

INTERNAL AUDIT REPORT

FROM: Audit and Risk Manager
TO: Chief Executive
C.C. Head of Finance
HR Manager
HR Transactional Payroll
Project Manager

SUBJECT: Payroll & Staff Expenses
DATE: 19 December 2014

1. Introduction

- 1.1 In accordance with the Audit Plan for 2014/15, an examination of the above subject area has been undertaken and this report presents the findings and conclusions drawn from the audit for information and action where appropriate. This topic was last audited in December 2010.
- 1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.

2. Background

- 2.1 Warwick District Council uses the Oracle Human Resources Management System (HRMS) hosted by Warwickshire County Council for the processing of payroll functions. HRMS was developed in 2003/04 by the County and a number of partner organisations. Warwick District Council uses both the payroll and HR related functions within HRMS.
- 2.2 Staff costs account for a high percentage of expenditure, therefore it is important for there to be effective controls in place. Over 800 individuals have been paid during the current financial year, covering over 900 assignments (with some individuals having up to four different assignments), including permanent staff, casual staff and Councillors.
- 2.3 The core payroll duties are undertaken by members of staff in the Payroll team within HR. All staff are now paid by BACS on the monthly payroll, with the weekly payments having been terminated a number of years ago.

3. Scope and Objectives of the Audit

- 3.1 There is currently a project underway looking at how the payroll function will be operated in the future, covering issues such as self-service and whether the council continues to use the HRMS system hosted by the county council. However, as this project is still ongoing, it is the current processes that have been examined.
- 3.2 An extensive examination has been undertaken using the CIPFA systems-based control evaluation models. This entailed completion of Internal

Control Questionnaires (ICQs) and testing of controls in accordance with evaluation programmes. Detailed testing was performed to confirm that controls identified have operated, with documentary evidence being obtained where possible, although some reliance has had to be placed on verbal discussions with relevant staff, including Payroll Officers and other HR staff.

3.3 The controls covered fall under the following main headings:

- Starters
- Deductions
- Variations to pay
- Leavers and transfers
- Payments
- Reconciliations
- Security of data
- Travel and subsistence
- Members' allowances

3.4 A set of 'general' questions was also included in the matrices. Some specific tests were not performed as they were either considered not relevant to the operations at the council or are covered under separate audits.

4. Findings

4.1 General Issues

- 4.1.1 At the time of the previous audit, the establishment was being maintained on a standalone system (Snowdrop). However, the use of this system has now been discontinued, with the establishment now being held on the HRMS system. As the establishment is on the same system as the payroll, there is no need for reconciliation between the two records, as staff cannot be paid by payroll if they do not have an assigned post.
- 4.1.2 However, it was flagged up during the course of the audit that there are issues with maintaining the establishment at the moment. The HR Transactional Payroll Project Manager (PPM) highlighted that there was a lack of expertise in maintaining the establishment hierarchy on HRMS and also on setting up new posts. As a result, a number of posts are being set up as temporary posts on the system.
- 4.1.3 This has also impacted upon the checks that used to be performed by managers. In the past, HR would provide managers with quarterly establishment lists for their service areas to confirm that they were correct. However, these lists are no longer produced as it is known that they are incorrect.

Risk

Errors go unnoticed.

Recommendations

The establishment on the HRMS system should be reviewed and updated to ensure that it reflects the current agreed structure of the council.

The quarterly reports to managers should be reinstated to enable managers to review their staffing lists.

- 4.1.4 The Code of Financial Practice indicates that all relevant staff-related payments, including those to Members, are made under the arrangements approved and controlled by the Head of Finance, with Senior Managers having a duty to ensure that all relevant issues relating to staff in their area are dealt with immediately and with regard to the Personnel (HR) Handbook.

- 4.1.5 The HR handbook contains some of the more detailed documents and procedures, although this needs to be updated as some items are no longer relevant (e.g. the honorarium guidance still makes reference to the 'purple book' and makes distinctions for craft and manual workers).

Risk

Staff and managers deal with HR and payroll issues incorrectly.

Recommendation

The HR Handbook should be reviewed to ensure that all details are still relevant.

