

**FINAL INTERNAL AUDIT REPORT**  
**CHIEF EXECUTIVE'S DEPARTMENT**

**PAYROLL EXPENSES 2018-19**

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## REVIEW OF PAYROLL EXPENSES FOR 2018-19

### INTRODUCTION

1. This report sets out the results of our systems based audit of Payroll Expenses. The audit was carried out in quarter three as part of the programmed work specified in the 2018/19 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee.
2. The controls we expect to see in place are designed to minimise the department's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be corrected to assist overall effective operations.
3. The original scope of the audit was outlined in the Terms of Reference issued on 19<sup>th</sup> September 2018.
4. The Council is party to a service level agreement with Contractor A, where Contractor A processes the payments and changes to payroll on behalf of the Authority.

### AUDIT SCOPE

5. The scope of the audit is detailed in the Terms of Reference.

### AUDIT OPINION

6. Overall, the conclusion of this audit was that substantial assurance can be placed on the effectiveness of the overall controls. Definitions of the audit opinions can be found in Appendix C.

### MANAGEMENT SUMMARY

7. Controls noted to be in place and working well, based on the sample testing conducted, included:
  - All 10 of the sample of voluntary deductions covering the period March 2018 to October 2018 tested had appropriately completed permission forms;
  - There were seven statutory deductions covering the period March 2018 to October 2018, which were all correctly processed and deducted from the associated employee's pay;
  - Local Authority employees, teacher pay and pension tables were set up accurately within the payroll system;

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- Testing of a sample of 10 teachers' pension deductions confirmed that the deducted amounts reconciled back to the teachers' pension table;
- Supporting documentation was available to support all of the sample of 10 changes in bank details tested, covering the period March 2018 to October 2018;
- Testing of a sample of 20 employee claims for the period March 2018 to October 2018 confirmed that payments were only processed on receipt of duly completed claim forms and were authorised by the relevant budget holders. In addition, claim payment values were accurate according to pay schedule set up; and
- Testing of a sample of 10 amendments to pay scales for the period March 2018 to October 2018 confirmed that the changes were input by Human Resources and later checked and actioned by Contractor A as required.

However, we would like to bring to management attention the following issues:

- Starter forms for three of the sample of 10 new starters covering the period March 2018 until the date of the audit (November 2018) were not signed and dated by the employing manager;
- Testing of a sample of 10 new starter folders covering the period March 2018 until the date of audit testing, identified one employee contract that had been issued and then the salary later renegotiated. This salary negotiation resulting in a contract amendment letter being issued for the change in salary from £25,452 to £26,238. However, the contract amendment letter was not signed and returned to the Council by the employee. The payroll system had, however noted the change £26,238; and
- The Council has not updated its Equality Statement in line with the Equality Act 2010.

### SIGNIFICANT FINDINGS (PRIORITY 1)

8. There were no priority one recommendations raised as part of this audit.

### DETAILED FINDINGS / MANAGEMENT ACTION PLAN

9. The findings of this report, together with an assessment of the risk associated with any control weaknesses identified, are detailed in Appendix A. Any recommendations to management are raised and prioritised at Appendix B.

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### ACKNOWLEDGEMENT

10. Internal Audit would like to thank all staff contacted during this internal audit for their help and co-operation.

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### DETAILED FINDINGS

### APPENDIX A

| No. | Findings   | Risk  | Recommendation  |
|-----|--|---|---|
| 1.  | <p><b><u>Starter Employment Forms</u></b></p> <p>Instruction to appoint forms are sent to HR from the authorising manager for new starters. The forms detail personal information in addition to the employees starting salary. HR then forward this information to Payroll, in order for the officer to be set up on the payroll system.</p> <p>A sample of 10 new starter 'instruction to appoint' forms was selected for testing covering the period March 2018 until October 2018.</p> <p>Three out of 10 of the 'instruction to appoint' forms were not signed and dated by the respective employment managers.</p> | <p>Where instruction to appoint forms are not properly completed by the employment manager, there is a risk information within that form has not been fully verified by the employing manager.</p> <p>In addition, there is a risk that there will be a delay in setting the employee up on the payroll system.</p> | <p>Instruction to Appoint forms should be verified and signed by the employing manager prior to being processed further.</p> <p><b>[Priority 2]</b></p> |

