

STRICTLY CONFIDENTIAL



Internal Audit Final Report

Payroll System

Directorate:
Date:

Resources
January 2009

Contents

1. Introduction
2. Objectives of the Audit
3. Audit Opinion
4. Findings Recommendations and Management Action Plan

Appendices:

1. Recommendations addressed to the Accountancy Section
2. Explanation of Categorisation of Audit Reports

Auditor: N. D. Morgan
M. Goodman

1. Introduction

- 1.1. An audit review of the payroll system was undertaken as part of the 2008/09 internal audit plan.
- 1.2. The payroll and HR function was centralised in April 2007 to provide cost savings and a more streamlined service. As a result of the restructuring, there has been an expected period of adjustment during which time a number of issues have arisen. The loss of a number of experienced members of staff and the reorganisation of remaining staff has highlighted training issues. As a result, senior staff have been involved in the day to day administration of the system instead of being fully involved in future initiatives aimed at relieving the burden on resources e.g., the planning and initiation of spreadsheet uploads for timesheet input which is currently 'fast input' by payroll staff. Also, addressing the causes of payroll overpayments across the directorates.
- 1.3. The transactional team administers the following:

<u>Payroll</u>	<u>Monthly</u>	<u>No. of Payments made in 2007/08</u>	<u>Average no. of employees paid per month</u>	<u>Salaries Expenditure for 2007/08</u>
011	Teachers	19,466	1622	£47,901,049.80
010	Others	70,493	5874	£83,046,057.47
Totals		89,959	7496	£130,947,107.27

- 1.4. The key findings of the audit largely mirror the concerns raised by external auditors KPMG along with areas already under review by the Exchequer Manager. These include: overpayments, errors in the calculation of SMP, holiday entitlements to staff working reduced hours and third party claims to insurers for sickness payments. It was confirmed at the discussion document meeting that these areas have been examined since the start of the audit and are at varying stages of review. These points will be incorporated into a future follow up review.
- 1.5. A small number of recommendations have been addressed directly to the Accountancy Section for consideration. The areas referred to are:
- The current threshold for the transmission of BACS payments
 - The current level of fidelity guarantee insurance
 - The reconciliation of pay advances
- 1.6. The functions of the system were examined, key controls identified and testing undertaken. The audit findings are based on discussion with staff and sample audit testing.
- 1.7. One of the key points highlighted in the plan for centralisation of the payroll function was the training of staff across the authority to enable staff to access pay details, check annual leave records, and for managers to confirm establishment details. As at the time of the audit visit this access had been piloted in the Resources directorate but was not widespread elsewhere, nor had a programme of training been initiated.
- 1.8. This report sets out the findings of the review and makes recommendations, where it is felt that improvements in financial and non-financial administration could be made.

2. Objectives of the Audit

- 2.1. The main objectives of the audit were to:
- Document the key functions of the payroll section.
 - Examine the structure and allocation of responsibilities to ensure adequate segregation of duties.
 - Review access controls to Trent and use of the reporting function.
 - Review systems developments and enhancements which have been implemented since the last audit.
 - Review documented procedures.
 - Review procedures to ensure that only bone fide staff are set up on the payroll system and that terminated staff are promptly removed from the system.
 - Ensure that all deductions are accurate and forwarded to the respective organisations on the appropriate dates.
 - Review the general level of overpayments and establish any areas where overpayments are particularly high.