- 4.1.6 Checklists are in place for certain tasks performed by Payroll and HR staff and various guidance notes for different tasks, along with a 'basic instructions' document, are held on the 'Payments' area of the network. Some of the guidance documents are quite old, although the basic instructions document was found to include recent amendments (e.g. details regarding changes to the national minimum and living wages and changes to processes following the incorporation of the Payroll team into the HR service area).
- 4.1.7 In the past, forms were received by Payroll to authorise amendments to the payroll (either permanent changes such as new starters or temporary changes such as monthly mileage claims), and these were required to be authorised by an authorised signatory.
- 4.1.8 Whilst some of the forms are retained at present for the temporary changes, some of the permanent changes are now notified to Payroll and HR by email. This process was agreed at the time of the previous audit following discussions between Internal Audit, Payments and HR. However, the agreement was that all of the relevant details should still be included on the emails and these emails should only be accepted from authorised staff.
- 4.1.9 As part of the testing covered under other areas in this report, it was noted that the information is often received in a piecemeal fashion and, whilst authorised signatory lists are being maintained, they do not cover who these emails can be received from.

Risk

Unauthorised and inaccurate amendments to permanent payroll information.

Recommendations

Proforma email forms should be created for changes to permanent payroll information to ensure that all relevant information is received at the same time.

The authorised signatory list should be amended to include details of which officers can send through the email notifications.

4.2 Starters

- 4.2.1 A sample of staff that had recently been employed by the council was reviewed to ensure that the process of entering them onto the payroll had been undertaken appropriately.
- 4.2.2 The testing identified the issues as highlighted above (see 4.1.9). However, following receipt of the information, testing confirmed that the process was operating effectively, with starter's checklists being in place for each new starter sampled and the employee being correctly set up on HRMS.

4.3 Deductions

- 4.3.1 All voluntary deductions require authorisation from the employee concerned. This authorisation is then retained in the electronic personal file for the relevant employee (now on FORTIS).
- 4.3.2 A sample of twenty voluntary deductions selected at random from payroll information extracted from HRMS was tested to ensure that there was appropriate documentary evidence held on the employee's file. This was found to be the case in all but one instance.
- 4.3.3 In this instance, the individual concerned confirmed that authorisation would have been given and that it may have been actioned whilst he was working at the county council (although employed by this council). Whilst this finding suggests that there has been a minor non-compliance with the control, it is acknowledged that an employee would be likely to have queried any unauthorised deductions from their pay.
- 4.3.4 The deductions extract was also interrogated to ascertain whether there were any positive amounts. One such instance was identified and an appropriate explanation was provided by the Payroll Officer.
- 4.3.5 When the deductions are made from the employees pay, the monies are placed into holding accounts on the TOTAL system. Testing was undertaken to ensure that the deductions were subsequently being paid over to the relevant creditors. This test proved satisfactory.

4.4 Variations to Pay

- 4.4.1 The 'variations' tested covered a whole range of different amendments to staff pay, from timesheets being submitted by casual staff to overtime claims, sick and maternity pay to honoraria and permanent pay awards.
- 4.4.2 Testing of timesheets was undertaken to ensure that the forms had been appropriately completed, that they had been signed appropriately by both the employee and by an authorising officer and that they had been annotated in some way to identify that they had been input to HRMS for payment.
- 4.4.3 Authorised timesheets were found in the majority of cases. However, copies of timesheets could not be found on FORTIS for one sampled individual in May 2014. Upon further investigation, it was noted that timesheets covering 17 individuals, including the sampled employee, were missing (all records for 15 staff members and some timesheets from two others at the start and end of the 'batch').

Risk

Queries cannot be resolved.

Recommendation

Checks should be undertaken to ensure that all documents have been saved correctly following scanning onto FORTIS.

- 4.4.4 Similar testing was undertaken in relation to overtime claims. All forms were found to have been appropriately signed and authorised. During the course of the testing, it was necessary to work out what hourly rates were being paid, so that payments could be related to the individual overtime claim forms. The testing confirmed that staff were generally being paid at the correct rates.
- 4.4.5 However, one issue was noted that affected two sampled staff members. They are paid overtime at a certain point on the salary scale (SCP35). However, when their payments were checked, it was identified that the hourly rate paid did not agree to the correct hourly rate for the pay scale. Upon further investigation it was identified that the overtime element had not been increased in line with the latest pay award (one percent increase in April 2013). The Payroll Officer checked with the county council (as the system supplier) and it was highlighted that they hadn't been made aware of the need to change the relevant 'element'.
- 4.4.6 The element was updated during the course of the audit and reports were run to identify all relevant payments against the element identified. This identified payments to other staff outside of the sample chosen. These underpayments have now been processed on the system, with amendments being paid to the affected staff as part of the December payroll.

