



# Internal Audit

Follow up of  
2005/6  
Central Payroll

**Directorate:** Corporate Services  
**Date:** May 2006



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Auditor: J E Daniel

## **1 Introduction**

- 1.1 This report presents the findings of the examination of the implementation of agreed recommendations arising from the 2005/6 payroll audit. The report was first presented to Audit Committee on the 10<sup>th</sup> March 2006 with an updated report requested for discussion at the meeting on the 1 June 2006.

## **2 Audit Opinion**

- 2.1 Significant progress has been made in implementing the agreed recommendations. Several issues require systems enhancements and in these cases it is not possible to give a firm completion date as such enhancements are a normal feature of new systems and there are competing priorities on a limited development resource.
- 2.2 The potential changes resulting from recently proposed reforms to HR activities may also have a profound effect on the payroll procedures examined during the audit and many of the recommendations are linked to the outcomes arising from these potential HR changes. In these circumstances it has not been possible to fully define completion dates for certain recommendations as they depend on factors which are uncertain at this time.
- 2.3 Although there has been progress in the implementation of agreed recommendations they have not been fully completed and therefore the overall audit opinion remains unchanged. The overall audit opinion is that inadequate procedures are in place and do not, at the time of this follow up audit, provide sufficiently efficient and robust controls to ensure the accuracy and validity of the payroll data which is processed.

**4. Follow up of Agreed Recommendations and Management Action**

<b>No.</b>	<b>Findings</b>	<b>Risk</b>	<b>Recommendation</b>	<b>Management Comments</b>	<b>Agreed/ Officer/ Imp. Date</b>	<b>Follow Up May 2006</b>
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#### 4. Follow up of Agreed Recommendations and Management Action

No.	Findings	Risk	Recommendation	Management Comments	Agreed/ Officer/ Imp. Date	Follow Up May 2006
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).	<b>H</b>	<p><b>1.1</b> An ongoing ‘head count’ of individuals on the payroll, including starters and leavers, should be maintained by Central Payroll.</p> <p><b>1.2</b> 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>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>Agreed. JR July 2006</p> <p>Agreed. JR Ongoing</p>	<p>The existing TRENT reports can not presently provide an accurate figure and an enhancement is still required. However, present procedures are such that it is unlikely that unauthorised starters can be entered on the payroll. A report of employees should be ready by August 2006.</p> <p>Recommendation is under consideration – decision now lays with a number of Groups and Committees.</p>

**4. Follow up of Agreed Recommendations and Management Action**

No.	Findings	Risk	Recommendation	Management Comments	Agreed/ Officer/ Imp. Date	Follow Up May 2006
1. Contd			1.3 The introduction of TRENT based data validation procedures should be explored and, if feasible, their introduction seen as a priority.	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.	Agreed. JR Ongoing	Considerable efforts have been made to improve existing controls and system enhancement requests have been made to the software supplier. Continued enhancements are a feature of new systems and therefore a specific completion date is not appropriate for this recommendation.

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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>	<b>H</b>	<p><b>2.1</b> A clear record of all checking procedures completed at Directorate level should be retained and monitored by the Central Payroll function.</p> <p><b>2.2</b> 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>	<p>Implemented</p> <p>Implemented as far as possible at this time. Other changes depend on the implementation of recommendation 1.2.</p>





**4. Follow up of Agreed Recommendations and Management Action**

No.	Findings	Risk	Recommendation	Management Comments	Agreed/ Officer/ Imp. Date	Follow Up May 2006
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><b>5.1</b> All schools should be required to agree, and sign, the SLA's relevant to Payroll Activities.</p> <p><b>5.2</b> 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>	Agreed. JR April 2006	<p>The Central Payroll portion of the document has been provided to Education, Leisure and Comm. Services.</p> <p>A major wide-ranging review of SLA's with schools (not limited to payroll) is expected to be completed within 3 months</p> <p>August 2006.</p>

#### 4. Follow up of Agreed Recommendations and Management Action

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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> <table border="1"> <thead> <tr> <th>Dir.</th> <th>No</th> <th>12 months</th> </tr> </thead> <tbody> <tr> <td>Exch</td> <td>1</td> <td></td> </tr> <tr> <td>EPS</td> <td>3</td> <td></td> </tr> <tr> <td>PS</td> <td>4</td> <td></td> </tr> <tr> <td>CS</td> <td>23</td> <td></td> </tr> <tr> <td>Ed</td> <td>84</td> <td></td> </tr> <tr> <td><b>Tot</b></td> <td><b>115</b></td> <td><b>181</b></td> </tr> </tbody> </table> <p>The above indicates that there are significant problems regarding overpayments within the CS and Ed &amp; Ls Directorate.</p> <p>In addition to the disproportionate clerical effort required to correct these overpayment the minimum cost for rectifying each error is £25, which gives a minimum annual cost in the region of £4,500.</p>	Dir.	No	12 months	Exch	1		EPS	3		PS	4		CS	23		Ed	84		<b>Tot</b>	<b>115</b>	<b>181</b>	M	<p><b>6.1</b> 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><b>6.2</b> 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>Implemented</p> <p>See follow-up comments in point 5 also.</p>
Dir.	No	12 months																									
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#### 4. Follow up of Agreed Recommendations and Management Action

No.	Findings	Risk	Recommendation	Management Comments	Agreed/ Officer/ Imp. Date	Follow Up May 2006
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	Implemented
8	<p>An examination of a sample of advances revealed the following issues on authorisation procedures.</p> <p>All documents and batches had been authorised correctly except:</p> <ul style="list-style-type: none"> <li>• R/10049 signed by G Hughes-Payroll</li> <li>• D/4992 signature not identified</li> <li>• D/5066 no authorisation signature</li> <li>• R/10083 signed by A Jones-Payroll</li> <li>• R/10082 signed by G Hughes-Payroll</li> </ul> <p>The above indicates that unauthorised advances may have been paid.</p>	L	All advances should be authorised correctly.	None.	Agreed.  Implemented	The advances identified were exceptions and existing controls are in full operation.

#### 4. Follow up of Agreed Recommendations and Management Action

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9	<p>At the time of audit, some 15 months after the implementation went live, the use of TREN 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 from the old Unipay system.</p>	<b>H</b>	<p><b>9.1</b> 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><b>9.2</b> 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>	<p>The use of BO's continues to be developed and refined to users needs. This will continue into the future – as in the case with all new systems.</p> <p>The implementation of recommendation 1.2 will have a significant impact.</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.</p> <p>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>	<b>M</b>	<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>	<p>The possibility of future reorganisations will have a significant impact on future developments.</p>

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11	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.	L	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.	Requests for unlocking records are recorded and examined by Central Payroll section and any training needs identified.	Not Agreed.  Existing procedures regarded as adequate.	N/A
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.	N/A

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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><b>13.1</b> 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><b>13.2</b> 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	<p>The process of developing these reports continues. Service users have recognised the benefits of new reports and are requesting further enhancements. By it's nature this will be a permanent ongoing process.</p> <p>A catalogue of available BO reports has been developed. and will be refined.</p>
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.	<p>Procedures will be completed.</p> <p>Training at Directorate level to continue on an on-going basis.</p>	Agreed. JR May 2006 Ongoing	<p>Guidance is available on line and will be expanded. There will be annual updates when changes demand.</p> <p>Further training has been organised and will continue to be focused on users needs.</p>

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