3. Audit Opinion

- 3.1. A review of the controls in place for the administration of the payroll function indicates that there are communication issues across the directorates primarily with schools. The key areas identified include late notification of terminations and issues relating to maternity leave, supply teachers and contract staff.
- 3.2. Two key initiatives were proposed at the outset of the new structure which were intended to have a favourable effect on the level of overpayments. Unfortunately these initiatives have not progressed as scheduled. These included:
- Self service access to Trent and training for line managers. This provision is now scheduled for the latter half 2009.
 - The change of pay dates to the month end to avoid payments in advance. Resistance to this initiative has resulted in indefinite deferral.
- 3.3. Two of the eighteen recommendations are in the significant category hence our audit opinion that the system provides limited assurance in specific areas. These significant areas are:
- Overpayments to staff and ex-employees, often caused by late submission of data, which can also sometimes be inaccurate, by administrative staff across the directorates and within schools. It is recognised that the number of identified overpayments are relatively small in terms of the total number of transactions.
 - Current state of the filing system was such that employee files and documents could not be traced.
- It should be acknowledged that the first of the weaknesses is a result of circumstances over which the payroll function has limited influence namely, the timeliness and accuracy of information supplied.
- 3.4 During the audit a number of strengths and areas of good practice were identified, the main ones being; the extensive experience and expertise of the transactional team manager and the independence, experience and support of the Exchequer Manager. It is recognised that the service is undergoing a major transition and that positive steps are being taken to improve the issues identified in this report and in all other areas of performance.

Acknowledgement

- 3.5 A number of staff gave us their time and co-operation during the course of this review. We would like to record our thanks to all of the individuals concerned.

4. Findings, Recommendations and Management Action Plan

Risk may be viewed as the chance, or probability, of one or more of the organisation's objectives not being met. It refers both to unwanted outcomes which might arise, and to the potential failure to realise desired results.

The recommendations column is categorised on the following basis:

- Fundamental* - action that is considered imperative to ensure that the organisation is not exposed to high risks;
- Significant* - action that is considered necessary to avoid exposure to significant risks;
- Merits attention* - action that is considered desirable and should result in enhanced control or better value for money.

	Findings and Risk	Categorisation	Recommendation	Management Comments	Implementation Date / Officer Responsible
1	<p>Overpayments Comprehensive details relating to overpayments are recorded on a spreadsheet by the transactional team. A brief summary of the 07/08 details shows 174 overpayments. The key problem area appears to be late notification of termination dates, schools being the main offenders. Of the 174 overpayments identified for 2007/08, 93 related to schools. For the period 08/09 as at 01/09/08 60 overpayments had occurred. Again the key reason appears to be late notification of termination dates and maternity related cases. The remaining overpayments are due to a range of reasons. A number of the miscellaneous overpayments result from terminations which occur after the notification deadline and the fact that salaries are paid two weeks in advance.</p>	<p>Significant</p>	<ol style="list-style-type: none"> Management should liaise with schools to identify weaknesses in the recording and administration of payroll related issues. Consideration should be given to providing basic procedures e.g. comparison of weekly attendance records/signing in sheets to details held on Trent, and payroll processing deadlines. Consideration should also be given to providing basic training on the Trent system to allow administrative staff (in all areas) to confirm the accuracy of the establishment details—specifically approaching the end of term when contracts or maternity leave entitlements may be affected. Maternity cases generally should be monitored and details verified with the employing sections. End dates should be entered onto Trent to ensure that payments do not continue. 	<ol style="list-style-type: none"> BPR exercise has mapped out the procedure for staff and managers to follow, to reduce late notification of payment issues, and reports are being developed to identify gaps in information. Basic training has been provided to staff on the Trent system and maternity. Correspondence will be re-issued to managers reminding them to notify us when contracts and maternity are affected. Procedures will be put in place to ensure end dates will be put into Trent. 	<p>31.01.09</p> <p>January 09</p> <p>January 09</p>