Risk

Incorrect staff payments.

Recommendation

Checks should be undertaken following any changes to pay rates to ensure that all affected elements on the system have been updated.

- 4.4.7 Where staff members had received sick pay, testing was undertaken to ensure that they had appeared as appropriate on the weekly absence returns. All payments were found to be appropriately supported.
- 4.4.8 Payments in respect of maternity leave were checked back to appropriate documentation and testing was also undertaken to ensure that the relevant rates of pay had been applied at the different stages of maternity leave and that statutory maternity pay (SMP) had been reclaimed as appropriate from HMRC. Again, this test proved satisfactory.
- 4.4.9 Honoraria payments had been made to eighteen individuals during the current financial year and a sample of payments were examined to ensure that appropriate authorisation had been received. Authorisation from the Chief Executive to make the payment was, eventually, found in each case, although copy documents had not been scanned against the correct individual in two of the sampled cases. The recommendation recorded against 4.4.3 is, therefore, also relevant in this case.
- 4.4.10 As there has not been any inflationary pay award made this year, the only pay rises received were as a result of changes to the minimum and living

wages, incremental pay awards and establishment changes following restructures etc.

- 4.4.11 Incremental pay rises are automatically awarded, unless Payroll are informed otherwise. Reports are run in April and October showing the increments that have been 'awarded'.
- 4.4.12 Details of employees that were receiving payments against pay scales affected by the changes to the minimum wage were obtained and HRMS was reviewed for a sample of relevant staff to ensure that the change had been processed. The testing confirmed that the change had been processed appropriately.

4.5 Leavers and Transfers

- 4.5.1 A sample of staff who had left the employment of the council was chosen to ensure that the cessation of their employment had been appropriately processed on the payroll system.
- 4.5.2 The same types of issues were identified as had been noted during the starters testing (i.e. the piecemeal receipt of information and the lack of information as to who can authorise the notification – see 4.1.9). One piece of information that was often not retained was any detail of whether the employee had any leave owed either to them or by them.
- 4.5.3 Based on the information held, it was confirmed that all payments had ceased on the correct dates, P45s had been issued as appropriate and the Warwickshire County Council Pensions team had been informed in the relevant cases.
- 4.5.4 One of the sample had an outstanding amount to pay on a car loan. Paperwork was held to show that the employee had agreed for the loan to be settled from her redundancy pay.
- 4.5.5 The documentation on FORTIS showed how much of the principal sum was outstanding and this had been deducted from the final pay due to the employee. However, no evidence could be found that showed how the outstanding interest amount had been calculated. It was suggested that the Principal Accountant (Revenue) may have assisted in arriving at this figure, but he could not recall having provided the figure.
- 4.5.6 Upon review of the information, he produced a figure which had appeared on the paperwork held by Payroll, but this was higher than the amount that had actually been deducted, leading to a potential shortfall in recovery of £147.42.
- 4.5.7 Due to the fact that the employee has left on redundancy grounds and that they would have been under the assumption that the car loan had been settled, it is considered by Internal Audit that this shortfall should not be recovered. However, it is up to management to make this decision.

Risk

Loss of monies owed.

Recommendation

A formal decision should be made as to whether the shortfall in monies recovered in respect of the car loan interest payments should be pursued with the ex-employee.

4.5.8 No detailed testing was considered necessary for transfers, as they are dealt with in a similar manner to starters, with the associated issues being present in the one case that was reviewed.

4.6 Payments

4.6.1 When undertaking the monthly payroll runs, staff use checklists to ensure that all stages of the payroll process are completed and documented. A number of reports are produced at various stages of the process, including those to highlight where staff pay varies significantly (by more than fifteen percent) from one month to the next and to identify if Payroll and HR staff have made any changes to their own records.

4.6.2 The reports showing changes to a staff member's own record used to be checked by someone independent of the Payroll staff. However, no such independent check has been undertaken following Payroll's move to the HR service area.

Risk

Fraudulent amendment of an officer's own pay.

Recommendation

An independent review of the 'update own record' report should be reinstated.

