



Internal Audit Final Report

Central Payroll

Directorate: Central Payroll

Date: February 2005

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Auditor: J E Daniel

1. Introduction

- 1.1 There are 7,900 employees on the three payrolls within Bridgend CBC. The annual employee cost is approximately £140 million, which represents approximately 52% of authority spending.
- 1.2 The Payroll system is regarded as a fundamental system and it is subjected to an annual Internal Audit review. This is the first such audit of the new TRENT system. The previous audit, during 2004/5, was limited to the then imminent changes.
- 1.3 The new TRENT Payroll system went live in July 2004 after a period of parallel running with the old Unipay system. It is part of a Payroll/HR package provided by Midland TRENT, Payroll being, with other modules, among the first to be implemented. Further system developments and enhancements are planned for the future.
- 1.4 The Payroll function continues to be decentralised, with individual Directorates having responsibly for the input and checking of data. The Central Payroll function within Corporate Services retains responsibility for the input and checking of some data and deals with all regulatory issues.
- 1.5 The Central Payroll function monitor the gross to net calculation, (i.e. calculation of deductions from gross pay), payment of the wages and salaries, input and payment of deductions to statutory bodies and the payment and subsequent recovery of any payroll advances/emergency cheques.
- 1.6 Previous Internal Audit reports have been critical of the Unipay system which predated TRENT. Managements' response at the time was that these issues would be addressed by the implementation of the new system, however this has not been the case. See report para. 3.2 for more detail.
- 1.7 This report presents the findings of the current review and includes the findings of recent Payroll Audits in other Directorates (Appendicies 1 and 2). These findings indicate that existing problems have also been identified during previous audits within these Directorate and may be present within all Directorates.

2. Objectives of the Audit

- 2.1. The main objectives of the review were to ensure that key controls were in place and working effectively, in particular:
- Adequate separation of duties
 - Data entered into the payroll system is valid and properly authorised
 - Output is reviewed for reasonableness
 - Payroll suspense accounts are regularly reviewed and cleared
 - Payroll system is regularly reconciled to the main accounting system
 - Adequate BACS controls exist
 - Individual Departments verify the accuracy of their payroll bills
 - There is an adequate audit trail.
 - Monitoring of SMP/SPP/SAP
 - Checking of Directorate New Starters Input. P.46's P.45's etc
 - Distribution and use of Audit Reports
 - Pay Advances and Payroll Adjustments
 - Overpayments and Payroll adjustments
- 2.2 The audit involved discussions with personnel, reviews of policies, procedures, business and other plans, and also examined detailed records where required. Existing procedures were examined, together with an examination of records for the period April 2003 to November 2004.

3. Audit Opinion

- 3.1 The results of two recent Payroll audits within Directorates were examined during this review and were both consistent with each other and the findings of this audit. Both Directorate audits included an examination of associated personnel procedures which have a direct impact on the completeness and accuracy of data held on the TRENT payroll system. The findings of the Directorate audits are to be found in Appendices 1 and 2 of this report.
- 3.2 The overall opinion is partly based on the evaluation of long standing control issues inherited from the Unipay system which have not been resolved at the time of audit, and remain within the new TRENT payroll system. The following paragraphs are taken from the 2002/3 Central Payroll, Internal Audit Report, dated July 2002.
- 3.3 *... this review also identified issues, from both a feeder section and Central Payroll perspective, that require attention to improve existing controls. This reports' recommendations and comments have been categorised accordingly, and further categorised depending on whether they require attention prior to or in conjunction with the new Payroll HR IT system (TRENT).*
- 3.4 *The main issues referred to Central Payroll are the control problems caused by the lack of up to date procedure manuals and guidance, key system input control weaknesses, and the co-ordination of the maternity pay process (largely resolved for 2005/6), all of which should be addressed as part of the implementation of the new Payroll / HR IT system.*
- 4.2.1 *There is no on-line authorisation within the UNIPAY system. Once data is entered to the payroll system it neither requires further on-line authorisation, nor*

