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FINAL INTERNAL AUDIT REPORT
CHIEF EXECUTIVE'S DEPARTMENT

REVIEW OF PAYROLL - EXPENSES, ALLOWANCES AND OVERTIME

Issued to: Charles Obazuaye, Director of HR and Customer Services,
Emma Downie, Head of HR Business, Systems & Rewards,
Claudine Douglas-Brown, Assistant Director, Exchequer Services,
Peter Turner, Director of Finance (Final report only).

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Reviewed by: Head of Audit and Assurance

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REVIEW OF PAYROLL - EXPENSES, ALLOWANCES AND OVERTIME

INTRODUCTION

1. This report sets out the results of our audit of payroll expenses, allowances and overtime. The audit was carried out as part of the work specified in the 2020-21 Internal Audit Recovery Plan agreed by the Section 151 Officer and Audit Sub-Committee. The controls we expect to see in place are designed to minimise the Council’s exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be addressed by management.
2. We would like to thank everyone contacted during this review for their help and co-operation.

AUDIT SCOPE

3. The original scope of the audit was outlined in our Terms of Reference and subsequently we tested the following key risks:
 - Policies and procedures for the claiming and payment of expenses, allowances and overtime via the payroll are not documented, complete, kept up-to-date or communicated to all staff
 - Supporting documentation is not available to support expenses, overtime and allowance payments made
 - Payments are not suitably authorised.

We also confirmed with management that no changes to service delivery arrangements needed to be put in place following the lockdown in March 2020 as a result of COVID-19. The business needs of the service were not impacted and could be maintained.

AUDIT OPINION

4. Our overall audit opinion, number and rating of recommendations are as follows.

AUDIT OPINION	
Reasonable Assurance	(Definitions of the audit assurance level and recommendation ratings can be found in Appendix B)

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Number of recommendations by risk rating		
Priority 1	Priority 2	Priority 3
0	4	0

SUMMARY OF FINDINGS

5. Instructions for claiming expenses, allowances and overtime via the online HR and Payroll Self Service system (MyView) are available for users once they have accessed that system. There are, however, employees who do not have access to MyView or submit their claims in that way. HR send emails periodically to all employees regarding payroll matters, including those relating to claims. The new HR Sharepoint site will present an opportunity to make policies, procedures and instructions on expenses, overtime and allowances readily available to all employees.
6. There is no instruction to officers that any claims must be submitted within a specific period of time after incurring them.
7. The current relocation policy needs to be reviewed to include the types and amounts of expenditure which may be paid to officers who are relocating from other countries.
8. We found that individual claims for expenses, allowances and overtime claims examined in our sample had been authorised timely by an appropriate manager, with segregation of duties in place. Claims had been paid promptly and recorded correctly to the relevant cost code. Supporting documentation was available to support payments made for the majority of expense claims which we examined. Employees should be reminded to ensure that supporting evidence for journeys made e.g. A statement of Oystercard transactions, is submitted with a claim to the manager.
9. Our testing identified that in July 2020 and October 2020 an expense payment had been made incorrectly to an officer who was not entitled to it. The circumstances surrounding this are explained in our detailed findings at Appendix A. The payment is currently being recovered by the Council's payroll contractor. It occurred as a result of an incorrect employee number being entered on a spreadsheet before it was submitted to the Council's payroll contractor and uploaded to the payroll. Internal checks within the Council's payroll contractor failed to identify and correct this. There is a need to address the risks and controls relating to this process and we have made a recommendation accordingly.

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10. Currently, there are no arrangements in place for analysis to be carried out as a 'second line of defence' to identify any substantial amounts of overtime, mileage or expenses claimed by an employee over a given period and examine the reasons for this. Controls could be enhanced by introducing this.

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

11. The findings of this report, together with an assessment of the risk associated with any control weaknesses identified, are detailed in Appendix A, together with any recommendations to management.

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DETAILED FINDINGS AND ACTION PLAN