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### DETAILED FINDINGS

### APPENDIX A

| No. | Findings   | Risk  | Recommendation  |
|-----|--|---|---|
| 2.  | <p><b><u>Contract Amendment Form</u></b></p> <p>Starter packs are in place for all new starters and include the starter's contract and employment check documents.</p> <p>A sample of 10 new starter folders was obtained covering the period March 2018 until October 2018.</p> <p>It was found that for one employee, the contract and appointment letter detailed the employee's salary to be £25,452. The payroll system, however detailed £26,238. It was established that the difference in salary amounts was due to negotiation after the initial contract was sent. A contract amendment letter was subsequently sent at the re-negotiated salary of £26,238. But, the re-negotiated contract amendment letter was not signed and returned by the employee.</p> | <p>Where an element in the contract has changed but the contract amendment form is not signed and returned, there is a risk to the authority if any disputes were to arise at a later date in time.</p> | <p>Ensure that employees sign and return all contract amendment forms.</p> <p><b>[Priority 2]</b></p> |

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### DETAILED FINDINGS

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|-----|--|--|--|
| 3.  | <p><b><u>Equality Statement</u></b></p> <p>Public authorities are required to undertake their duties in line with the Equalities Act 2010. The general equality duty is set out in Section 149 which requires the public authority to state how it complies with the public sector equality statement. (This statement should be updated by the authority at least every four years).</p> <p>Examination of the Council's Website found a link to the 'Draft Council Equality Objective' dated 2012, which is still draft and more than 4 years old. The objective statement for the Council was recorded as follows <i>'Improved access and experience of Council Services for those users and residents who are from one or more of the protected groups'</i>.</p> | <p>Where the Council is non-compliant with Equalities Act 2010, it is at risk of fines. In addition, there is a risk of reputational damage to the Council for not providing equality to protected groups.</p> | <p>The draft Council Equality Objective should be updated, finalised and published as soon as possible.</p> <p><b>[Priority 2]</b></p> |

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## APPENDIX B

### MANAGEMENT ACTION PLAN

| Finding No. | Recommendation   | Priority<br>*Raised in<br>Previous<br>Audit | Management Comment  | Responsibility         | Agreed<br>Timescale  |
|-------------|--|---|---|------------------------|--|
| 1.          | <p><b><u>Starter Employment Forms</u></b></p> <p>Instruction to Appoint forms should be verified and signed by the employing manager prior to being processed further.</p> | 2   | ITA forms now form part of the new web recruitment system whereby recruiting managers will need to complete these electronically providing us with a clear audit trail of the manager completing this with mandatory fields for completion.   | Head of HRIS & Reward. | New form in use now for any appointments via the new web recruitment system.                                     |
| 2.          | <p><b><u>Contract Amendment Form</u></b></p> <p>Ensure that employees sign and return all contract amendment forms.</p>  | 2   | <p>We will be reviewing the process of issuing and receiving signed contract amendment forms as part of the move to electronic contracts.</p> <p>In the meantime a check will be put in place to ensure we are chasing any signed contract amendment forms that have not been received. In many cases, an acknowledgement of contract variation is appropriate.</p> | Head of HRIS & Reward. | <p>Checks to be in place by end of February 19.</p> <p>Review of process to be completed by end of April 19.</p> |



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|-------------|---|---|---|---|---------------------|
| 3.          | <p><b><u>Equality Statement</u></b></p> <p>The draft Council Equality Objective should be updated, finalised and published as soon as possible.</p> | 2   | Pursuant to the Gender reporting requirement and following the Council's gender pay gap, the Corporate Equality Group is recommending to the Corporate Leadership Team/Chief Officers' Executive the adoption and publication of 'closing the pay gap' as the Council's equality objective. | Head of HRIS & Reward/ HR Strategy Project Officer. | March/April 2019.   |

## OPINION DEFINITIONS

## APPENDIX C

As a result of their audit work auditors should form an overall opinion on the extent that actual controls in existence provide assurance that significant risks are being managed. They grade the control system accordingly. Absolute assurance cannot be given as internal control systems, no matter how sophisticated, cannot prevent or detect all errors or irregularities.

### Assurance Level

### Definition

Full Assurance

There is a sound system of control designed to achieve all the objectives tested.

Substantial Assurance

While there is basically sound systems and procedures in place, there are weaknesses, which put some of these objectives at risk. It is possible to give substantial assurance even in circumstances where there may be a priority one recommendation that is not considered to be a fundamental control system weakness. Fundamental control systems are considered to be crucial to the overall integrity of the system under review. Examples would include no regular bank reconciliation, non-compliance with legislation, substantial lack of documentation to support expenditure, inaccurate and untimely reporting to management, material income losses and material inaccurate data collection or recording.

Limited Assurance

Weaknesses in the system of controls and procedures are such as to put the objectives at risk. This opinion is given in circumstances where there are priority one recommendations considered to be fundamental control system weaknesses and/or several priority two recommendations relating to control and procedural weaknesses.

No Assurance

Control is generally weak leaving the systems and procedures open to significant error or abuse. There will be a number of fundamental control weaknesses highlighted.