



INTERNAL AUDIT REPORT – PAYROLL

<u>Auditor:</u>	<u>Sharon Bradley</u>
<u>Distribution:</u>	Audit Committee Chief Executive Director of Corporate Services Chief Finance Officer Payroll/Pensions Manager
	<u>Completed November 2017</u>

All matters contained in this report came to our attention while conducting normal internal audit work. Whilst we are able to provide an overall level of assurance based on our audit work, unlike a special investigation, this work will not necessarily reveal every issue that may exist in the Council's internal control system.

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Executive Summary

This internal audit was completed in accordance with the approved annual Internal Audit Plan for 2017/18. This report summarises the findings arising from a review of Payroll which was allocated 6 days.

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

- Changes to standing data are restricted and are only made upon appropriate authorisation.
- Changes to standing data are detailed in the TASK Master Audit Report and are reviewed by the Payroll Manager.
- Payroll data and other sensitive information is stored safely and cannot be accessed by unauthorised personnel.
- Adequate controls are in place to ensure that information in relation to starters and leavers is recorded properly and they are included in, and removed from, the payroll system in the appropriate period.

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.
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Objective

The areas for inclusion in the scope of the audit were determined through discussion with management and consider the main risks in relation to Payroll and to review the key systems and controls in place to address these. The review focused on:

- Starters and Leavers
- Changes to Payroll Standing Data

Background

The payroll function within the Causeway Coast and Glens Borough Council forms part of the Finance Department. Payroll are responsible for processing salaries, calculating deductions, processing timesheets and ensuring that the service complies with all relevant statutory rules and regulations. Pay administration is a complex process governed by various acts, policies, directives and guidelines. Staff costs form a significant part of the Council's expenditure and it is therefore important to have robust and effective controls in place.

There are currently six full-time and two part-time Payroll Officers who process payroll using the TASK payroll system and they are supported by the Payroll Pension Manager.

There are approximately 743 staff and 49 Members including PCSP on the Council payroll. Salaried staff and members are paid on a monthly basis whereas staff that complete timesheets are paid on a weekly basis.

Total gross wages and salaries for staff and Councillors (including tax, NIC and superannuation) is approximately £22.4m per annum.

Council employees work on average 37 hours per week. A small number of staff work reduced hours. This is agreed within the relevant employee's terms of employment and salary is paid pro rata accordingly. Weekly paid staff submit timesheets on a weekly basis to enable payroll to be processed, whilst salaried staff are paid on a monthly basis and their monthly pay does not generally change throughout the year.

Risks

The risks identified relating to Payroll and agreed with management are as follows:

1. 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.
3. 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
Payroll/Pensions Manager
Payroll Officers

Findings and Recommendations

This section of the report sets out our findings in relation to control issues identified and recommendations. A summary of all the key controls that we considered is included in Appendix II to this report.

6.1 Risk 1 – Changes to Payroll Standing Data

Our audit testing showed that adequate controls are in place to ensure that changes to standing data are restricted to payroll staff and these changes are only made upon appropriate authorisation. During the course of each month, the payroll function receives notification of amendments to standing data from the HR Manager / Head of Department including:

- Sick forms
- Notification of maternity leave
- Notification of acting up
- Changes to employee details
- Pay increases

Any alterations to payroll standing data are detailed in a notification form for change of circumstances from the HR before they are processed on the payroll system. A master audit report, which shows any changes to standing data on the TASK payroll system during that period, is printed off and maintained on file. Any changes made are checked by a second payroll administrator to ensure they have been input correctly. The report is printed each month and checked by the Payroll/Pensions Manager.

Audit has no findings or recommendations to make in relation to this risk area.

6.2 Risk 2 – Protection of Sensitive Payroll Data

Due to the nature of payroll information, sensitive data relating to payroll is held within the Finance Department. This Department also holds personal information on employees, most notably bank details for accounts to which salaries and wages are paid into. Bank details can be used by fraudsters to defraud individuals of money or to commit ID theft.

Only payroll staff have access to printed reports and access to payroll software is restricted to payroll personnel. Payroll information is securely stored within the Finance Department when not in use by the payroll function, which we observed during our audit.

To enable BACS payments to be made, the Payroll Officer logs onto the payment software (ALBACS) with a unique username and password. The payments are linked to the TASK payroll software which will have already been checked and approved for payment by the Payroll/Pensions Manager. Once the electronic payments have been made a report is printed detailing all of the transactions. This is also signed off by the Payroll/Pensions Manager.

Based on our discussions with Payroll Officers, we found that payroll data and other sensitive information is stored safely and cannot be accessed by unauthorised personnel.

Audit has no findings or recommendations to make in relation to this risk area.

6.3 Risk 3 – Starters and Leavers

Our audit testing showed that adequate controls are in place to ensure that information in relation to starters and leavers is recorded properly and they are included in, and removed from, the payroll system in the appropriate period. New employees cannot be entered onto the payroll system until the payroll function receives a memo/letter from the HR department.

Audit has no findings or recommendations to make in relation to this risk area.

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: Summary of Key Controls Reviewed

Risk	Control issues
Changes to payroll standing data may not be adequately controlled and processed promptly leading to unauthorised access and fraudulent activity.	<ul style="list-style-type: none"> • Changes to standing data are restricted • Changes are only made upon appropriate authorisation. • Changes to standing data are detailed in the TASK Master Audit Report • Changes are reviewed by the Payroll/Pensions Manager
Sensitive payroll data is not adequately protected leading to unauthorised access to payroll information and fraudulent activity.	<ul style="list-style-type: none"> • Payroll data and other sensitive information is stored safely and cannot be accessed by unauthorised personnel. • Only payroll staff have access to printed reports and access to payroll software is restricted to payroll personnel.
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	<ul style="list-style-type: none"> • Adequate controls are in place to ensure that information in relation to starters and leavers is recorded properly and they are included in, and removed from, the payroll system in the appropriate period. • New employees cannot be entered onto the payroll system until the payroll function receives a memo from the HR department. • A new start sheet is completed for each employee and is signed by the employee and Payroll/Pensions Manager. • A BACS form is completed for each employee to enable the payroll section to enter the new employee's bank details on the payroll software. • A termination form is completed and submitted to the payroll function by the relevant Line Manager when an employee terminates their employment with the council. • The termination form is signed by both the Head of Department and the employee. • Ensure terminated employees are removed from the payroll system.