1. Policies, procedures and instructions for claiming expenses, allowances and overtime	
<p><u>Finding</u></p> <p>MyView contains instructions for claiming expenses, allowances and overtime via that system. There are however some employees who do not have access to MyView. Emails are sent periodically to all employees regarding payroll matters, including those relating to claims.</p> <p>In our sample testing we found one example of an employee claiming travel expenses for the whole year and another employee claiming four months after the expense had been incurred. There is no instruction to employees stating that any expense claims must be submitted within a specified period of time after incurring them.</p> <p>Two of the claims in our testing of allowances included claims for relocation expenses from social workers who had relocated from abroad following a new recruitment initiative. The type and amounts of expenditure to be paid on relocation in these cases had been authorised by the Director of Human Resources and Customer Services. The current relocation policy pre-dates this initiative and therefore does not include what types and levels of expenditure can be reclaimed by new employees who relocate from other countries.</p> <p><u>Risk</u></p> <p>Without regularly reviewed and updated policies, procedures and instructions, which are readily available to all employees, employees may not fully understand claims processes and their responsibilities. Errors or gaps in control may occur and a lack of consistency in claim procedures may result.</p>	
<p><u>Recommendation</u></p> <p>Management should ensure that the policies, procedures and instructions on claiming expenses, overtime and allowances are readily available to all employees. The new HR Sharepoint site will present an opportunity to do this. As part of this process, the current relocation policy should be reviewed to include the types and levels of expenditure which can be reclaimed by new employees relocating from other countries.</p>	<p><u>Rating</u></p> <p style="text-align: center;">Priority 2</p>

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<p><u>Management Response and Accountable Manager</u></p> <p>We will review our policies, procedures and instructions about claiming expenses, overtime and allowances to ensure that they are up-to-date and readily available to all employees. This will include exploring the use of the new HR Sharepoint site, Managers' briefings and other methods to communicate them to all employees.</p> <p>Head of HR Business, Systems & Rewards</p>	<p><u>Agreed timescale</u></p> <p>30 June 2021</p>
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2. Timeliness of claims and supporting information

<p><u>Finding</u></p> <p>For one of the expense claims in our sample, the log of journeys by public transport was seen but no supporting evidence i.e. An Oyster card statement for the journeys included in the claim. The claim totalled £118.10 and covered a ten month period. There is no policy or instruction to employees that claims should be made within a specified period of time e.g. three months from the date the expense was incurred.</p> <p><u>Risk</u></p> <p>Lack of detailed information in claims made may delay authorisation by the manager or result in incorrect rates or amounts being paid. Claims only submitted on an annual basis give an inaccurate financial position throughout the year and may cause pressure on the financial budget at year end.</p>
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<p><u>Recommendation</u> Management should revise the current instructions on overtime and expenses to include that claims should be made within a specified period of time e.g. within three months from the date the expense was incurred. This should then be communicated to all employees with a reminder that supporting evidence of journeys made is submitted with all travel claims and that managers ensure that this is checked prior to authorising the claim.</p>	<p><u>Rating</u> <div style="border: 1px solid black; background-color: yellow; padding: 2px; display: inline-block;">Priority 2</div></p>
<p><u>Management Response and Accountable Manager</u> As part of our review of policies, procedure and instructions in response to recommendation 1, we will include that claims should be made within three months from the date the expense was incurred. We will also remind everyone that supporting evidence of journeys made has to be submitted with all travel claims and that managers check this prior to authorising the claim. Head of HR Business, Systems & Rewards</p>	<p><u>Agreed timescale</u> 30 June 2021</p>

3. Expense overpayment identified during audit testing

<p><u>Finding</u> Our sample testing identified that a payment for expenses had been made incorrectly to an individual, who had not claimed it, in July 2020. This was caused by an incorrect employee payroll number being shown on a spreadsheet of claim information submitted to the Council's payroll contractor by one of the Council's departments. A review by the Council's payroll contractor identified that another payment was made incorrectly to the same person in October 2020. The Council's payroll contractor has now written to the individual, enclosing an invoice and requesting that the total amount (£105.78) is repaid.</p>

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It occurred as a result of an incorrect payroll number entered on a spreadsheet by one of the teams who submit a spreadsheet to the Council's payroll contractor each month showing hours worked, mileage and expenses claimed by their team members. The spreadsheet is uploaded to the payroll system.

After the spreadsheet has been uploaded to the payroll, three reports are obtained; summary, update and error. The update report lists every claim that was successfully loaded into the system and the errors are the ones that are rejected for whatever reason. The checks undertaken on those two occasions failed to identify that the payments in July and October 2020 were incorrect.

The Council's payroll contractor has carried out checks to confirm that these were the only two occasions when an erroneous payment was made to this employee. They told us that have procedures on how to upload the spreadsheet into the system but not how to deal with the exceptions. They are updating all their existing procedures, and this will include putting in place new procedures to ensure that this does not happen again.

There are 11 teams in the Council who send either a spreadsheet of hours worked, mileage and expense claims to the Council's payroll contractor each month for the details to be automatically uploaded onto the payroll system or a completed handwritten claim form. We were unable to see any documented agreement between HR, Finance and the Council's payroll contractor specifying the arrangement and procedure for each of those teams submitting their monthly claim information. For our sample of claims tested, we noted different versions of spreadsheets used by different teams.