	Findings and Risk	Categorisation	Recommendation	Management Comments	Implementation Date / Officer Responsible
<p>2</p>	<p><u>New Starters and Leavers</u> A sample of 20 new starters was selected from a report obtained from Trent with a view to verifying key documentation and verifying to details recorded on Trent including: evidence of birth certificates, passport, references, qualifications, NI no., copy letter of appointment, starter form, superannuation details etc. All areas reviewed were generally unsatisfactory. A further sample of 20 leavers was selected for the same period and tested. The inability to trace paperwork and Personal files when requested meant testing could not be completed in relation to starters or leavers.</p> <div style="border: 1px solid black; padding: 5px;"> <p><u>Starters</u> A sample of 20 starters were selected for testing from a Trent download of starters from 1 April 08 to 8 July 08. HR was able to provide 10 Personal Files for testing. The remaining 10 could not be found.</p> <p><u>Leavers</u> From the 20 leavers sampled, HR was only able to find 12 files for testing.</p> </div> <p>Also there are legal implications in not being able to provide assurance of verification of documentation.</p>	<p>Significant</p>	<p>A programme should be introduced to tackle the backlog of filing, specifically details relating to personal files. This should be followed by the periodic monitoring of the current position to ensure that the present situation does not recur.</p> <p>The filing system should be organised so as to ensure that personal files and documents can be found for all staff when required. Leavers are a particular concern as personal files may contain details of sums owing to the authority e.g., training costs or overpayments which need to be recovered.</p>	<p>The use of Anite is being progressed to address this matter.</p> <p>Missing files should be located when the revised filing system is complete.</p> <p>The existing filing system is in the process of being changed to A-Z rather than a directorate based system.</p>	<p>30.06.09</p> <p>30.09.09</p> <p>30.09.09</p>

	Findings and Risk	Categorisation	Recommendation	Management Comments	Implementation Date / Officer Responsible
3	<p>There are a number of issues which have been identified by the Exchequer Manager which have not been fully addressed due to resource issues. The findings of the exchequer testing are dealt with at section manager level on an 'available current resource basis'. There are outstanding issues that need to be resolved;</p> <ol style="list-style-type: none"> 1. Self employed staff paid via the purchase ledger system. 2. Payment of Artistes fees 3. Holiday entitlements for staff on reduced hours 4. Pursuance of 3rd party claims for loss of earnings. 	<p>Merits Attention</p>	<p>Consideration should be given to concentrating on target areas or introducing a minimum financial level. Also, where problems are found, there should be a system whereby they are reported to the transactional team and a response forwarded to confirm action taken. Historically this stems from reported items which either have not been actioned or actioned incorrectly. <u>Points 1 & 2.</u> Advice / guidance should be sought from the HMRC. From this point, documented procedures should be developed and distributed to relevant staff. <u>Points 3 & 4.</u> These issues should be referred to the senior HR advisers for comment and advice on the best way forward. There will clearly need to be liaison with the service managers concerned before any amendments are actioned.</p>	<p>This has now been addressed; the issues that are being identified by the Exchequer Manager are now being reviewed and amended where necessary on a quarterly basis.</p> <ol style="list-style-type: none"> 1. Guidance has not been given by HMRC and further information will be obtained on Artiste fees. 2. A process will be developed re the payment of self employed staff. 3. Holiday entitlements has been referred to HR Advisors and we are satisfied the entitlement is correct. 4. System has been developed and the responsibility rests with Pay & Reward 	<p>Implemented February 08 February 08 Agreed Implemented</p>
4	<p><u>Working Time Regulations & Staff with multi posts</u> Staff based at more than one cost centre generally submit timesheets. Details of the hours worked are listed against the staff number. A report is available from Trent which lists all staff who have worked in excess of 48 hours. This area is not currently being monitored; reliance is being placed on the variance reports produced prior to the running of the</p>	<p>Merits Attention</p>	<p>Management should liaise with the directorates in monitoring the level of overtime of multiple posts held by staff. Where appropriate, staff exceeding the working hours directive threshold should be requested to formalise their arrangements by signing opt out agreements.</p>	<p>There is a need identify whether reports can be run via Trent to analyse this information. Bridgend do not intend having any staff working over and above 48 hours per week.</p>	<p>March 09</p>