*have sufficiently sophisticated in-built validation checks or exception reporting mechanisms been developed to adequately control payroll input. **This is a fundamental control weakness, the compensating control for which is laborious, time consuming and often a duplication of effort (see 4.2.2 below).** Central Payroll will be reminded that the implementation of the new Payroll / HR system should be seen as an opportunity to address these issues.*

4.2.2 *In order to compensate for this key control weakness each payroll feeder section is currently required to verify the audit logs produced by the system. Audit Logs are daily reports produced by the system that summarise all data input. The report's sheets, which are sequentially numbered, are distributed to the relevant feeder section (they detail all adjustments in inputter order) where they should be scrutinised and checked to supporting documentation by a second officer, i.e. not the staff member that input the data.*

3.3 The fundamental weaknesses remain in the new system, as currently operating, and have not been fully addressed during the initial development and implementation of TRENT. Discussions with management have indicated that reporting procedures have been improved with the use of Business Objects and TRENT (NRG) reports and the development of the control environment continues. The limitations, as reported, are recognised and will be addressed during further systems enhancement and development.

3.4 Those areas that require management attention are summarised as follows:

- Procedures and controls at the time of the initial implementation of the TRENT system were inconsistent with a payroll process with an annual gross value of £140 million and which forms 52% of the authority's expenditure. However, systems controls and procedures have improved due to enhancements, which are expected to continue and develop in the future.
- The large number of overpayments and the large administrative effort required to recover incorrect payments.
- The huge amount of data produced on Audit Reports, which can result in extensive delays in their checking- by which time it is frequently too late to correct identified errors efficiently.
- The very labour intensive and costly process of independent checking of all input (from Audit reports to supporting records) and does not maximise efficient use of modern IT based controls.
- Results of audits within Directorates indicated the existence of poor procedures and controls, which raises questions on the validity and accuracy of the data input to the TRENT system.
- Procedures remain undocumented – which increases the control problems identified at Directorate level.
- There are unresolved issues regarding the data provided by schools-- which are a major source of errors that require significant and costly clerical effort by Authority staff to resolve.

3.5 **The overall audit opinion is that inadequate procedures were originally put in place and still do not, at the time of audit, provide sufficiently efficient and robust controls to ensue the accuracy and validity of the payroll data which is processed.**

4. Findings, Recommendations & Agreed Management Action

No.	Findings	Risk	Recommendation	Management Comments	Agreed/ Officer/ Imp. Date
1	The new TRENT system inherited unsatisfactory control procedures which were existent in the previous Unipay system – reliance on time consuming and inefficient use of daily audit reports and broad based exception reports (now produced from the Business Objects application/module).	H	<p>1.1 An ongoing ‘head count’ of individuals on the payroll, including starters and leavers, should be maintained by Central Payroll.</p> <p>1.2 Consideration should be given to gradually amend the pay date so as to enable changes to processing deadlines, which would result in improved efficiency, reduction of errors, and reduce costs.</p> <p>1.3 The introduction of TRENT based data validation procedures should be explored and, if feasible, their introduction seen as a priority.</p>	<p>None.</p> <p>This was suggested as an efficiency during the Best Value Review of Payroll and was disallowed by Members at that time on the basis that the efficiencies gained were minimal and that it would be demoralising to staff.</p> <p>The topic has been raised again recently within the Workforce Capacity Technical Group and consideration is currently being given to this issue.</p> <p>There are few data validations currently within the system. An enhancement request has been raised with the supplier and will be considered for future development</p>	<p>Agreed. JR July 2006</p> <p>Agreed. JR Ongoing</p> <p>Agreed. JR Ongoing</p>

