may be some residual risk identified this should not significantly impact on the achievement of system objectives.

The weaknesses identified during the course of our audit have been brought to the attention of Management. The weaknesses outlined are those, which have come to our attention during the normal audit work and are not necessarily all of the weaknesses, which may exist. The content of this report has been discussed with the Chief Officer to confirm factual accuracy. The assistance and cooperation received during the course of our review is gratefully acknowledged.

Objective

The main objective of the audit was to review the key systems and controls in relation to the recording of starters and leavers onto the payroll function and authorisation procedures in relation to the changes to payroll standing data.

This report has been prepared for the Members of Causeway Coast and Glens Borough Council and should not be disclosed to any third party, quoted, or referred to without prior written consent of the author.

Background

The payroll function currently sits within the Finance Department. The Director of Finance has overall responsibility for the payroll function. The system used by the Council to process payroll is integrated into the finance system, Total. It should be noted that the payroll runs are processed via BACS and authorised by Payroll Pension Manager. In addition to processing the payroll for all Council staff, the payroll team are responsible for processing the payroll for Councillors and payments to the PCSP board and Election Payments when they fall due.

There are currently four full-time (one of which is term time) and one part-time Payroll Officers who process payroll and are supported by the Payroll Supervisor and Payroll Pension Manager.

There are approximately 670 staff and 50 Members including PCSP on Council payroll. Salaried staff and members are paid monthly whereas staff that complete timesheets are paid on a weekly basis. All new starts automatically start on monthly since 2015.

Total gross wages and salaries for staff (including tax, NIC and superannuation) is approximately £23.5m per annum, with a further £7.8m on Agency staff.

Risks

The risks identified relating to the audit of the park management and agreed with management are as follows:

- Changes to payroll standing data may not be adequately controlled and processed promptly leading to unauthorised access and fraudulent activity.
- Sensitive payroll data is not adequately protected leading to unauthorised access to payroll information and fraudulent activity.
- Starters and Leavers may not be properly added or removed from the payroll system in a timely manner leading to dummy employees being registered on the payroll system and incorrect continuation of salary in the case of leavers.

Audit Approach

Our audit fieldwork comprised:

- Documenting the systems via discussions with key staff
- Consideration of the key risks within each audit area
- Examining relevant documentation
- Carrying out a preliminary evaluation of the arrangements and controls in operation generally within the Council
- Testing the key arrangements and controls
- Testing the completeness and accuracy of records.

The table below shows the staff consulted with and we would like to thank them for their assistance and co-operation.

Job title
Head of Finance
Payroll Manager
Payroll Supervisor

Findings and Recommendations

This section of the report sets out our findings in relation to control issues identified and recommendations.

6.1

Issue 1 – Resourcing of Payroll

a) Observation-

The area of Payroll was previously audited during 2017/18 and it was noted at that time that there were six full-time and two part-time payroll officers who process payroll using the TASK payroll system and supported by the Payroll Pension Manager.

Audit noted during 2021/22 staff had reduced within the section to four full-time (one of these is term time) and one part-time Payroll officer resulting in additional pressures on the section. Previously two Supervisors were employed within the section which allowed for review of the work performed by the officers, however one Supervisor left under voluntary exit resulting in less review of work performed. From audit fieldwork it was noted that one employee in the year starting on the incorrect salary and another employee not receiving their increment on completing six months within Council.

b) Implication-

A reduction of staffing within Payroll has increased the risk of the processing and adequacy of the Council payroll.

c) Priority Rating- 2
d) Recommendation- Audit noted that following a redundancy the number of supervisors within the Payroll section reduced to one. With the expectation that Agency staff will move onto Payroll and become salaried employees, and from fieldwork undertaken in the area, Audit recommends that the staff structure be reviewed within the Payroll section to ensure that it is adequately resourced. In addition, business continuity arrangements within the section should be reviewed to ensure in the event of a staff absence that the service area is adequately resourced to continue to process payroll accordingly.
e) Management Response- Staffing levels to be reviewed as part of overall structural review, however initial observations of 2 identified errors, one of which was not of payroll making, does not appear to indicate a major procedural failure or risk.
Responsible Officer & Implementation Date- SMcQ – Oct 2021 – for payroll error

6.2

Issue 2 – Over and Under Payment Policy
a) Observation- From sampling new starts during the year it was noted that one employee was inadvertently paid the wrong pay point. It was evident that this occurred from on oversight of the incorrect appointment letter attached to the new starter form, and payroll review failed to note the error. Occasionally an over or under payment may arise due to human error or amendments to the individuals tax code. From fieldwork it was noted monitoring of over/under payments is inconsistent.
b) Implication- Inconsistent monitoring and recording of over/under payments, could lead to a financial loss/gain for the Council.
c) Priority Rating- 2
d) Recommendation- Audit recommends that an overpayments/underpayments policy be developed so that the Payroll branch applies a consistent approach across Council. In addition, audit recommends that a central spread sheet be maintained to monitor all over/under payments, with commentary explaining recovery action taken.
e) Management Response- Policy to be developed in line with recommendation. Spread sheet to be created in line with recommendation
Responsible Officer & Implementation Date- Policy – SMcQ – Dec 2021, Spread sheet – LMCS – September 2021