	Findings and Risk	Categorisation	Recommendation	Management Comments	Implementation Date / Officer Responsible
	<p>payroll. This method of monitoring is only partially effective. Staff who work regular overtime will not show the variances that would be apparent for ad hoc overtime workers. It is the regular overtime workers that present the greatest risk of breaching working hours regulations. Reference to the Working Time Regulations states that employees who voluntarily work overtime can exceed the stated 48 hr wk provided that they sign an opt-out agreement. These are not currently being completed in BCBC.</p>				
5	<p><u>Trent Access Levels - Reports</u> Enquiries with the Trent Team revealed that due to the number of hidden levels within the system it is not possible to produce a useable report listing the employees with access to Trent and the levels of access. This area is scheduled for review by the Computer Auditor.</p>	Merits Attention	<p>To provide assurance of appropriate access levels and segregation of duties, a report giving accurate access details needs to be available. This area should be pursued with the Trent team and the computer auditor.</p>	<p>Access levels are currently being revised to reflect the changes within the HR structure. The Trent Senior Development Officer will liaise with the computer auditor in relation to these levels of security.</p>	February 09
6	<p><u>Trent Access Levels – Segregation of Duties</u> At present, the Transactional Team Manager has access to all areas of the Trent system. To date this level of access has been necessary for expediency as there has been a long period of transition to the centralised system.</p>	Merits Attention	<p>Management should consider review of the access levels for the Transactional Team to provide assurance of segregation of duties now that the section is adequately staffed.</p>	<p>This has been addressed – Transactional Manager only has access to relevant areas of work.</p>	Implemented
7	<p><u>Documented Procedures</u> Documented procedures have not been</p>	Merits Attention	<p>Management should review and update documented procedures to reflect the</p>	<p>This matter will be addressed via the action plan that is being developed following the</p>	30.06.09

	Findings and Risk	Categorisation	Recommendation	Management Comments	Implementation Date / Officer Responsible
	<p>produced to reflect the centralised functions of the unit. Existing procedures are currently available for guidance but these do not reflect recent changes. Review and update of procedures would provide consistent guidance for new members of staff and a reference facility for existing staff.</p>		<p>functions of the centralised payroll unit and to ensure consistency of approach.</p>	<p>Human Resources review of the service.</p>	
<p>8</p>	<p>Financial Procedure Rules Financial procedure rules are available to all staff on the Intranet via the Constitution. There are also detailed notes on the administration of the payroll system e.g. management of over/under payments, expenses claims etc. These however still refer to the de-centralised system and require update.</p>	<p>Merits Attention</p>	<p>The payroll information on the Intranet requires update to provide accurate information on the centralisation of the function.</p>	<p>This process is now underway and as new protocols are developed they are posted onto the intranet – all old information will be deleted.</p>	<p>30.06.09</p>
<p>9</p>	<p>Authorised Signatories Manual timesheets are used in a number of sections. These are signed by the Supervisors and authorised by managers. Manual timesheets are gradually being replaced by spreadsheets which are forwarded as Email attachments for 'fast input' to Trent. The sender of the Email now takes responsibility for the accuracy of the data submitted. (The spreadsheets have been specifically developed for each</p>	<p>Merits Attention</p>	<p>Authorised signatory lists should be introduced with details of the level of authorisation to ensure that all timesheet input is authorised at the appropriate level and that adequate segregation of duties exist. In addition to signature lists, details of staff authorised to submit information electronically should be provided.</p>	<p>Authorised signature lists will be confirmed once the new structures are in place.</p>	<p>30.09.09</p>

	Findings and Risk	Categorisation	Recommendation	Management Comments	Implementation Date / Officer Responsible
	area and contain macros to calculate the more complicated entries). There are no official lists of signatories or staff authorised to submit spreadsheet details for input to Trent.				
10	Training Issues – Transactional Team The Transactional Team Manager and the Exchequer Manager have identified training requirements within the transactional team. This has resulted from a loss of experienced staff on centralisation and staff turnover generally. E.g., at the time of the audit visit, manual adjustments to correct overpayments were being calculated by the Transactional Team Manager and the Exchequer Manager. Only the Transactional Team Manager had access to input these adjustments on the Trent system. A training session was provided in July 2008 which aimed at providing a broad background with specific reference to the manual calculation of pays and adjustments. A further indicator of training requirements is that of the high number of items which appear in the payroll suspense account.	Merits Attention	Due to the complexity of the functions within the transactional team, training requirements should be identified on an on-going basis.	This has been addressed and a further 2 staff have been trained	Implemented
11	Daily Audit Logs All input to the Trent system is recorded in daily audit logs which list the data input, and the user ID. It was stated during the audit that it is not feasible to check the	Merits Attention	Management should consider evidenced review of the daily audit logs. If resources continue to be an issue, this could be done on a sample/risk basis. Also, enquires should be made with the TRENT team	This is a system issue that is being worked through with the supplier and will not be fully developed until the new release of 10.6.	July/August 09