4. Findings, Recommendations & Agreed Management Action

No.	Findings	Risk	Recommendation	Management Comments	Agreed/ Officer/ Imp. Date
2	<p>Control reports {TRENT (NRG) and Business Objects (BO)} are produced for checking within the various Directorates, which should inform the Central Payroll Section that checking has been completed.</p> <p>There is no clear audit trail which provides consistent evidence that the Directorates have completed their checking of reports before the payroll is run.</p> <p>The results of other audit work within Directorates indicate that control procedures are inconsistent and insufficient for reasonable assurance to be given on the accuracy of data input to the system.</p>	H	<p>2.1 A clear record of all checking procedures completed at Directorate level should be retained and monitored by the Central Payroll function.</p> <p>2.2 The monitoring should ensure (and demonstrate) that the necessary checking procedures have been completed within the required timescales, and before the payroll is run.</p>	<p>Existing procedure will be strengthened and formalised.</p> <p>As above.</p>	<p>Agreed. JR April 2006</p> <p>Agreed. JR April 2006</p>
3	<p>Previous issues regarding the use of Audit Reports within the previous payroll system (Unipay) remain unresolved and continue to be a significant problem within TRENT payroll.</p> <p>Data on Audit Reports continues to be too voluminous, resulting in significant delays in checking and may even result in some reports not having been checked.</p>	H	<p>3.1 Alternatives to the current use of Audit Reports should be examined and appraised.</p> <p>3.2 Audit Reports should be further streamlined so that only relevant data is reported for checking purposes.</p> <p>3.3 All data checking at Directorate level should be completed on a timely basis, before the deadline for running the payroll.</p>	<p>))) This will be considered during)future developments.))</p> <p>See 4.1</p>	<p>Agreed. JR Ongoing</p>

4. Findings, Recommendations & Agreed Management Action

No.	Findings	Risk	Recommendation	Management Comments	Agreed/ Officer/ Imp. Date
4	<p>In addition to the difficulties caused by the volume of reported data, as indicated above, the checking process is hampered by the restrictive timescale necessitated by current arrangements. As a result the necessary checking is rarely completed before the deadline for the payroll run, which results in the processing of unchecked data and the requirement to make corrections on a retrospective basis.</p>	H	<p>4.1 The timescales required to perform all necessary input and checking activities before the payroll run should be reappraised.</p> <p>4.2 Consideration should be given to amend the times/cut off points for key processes within the payroll processing cycle.</p>	<p>This will be considered during future developments.</p> <p>This requires changes to the timing of running the payroll and requires detailed consideration regarding other associated issues.</p>	<p>Agreed. JR Ongoing</p> <p>See Recommendation 1.2.</p>
5	<p>Although SLA's have been developed between Local schools and the Authority on Financial Services to schools only 60 out of 69 schools have signed and returned the SLA document.</p> <p>Procedures and responsibilities regarding the processing of debtor invoices (for overpayment recovery) are not mentioned within the SLA's - which are a significant issue for the Authority. (as noted below)</p>	M	<p>5.1 All schools should be required to agree, and sign, the SLA's relevant to Payroll Activities.</p> <p>5.2 SLA's should be clear and unambiguous on all payroll activities performed by the Authority on their behalf, including the correction of data errors resulting from inefficiencies within schools administrative procedures.</p>	<p>This has been the norm and was only an issue during the last year.</p> <p>Other initiatives are in hand to address this issue and are seen to be more effective than the SLA route. -This is dependant upon project timescales for the introduction of manager data submission.</p>	<p>Agreed. JR April 2006</p>

4. Findings, Recommendations & Agreed Management Action

No.	Findings	Risk	Recommendation	Management Comments	Agreed/ Officer/ Imp. Date
6	<p>Overpayments to individuals normally arise from delays in processing data changes and can result in considerable clerical effort within the Central Payroll and Debtors sections in recovering the overpayments.</p> <p>As analysis of overpayments from April to October 2005 gave the following results:</p> <p>Directorate Number 12 months</p> <p>Exch. 1</p> <p>EPS 3</p> <p>PS 4</p> <p>CS 23</p> <p>Ed & Ls</p>	M	<p>6.1 All Directorates should be reminded of the requirement to input and check data within the timescale necessary for the efficient operation of the payroll process.</p> <p>6.2 Consideration should be given to charge out additional costs arising from the processing of incorrect data input at Directorate level/supplied by schools.</p>	<p>See point 4.</p> <p>This requires a review and amendment of existing SLA's with each school.</p>	<p>Refer to relevant reference.</p> <p>Monitoring is on-going and both Education Dept and CS have introduced revised processes in an attempt to minimise 'lost data'.</p>
<p>D:\ModernGov\Data\Committee\Intranet\Audit Committee\200603101415\Agenda\3qgzamyp.doc</p>	<p>Total</p> <p>115</p> <p>181</p>		<p>Page 4</p>		