Risk

Without clearly documented and agreed procedures for submitting, receiving, uploading spreadsheet information to the payroll and reconciling that information, there is a risk of further incorrect payments to individuals.

Recommendation

HR, in conjunction with the Council's payroll contractor, carry out a review of the adequacy and effectiveness of the controls in place for the submitting and processing of expense, time and mileage claims to the Council's payroll

Rating

Priority 2

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<p>contractor via a spreadsheet or manually completed claim form each month for uploading that information to the payroll. In particular, the following should be considered as part of the review:</p> <ul style="list-style-type: none"> • Granting access to MyView for those employees in the 11 teams/departments who currently submit their claim information monthly via a spreadsheet or manually completed claim form, • Identifying and agreeing which teams/departments will continue to submit, as an exception, a monthly spreadsheet or manually completed claim form to the Council’s payroll contractor showing hours worked and expenses to be reclaimed, • Identifying and agreeing which teams/departments will submit a spreadsheet or manually completed claim form of hours worked each month to the Council’s payroll contractor (with expenses claimed via MyView in future), • Review the format of the spreadsheets and claim forms (different versions used by different departments) to ensure that there is one definitive version with any VAT aspect of the element codes identified separately for re-claim, with a standard wording for the statements to be completed by the claimant and the authoriser, • Confirming and agreeing how the spreadsheet will be submitted to and received by the Council’s payroll contractor i.e. by email from the Head of Service only or whoever checks and authorises entries on the spreadsheet, with a certifying statement in the email stating that they are correct, • Once the procedure to be followed has been agreed with the Council’s payroll contractor, communication to the relevant managers and the Council’s payroll contractor so that it is clear what is expected of them and when it will start. 	
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<p><u>Management Response and Accountable Manager</u></p> <p>We will review the current arrangements and procedures in conjunction with the Council’s payroll contractor. Using MyView is the preferred route for claiming overtime, expenses and allowances. In future, we are looking to include the claiming of casual and supply hours on MyView as well. Where this is not possible, alternative procedures for submitting claims will be agreed.</p> <p>Head of HR Business, Systems & Rewards</p>	<p><u>Agreed timescale</u></p> <p>30 June 2021</p>
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<p>4. Second line of defence checks</p>
<p><u>Finding</u></p> <p>There are no arrangements in place for analysis to be carried out as a ‘second line of defence’ to identify any substantial or unusual amounts of overtime, mileage or expenses claimed over a given period and examine the reasons for this. This may help to indicate any areas within the Council where long-term vacancies or staff shortages are impacting on existing staff resources, as well as identifying any instances of fraud or irregularity.</p> <p><u>Risk</u></p> <p>Risk of inappropriate or fraudulent payments which have not been approved by the appropriate manager may be paid, resulting in financial loss to the Council. Large or unusual amounts of overtime or expenses may not be identified and examined, and allowances may continue to be paid beyond their end date.</p>

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<p><u>Recommendation</u></p> <p>Management should run reports of payments periodically to highlight any unusual or unexpected payments of overtime, expenses and allowances. Any exceptions should be investigated and documented, with further action taken as necessary.</p>	<p><u>Rating</u></p> <p style="text-align: center;">Priority 2</p>
<p><u>Management Response and Accountable Manager</u></p> <p>We will identify what management information can be obtained from the payroll system, run reports periodically and analyse them. Where anything unusual is identified we will make enquiries and take appropriate action. These checks will be documented.</p> <p>Head of HR Business, Systems & Rewards</p>	<p><u>Agreed timescale</u></p> <p>30 June 2021</p>

Assurance Level

Assurance Level	Definition
Substantial Assurance	There is a sound system of control in place to achieve the service or system objectives. Risks are being managed effectively and any issues identified are minor in nature.
Reasonable Assurance	There is generally a sound system of control in place but there are weaknesses which put some of the service or system objectives at risk. Management attention is required.
Limited Assurance	There are significant control weaknesses which put the service or system objectives at risk. If unresolved these may result in error, abuse, loss or reputational damage and therefore require urgent management attention.
No Assurance	There are major weaknesses in the control environment. The service or system is exposed to the risk of significant error, abuse, loss or reputational damage. Immediate action must be taken by management to resolve the issues identified.

Recommendation ratings

Risk rating	Definition
Priority 1	A high priority finding which indicates a fundamental weakness or failure in control which could lead to service or system objectives not being achieved. The Council is exposed to significant risk and management should address the recommendation urgently.
Priority 2	A medium priority finding which indicates a weakness in control that could lead to service or system objectives not being achieved. Timely management action is required to address the recommendation and mitigate the risk.
Priority 3	A low priority finding which has identified that the efficiency or effectiveness of the control environment could be improved. Management action is suggested to enhance existing controls.