	Findings and Risk	Categorisation	Recommendation	Management Comments	Implementation Date / Officer Responsible
	<p>daily audit logs due to the excessive volume of data produced in relation to the input, and limited staff resources.</p> <p>An area of particular concern is that of manually input adjustments where human error is not currently being identified. The result is that additional resources are used in the rectification of errors after the payroll has been run.</p>		regarding the possibility of redesigning the reports in a more user friendly format.		
12	<p><u>Review of Reports Produced by the Transactional Team</u></p> <p>Centrally, the key controls in place are via the payments in excess of £3K and the 15% variance analysis which are run and verified prior to each payroll run. Remaining checks e.g., monitoring of overtime or payments being made to terminated staff, are the responsibility of the employing sections. There is an assumption that these are being monitored however, the substantial number of overpayments occurring would suggest that these checks are less than stringent.</p>	Merits Attention	The checks for which responsibility has been assumed to be delegated to the individual managers, needs to be notified to these managers and confirmation of regular checks received.	Reminders will be sent to managers confirming their responsibilities.	January 09
13	<p><u>Pay Advances</u></p> <p>All pay advances are recorded in a manual register. To avoid unnecessary confusion, no payslip is produced to accompany the advance. Instead, a letter is sent which details the amount of the advance and the recovery procedure.</p> <p>The manual register includes details of the</p>	Merits Attention	The manual register of pay advances should be fully completed to aid in the reconciliation of the pay advance code.	This matter has now been addressed and a process put in place to check the recovery of all pay advances.	Implemented

	Findings and Risk	Categorisation	Recommendation	Management Comments	Implementation Date / Officer Responsible
	payee, amount, staff responsible for recovery and the recovery date. At the time of the audit the manual register was not being fully completed. Details of the staff responsible for recovery of the advances and the recovery dates were incomplete.				
14	<p>Overpayments There have been no recent instructions issued to service managers / school staff requesting that any hand delivered payslips which are not distributed, should be returned to the finance section of the Resources Directorate, not posted to the addressee. This could be one method of reducing overpayments – return of a payslip would enable a quick response and recovery. This point is particularly relevant to Teachers’ pays in cases where payments can relate to contracts or cover in more than one school.</p>	Merits Attention	<p>Due to the turnover of staff across the authority, periodic reminders should be circulated to ensure that all staff are made aware of the requirement to return undelivered payslips to the finance section to ensure that any payments made to terminated staff are identified and reported promptly. This instruction could be incorporated into the procedures for schools.</p>	Managers will be sent a reminder to return any undelivered payslips back to payroll supervisors - Rhian Bumford and Pat Chapman	January 09
15	<p>Overpayments 1. Terminations are notified in a number of ways; Employees may notify their line managers, the Transactional team or the Resourcing team directly. Each section is reliant on information being passed to the appropriate section. To ensure that payroll and establishment details are correct, there should be regular periodic verification by line managers. It is understood that a limited number of line managers and</p>	Merits Attention	<p>1. Line managers with access to the TRENT system should be requested to periodically verify establishment details to the staff employed in each section. This to be extended to all sections as access becomes available. 2. Enquiries should be made with the Trent team regarding the feasibility of introducing a flag to highlight sums owed to the authority on terminations.</p>	<p>This will be addressed properly once all the structures are rebuilt in Trent – this will ensure all the reporting lines are accurate. This is scheduled to take place by the summer of 2009. This matter is being explored with the software supplier and we are awaiting confirmation if this facility can be achieved in 10.6.</p>	<p>Summer 09 Awaiting on supplier Release due in July 09</p>