4. Findings, Recommendations & Agreed Management Action

No.	Findings	Risk	Recommendation	Management Comments	Agreed/ Officer/ Imp. Date
7	The Authorised Signature Listing (ASL) was not fully up to date - there were 8 individuals who had authorisation rights but whose signatures were not on file. Also there were two on the listing but not in the file.	L	The ASL should be accurate and kept up to date at all times.	None.	Agreed. Implemented
8	An examination of a sample of advances revealed the following issues on authorisation procedures. All documents and batches had been authorised correctly except: <ul style="list-style-type: none"> • R/10049 signed by G Hughes- Payroll • D/4992 signature not identified • D/5066 no authorisation signature • R/10083 signed by A Jones- Payroll • R/10082 signed by G Hughes-Payroll The above indicates that unauthorised advances may have been paid.	L	All advances should be authorised correctly.	None.	Agreed. Implemented

4. Findings, Recommendations & Agreed Management Action

No.	Findings	Risk	Recommendation	Management Comments	Agreed/ Officer/ Imp. Date
9	<p>At the time of audit, some 15 months after the implementation went live, the use of TRENT and Business Objective reports as control documents was still not fully development.</p> <p>As also indicated above more focused and user friendly control systems have not been introduced with reliance placed on inadequate report formats inherited form the old Unipay system.</p>	H	<p>9.1 The whole format and structure of control reports produced by the existing systems should be examined, evaluated and reformulated so as to provide a more efficient and effective platform that ensures the accuracy of payroll data.</p> <p>9.2 All payroll data should be checked within the timescales required by the payroll process.</p>	<p>The existing (and previous) position should be seen as being one of continued enhancement and not as a finished product.</p> <p>The system has been evaluated post implementation as being the most appropriate for BCBC requirements and continues to be refined and tailored to local authority requirements, and in particular those for Bridgend's needs.</p>	<p>Agreed.</p> <p>JR</p> <p>Ongoing.</p>
10	<p>The method of calculating maternity benefits are not consistent throughout the Authority. The Corporate Services Directorate applies a method which is different to all other Directorates. There is no evidence that individuals within Directorates are given the choice of selecting either of the two methods of calculating their maternity pay.</p>	M	<p>All mothers-to-be should be informed that they have the personal choice of selecting one of the two ways of calculating maternity pay benefit. Directorates should not restrict the choice available to their personnel.</p>	<p>This is for each individual Directorate. As far as is known this is the situation at the moment.</p>	<p>Agreed.</p> <p>Implemented</p>
11	<p>Requests to unlock records for data adjustments prior to the payroll run are not limited to named individuals. However as the requests are usually made by individuals who are known to the TRENT team (as persons who input payroll data) the risk of invalid data changes is low.</p>	L	<p>All requests for unlocking records should be collated and sent to the Directorates for scrutiny. Any patterns identified at Directorate level should be investigated so to help increase data processing efficiency.</p>	<p>Requests for unlocking records are recorded and examined by Central Payroll section and any training needs identified.</p>	<p>Not Agreed.</p> <p>Existing procedures regarded as adequate.</p>