6.3

Issue 3 – Employee Files

a) Observation-

Audit noted that files for employees are held within Cloonavin, however during the pandemic the Supervisor maintained files in the Limavady office from which she worked. Upon review of three new start files it was noted that for one employee no information was held, on another file three errors were noted on the employee pay data form, however these errors had been noted and corrected on the form. The payroll supervisor indicated that she wished to move to electronic storage of employee details. From discussions with staff and the review of the payroll system it was noted that the payroll system has the facility to upload data directly for the relevant employee.

b) Implication-

Holding manual files for employees increases the risk of a data breach or a breach in GDPR requirements.

c) Priority Rating-

3

d) Recommendation-

It is recommended that the facility on the payroll system is also used as an electronic means for holding employee information. Therefore there is no requirement for holding manual files for employees reducing the risk of a data breach.

e) Management Response- Electronic system to be investigated but it should be noted the imminent implementation of new payroll system which may take care of this matter

Responsible Officer & Implementation Date- SMcQ – Dec 2021

6.4

Issue 4 – Overtime Sheets

a) Observation-

Our review found that overtime sheets were not always completed in full, by Council employees and supervisors/managers, and did not always include details such as the cost code which to charge the overtime being claimed. This results in payroll staff having to log onto the Total system to establish the correct cost centre which to charge the expenditure or follow up with the relevant supervisor to determine the correct code resulting in additional time and resources of the Payroll function to complete the payment run.

b) Implication-

Risk that expenditure will be costed to the incorrect cost code, with budget holders being unable to effectively monitor their budgets. This in turn may result in potential overspends not being promptly identified and actioned.

c) Priority Rating-

3

d) Recommendation-

Remind all authorised managers/supervisors across the relevant Departments to ensure that overtime sheets are completed in full and that they are submitted promptly for processing.
e) Management Response- Communication to be issued to all relevant staff and supervisors in line with recommendation
Responsible Officer & Implementation Date- LMcS – August 2021

6.5

Issue 5 – Risk Management
a) Observation- The Council has a statutory responsibility to have effective arrangements in place for the management of risk. Managers are responsible for managing risks within their own service areas and Directors are responsible for reviewing, on a regular basis, their key risks across their department putting in place arrangements to manage that risk. The payroll team do not have a current risk register to identify and effectively manage risks within their service area. Payroll is included within the Finance risk register.
b) Implication- Risks may not be adequately controlled leading to risks being realised with their consequential impact.
c) Priority Rating- 3
d) Recommendation- Develop a risk register specific to the payroll function, including risks around staffing, technology, compliance and GDPR etc. This register to be reviewed and updated in a timely manner.
e) Management Response- Separate Payroll risk register to be drafted, this will not be a new development since the Payroll risks are already recorded as part of Finance register
Responsible Officer & Implementation Date- SMcQ Sep 2021

Conclusion

The internal control environment, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include but are not limited to the possibility of poor judgement in decision – making, human error, control processes being deliberately circumvented by employees and others, management overriding of controls and unforeseen circumstances arising.

The risk associated with the payroll is low.

Internal Audit has made five recommendations, two are medium and three considered low. All recommendations have been accepted by management and procedures are being implemented to address the issues noted.

Appendix I: Definition of Assurance Ratings and Hierarchy of Findings

Satisfactory Assurance

Evaluation opinion: Overall there is a satisfactory system of governance, risk management and control. While there may be some residual risk identified this should not significantly impact on the achievement of system objectives.

Limited Assurance

Evaluation opinion: There are significant weaknesses within the governance, risk management and control framework which, if not addressed, could lead to the system objectives not being achieved.

Unacceptable Assurance

Evaluation opinion: The system of governance, risk management and control has failed or there is a real and substantial risk that the system will fail to meet its objectives.

Hierarchy of Findings

This audit report records only the main findings. As a guide to management and to reflect current thinking on risk management we have categorised our recommendations according to the perceived level of risk. The categories are as follows:

Priority 1: Failure to implement the recommendation is likely to result in a major failure of a key organisational objective, significant damage to the reputation of the organisation or the misuse of public funds.

Priority 2: Failure to implement the recommendation could result in the failure of an important organisational objective or could have some impact on a key organisational objective.

Priority 3: Failure to implement the recommendation could lead to an increased risk exposure.

Appendix II: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken this review subject to the limitations outlined below:

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future Periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- The design of controls may become inadequate; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.