	Findings and Risk	Categorisation	Recommendation	Management Comments	Implementation Date / Officer Responsible
	<p>schools have read only access at present but wider access is to be rolled out in 2009.</p> <p>2. The HR assistants maintain records of staff who are repaying salary overpayments via payroll deductions. When notifications of terminations are received, these are checked to establish whether there are any outstanding sums which are then referred to the sundry debtor section for collection. This is a manual check and not initiated by a flag on the TRENT system. Systems which are reliant on manual checks are prone to error or omission.</p>				

Appendix.1 – Issues addressed to Accountancy Section

	Findings and Risk	Categorisation	Recommendation	Management Comments
1	<p><u>BACS Payments</u> The BACS limit is set and reviewed by the accountancy section which is independent of the payroll function. The current level (August 2008) is £8Million/day. Review of the BACS payroll files for 07/08 indicated a norm of £5.2M per BACS run and a maximum of £5.8M for December 07 which included the backdated pay award. The current BACS limit is therefore substantially (35%) above the required level.</p>	Significant	<p>Management should liaise with the Accountancy section regarding the current BACS transmission limit with a view to reducing it to a more realistic level. Details of all payroll BACS transmissions are provided to the Accountancy section prior to transmission. This would provide the opportunity for the limit to be temporarily amended if required.</p>	<p>Bacs limit is a daily limit and there are occasions when monthly pays and teachers pays are paid on the same day. Hence the £8M limit.</p>
2	<p><u>Fidelity Guarantee</u> Review of the fidelity guarantee insurance revealed an insured amount of £5M per transaction which falls slightly short of the average £5.2M payroll run but substantially short of the £8M BACS limit agreed with the bank.</p>	Significant	<p>Management should liaise with the Accountancy section on the level of fidelity guarantee insurance required.</p>	<p>The limit of indemnity is for any one claim. A series of transactions over an extended period could form a single claim. A quotation for £10,000,000 of cover has been obtained and a recommendation to Cabinet made that this be taken up.</p>
3	<p><u>Reconciliation of Pay Advances</u> The reconciliation of pay advance code W696 is performed by a Senior Accountant in the finance section. Queries are directed to the Exchequer Manager for investigation and amendment.</p>	Merits Attention	<p>To ensure that all pay advances are recovered promptly and accurately, the findings from the Reconciliation should be notified promptly to the Transactional Team for action.</p>	<p>The reconciliations are up to date and payroll via Chris Berry have been notified of any differences to recover</p>

Appendix 2.

Explanation of Categorisations for Audit Reports

Individual Recommendations

For each control reviewed, where it was established that the control is either not in place or is in place but not being adhered to, a recommendation will be made. Each recommendation will be given a categorisation based upon the severity of the missing control. The categorisations are as follows:

- Fundamental - action that is considered imperative to ensure that the Authority is not exposed to high risks;
- Significant - action that is considered necessary to avoid exposure to significant risks;
- Merits attention - action that is considered desirable and should result in enhanced control or better value for money (VFM).

Individual Controls & Overall Report

The objective of an audit is to evaluate the system with a view to delivering reasonable assurance as to the adequacy of the application of the internal control system. The control system is put in place to ensure that risks to the achievement of the Authority's objectives are managed effectively.

Based upon the recommendations made, the categorisation of them and the areas that they relate to, an overall conclusion as to the level of assurance that can be provided will be given, as below:

Substantial Assurance

- Key controls exist and are applied consistently and effectively; and,
- Objectives are being achieved efficiently, effectively and economically (VFM).

Adequate Assurance

- Key controls exist but there may be some inconsistency in application;
- Compensating controls operating effectively; and,
- Objectives achieved after a fashion, e.g. VFM could be improved.

(some risk of loss, fraud, impropriety, or damage to reputation)

Limited Assurance

- Key controls exist but they are not applied, or significant evidence that they are not applied consistently and effectively; and,
- Objectives are not being met, or are being met without achieving VFM.

(a high risk of loss, fraud, impropriety, or damage to reputation)

No Assurance.

- Key controls do not exist; and,
- Objectives are either not met, or are met without achieving VFM.

(a very high risk of loss, fraud, impropriety, or damage to reputation)

Internal Audit
Bridgend County Borough Council
Brackla House
Brackla Street
CF31 1BZ
internalaudit@bridgend.gov.uk