4. Findings, Recommendations & Agreed Management Action

No.	Findings	Risk	Recommendation	Management Comments	Agreed/ Officer/ Imp. Date
12	The review of the 'Payroll Differences' report is confined to a check of payroll totals and does not include an examination of reported changes to payroll categories between payroll periods. Such a review would require identification of the origin of the differences - which current procedures are unable to provide. The current review of payroll Analysis Reports is therefore of limited and doubtful value.	M	The continued use of the existing Payroll Differences report (the format of which was inherited from UNIPAY) should be examined. If necessary a report more relevant to present needs should be developed.	The existing report provides the required data to perform the checking of net payroll values to other accounting records. Other checks on period to period changes are regarded as being adequate. Changes to the current report format would not provide any benefit.	See comments. The report provides the required data for existing needs and any changes will be considered in future.
13	Business Objects (BO) reports have been developed for use at Directorate level but can be time consuming to use and may not be the most efficient basis for checking payroll data changes- especially as all data input should be reported on Audit Reports which are agreed to supporting records.	M	<p>13.1 The use of Audit Reports. NRG and Business Objectives reports should be examined in conjunction with each other in order to prevent 'over checking' of some data to the exclusion of other data.</p> <p>13.2 In order to help maximise the efficiency of checking procedures a centrally controlled report library should be established.</p>	The introduction of TRENT has been, and continues, to be a learning experience, including the development and use of NRG and Business Objects. Significant improvements have recently been made due to the expertise of one individual, who is in the process of reviewing all existing BO reports.	Agreed. JR Ongoing
14	As reported in previous audit reports there are no up to date documented payroll processing and control procedures at Central or Directorate level.	M	Clear procedures should be developed for the processing of all payroll data, together with authorisation and segregation duties. Procedures should be made available to all relevant personnel who should adhere to instructions	Procedures will be completed. Training at Directorate level to continue on an on-going basis.	Agreed. JR May 2006 Ongoing

4. Findings, Recommendations & Agreed Management Action

Appendix No 1 Environment & Planning

A Procedures Manual was not in being and accordingly there has been no formal adoption of agreed procedures. There is no an authorised signatory list in place detailing who is responsible for authorising various systems and who is formally authorised to supply input information to the Section .

The Personnel Section via a Personal Authorisation Form initiates all New Starters. This form is passed to the Inputting Unit for entry onto the TRENT System. This system does not enforce a separation of the duties of entering new employees' details from those of entering actual payments to those employees. It was noted that there was no independent verification of manpower by requesting managers of Operating Units to certify that lists of employees forwarded to them at irregular intervals were the full complement employed by them.

It was noted that whilst not affecting this particular audit temporary National Insurance Numbers could be on the system indefinitely without there being enforced reminders generated by the system.

A second test revealed that it was also possible for employees to receive payments when there were no entries whatsoever had made in the National Insurance Box. The TRENT system does not carry out an automatic check as to whether a given permanent national insurance number conforms to the accepted algorithm.

Mileage claim forms are not keyed in by the Assistant Personnel Officers but are "verified" by them. The verification takes the form of examining the document received by email and seeing if there is anything unreasonable or untoward in the mileage claim. If there are no apparent errors then it is verified and the mileage claim form is immediately transmitted to TRENT for updating of the claimants record.

The system as operated is therefore essentially one of data transfer rather than verification but any amendments to claims can be carried out by the Assistant Personnel Officers without enforced reference to the Operating Departments. Whilst no amendments were witnessed during the Audit the fact that any type of amendment can be made to this electronic document without independent verification again displays a weakness in the system.

Furthermore any entries that are made to the mileage claims do not appear on the Audit Log, which means the Audit Trail is incomplete.

The Audit log is emailed to the Audit and Administrative Officer for checking and clearance. Once he has carried out this task he replies to the email giving authority for the payroll to run.

The TRENT system does not enforce replies to the emailed log to give it authority to run the payroll.

Problems have been encountered with the Audit Log over the recent past but the system has now settled down to some semblance of order, with the below exception. Teething problems with bedding down the new system caused some delays in signing off logs.

The Audit and Administration Officer who is responsible for the verification of the log is also able to input amendments into the system making this employee not independent of the whole process.

The design of the Audit Log includes a large amount of unnecessary data. For example a new employee checked onto the TRENT System by the Auditor had over seven pages of data on the log not all of which was necessary. The new log is also difficult to understand and does not encourage checking of it. As this task is of vital importance this is seen as a fundamental weakness.

Absences and sickness are recorded as holiday entitlements and holidays taken but are not recorded onto the TRENT System, this task being the responsibility of the Operating Departments.

The system could be "unlocked" by either the Inputting staff or the Audit and Administration Officer to effect any last minute amendments to pay records. This is

4. Findings, Recommendations & Agreed Management Action

Appendix No 1 Environment & Planning

effected by an email to Central Administration who can release the record(s) concerned for amendment. There was no limitation as to who could forward this email and further enquiries made by the auditor showed that a considerable number of personnel within Central Administration could effect the “unlocking” of the record(s).

A number of sources of input are used by the Inputting Section to facilitate entries into the TRENT Payroll system. Apart from PAFs, other sources such as spreadsheets are forwarded to the Section by email from the Operating Departments, which list items such as overtime, standby payments and acting up payments. An examination of a sample of these for three months showed transaction had been properly processed although hard copies thereof had not been signed by the inputter nor by the verifier. However all had been stamped “INPUT TO TRENT”. These spreadsheets are received from a variety of sources and not necessarily from the same level of management within each of the Operating Departments.

Independent verification is not enforced by the system but is the subject of locally imposed controls. In the circumstances therefore the constant application of such local controls becomes absolutely imperative to the integrity of the system and in a major system such as payroll cannot always give adequate confidence.

The system depends to a large extent upon the veracity of the information received from the Operating Departments as it is impossible for the Personnel and Payroll Section to have detail knowledge of claims being made by the workforce and in many respects therefore the system of inputting into the TRENT system is akin to a data transfer exercise rather than a bona fide verification exercise. It is therefore impossible to give any genuine audit assurance as to the accuracy of the information being input. Inputters are able to verify and verifiers able to input. This principle also applies to the Audit and Administrative Officer.

It is the intention to dispense with all of the inputting functions as far as Temporary amendments are concerned by transfer to the various Administration Sections within the Operating Departments. In the Auditor’s view it is prudent of Management to retain central control of Permanent and Semi Permanent amendments.

Prior to this policy being carried out it would be useful to establish that the TRENT system be able to de-bar certain entries i.e. Permanent and Semi Permanent amendments from being input by the Operating Departments as otherwise controls could be compromised.

When the above mentioned policy is effected it is clear that the role of the Audit and Administration Officer could be further developed to include the Operating Departments as far as their work on the receipt, inputting and checking of payroll data is concerned. Reports should be developed to assist this employee to quickly establish adverse trends. It essential that such reports be retained together with records of any actions taken.

4. Findings, Recommendations & Agreed Management Action

Appendix No2 Education, Leisure and Community Services

The authorised signatory list is not held within the Payroll. Section although a copy is available in the Finance Section

There is a lack of procedural guidance of forms to be used.

Details of new employee forms were in place however they were not dated or signed.

A sample of new starters within the directorate was reviewed however, the following issues were identified:

- File Tracer cards are implemented but were not in full use, during our review.
- Misfiled correspondence on personal files was also identified.
- all TRENT checklists not on file.
- appointment letter dated after the start date of the employee.
- non receipt of job acceptance slips.
- temporary NI number on TRENT although correct NI number available on file
- completed Contracts of Employment not on file nor were their terms and conditions of employment.

The following was found:

- incomplete evidence of appropriate references being sought
- all references not received
- qualification evidence not held on file
- evidence of CRB checks not on file
- medical clearances requested but no evidence on file of being carried out.
- all required contracts not present.

Payroll Bank Details Check List is implemented however, it is not fully utilized.

The following was identified:

- termination letters not held on personnel file
- termination date differs to the letter issued.
- Occasional use of stamp for 'TRENT input', but no date or signature of when the action has been carried out.

One instance the maternity letter issued to the employee had the incorrect data however, the employee received the accurate payment. The following was identified:

- no payroll/personnel checklist on file
- no acknowledgement of maternity rights on file from payroll
- no MATB1 copy on file
- no letter from the employee confirming maternity start date, although it is understood that this is a low risk issue.

Audit logs were not active for approximately 6 weeks within the directorate.

4. Findings, Recommendations & Agreed Management Action

Appendix No2 Education, Leisure and Community Services

A sample of issues were reviewed from previous audits as part of this years audit. Two issues were raised from this review:

- Spreadsheets for recovery of overpayment were not up to date.
- No write offs have occurred this year however, procedure for such events has not been documented.

Internal Audit
Bridgend County Borough Council
Brackla House
Brackla Street
Bridgend
CF31 1BZ