4.6.3 Other reports detail the actual payments to be made to each staff member and this is then summarised to show the total amounts being paid by BACS (originally Bankers' Automated Clearing Services). This used to also show payments made by other methods (e.g. cheques), but this is no longer relevant as all employees are now paid by BACS.

4.6.4 The total payments made by BACS were checked to the transmission reports and then to the bank statements received. This confirmed that the payments were being made appropriately, as per the information input onto the HRMS system.

4.7 Reconciliations

4.7.1 As highlighted above, the HRMS system is now used for both payroll and HR and, therefore, includes the establishment, so there is no need to reconcile the two records, although there have been issues raised (see 4.1.2 & 3 above).

4.7.2 Reconciliations are performed on a monthly basis between the figures that are paid by Payroll against each 'element' and the related control codes on the TOTAL financial ledger system. Spreadsheets were viewed which highlighted that the reconciliations had been performed each month.

4.8 Security of Data

4.8.1 The council's Data Handling Policy (which is a sub-policy of the Information Security and Conduct Policy) includes general details regarding information classification and the principles that must be adhered to. However, it does not mention specific systems. The PPM was unsure if the data held had been specifically classified or whether this was required.

4.8.2 This had also been raised during the previous audit but, due to the departure of relevant staff, it is not clear whether this had been addressed. However, the PPM highlighted that he was looking into the general areas of data retention as part of his project, so this would be covered.

4.8.3 Payroll staff were not aware if there was a formally documented business continuity plan for processing the payroll, although advised that a plan of sorts was in place. Data could be transferred to the county council for processing (as the system is hosted by them) or it could be run from their homes as they both have homeworking capability. The only part of the process that cannot be done from elsewhere is the BACS payment, as specific terminals are required. They also advised that if the paperwork (e.g. travel claims) could not be processed, everyone would be paid either their basic salary or the same as they had been paid in the previous month.

4.8.4 Relevant records relating to payroll information (such as taxation details, birth certificates, pension details etc.) are stored on FORTIS. Access to the system is restricted with only limited, relevant, staff having access.

4.8.5 Access to the system is secured via the network log-in details as opposed to usernames and passwords for the specific piece of software.

4.9 Travel and Subsistence

4.9.1 Samples of travel and expenses claims submitted were checked to ensure that appropriately detailed 'official' claim forms were being submitted which had been appropriately signed by the claimant, an authorising officer and a member of Payroll staff upon input, that the claims were being submitted in a timely manner and that the payments were accurate based on these claims. This test did not highlight any issues.

4.9.2 One issue was noted in that one of the sampled travel claims included a number of journeys of very short distances (including a one mile round trip). The nature of the journeys was queried with the Head of Service who had authorised the claim. He was unsure why these journeys would have necessitated the use of a vehicle and agreed that future claims would be given closer scrutiny and would be queried as appropriate. No specific recommendation is to be raised in this report, as Payroll staff had processed an authorised travel claim appropriately.

4.10 Members' Allowances

- 4.10.1 Members are entitled to re-claim travel and subsistence costs incurred in performing their official duties. They are also able to claim an allowance for the provision of broadband internet.
- 4.10.2 As with the travel and expenses claims for staff, testing was undertaken to ensure that payments made related to appropriately submitted claims which were on official forms, which had been appropriately signed by the claimant, an authorising officer and a member of Payroll staff upon input, that the claims were being submitted in a timely manner and that the payments were accurate based on these claims. Checks were also undertaken to ensure that the claims were for official, approved duties.
- 4.10.3 One of them claims reviewed had been submitted on an old form. This included claims for meetings for which no specific reasons were recorded. The Democratic Service Manager and Deputy Monitoring Officer advised that Members are now being asked to confirm which part of the scheme the meetings fall under where it is not apparent. All other claims were relevant and timely.
- 4.10.4 Payments for broadband expenses were not generally supported by claim forms, unless there had been a change in the amount being claimed. This is the normal practice.
- 4.10.5 A sample of allowance payments (both basic and special responsibility allowances) was also reviewed to ensure that the payments were being made appropriately, and ensuring that Members were actually entitled to the payments (i.e. they were serving on the relevant committees at the time of the payment).
- 4.10.6 It was confirmed that all payments were made to current Members, who filled the relevant roles where special responsibility payments had been made. However, sampled payments to two councillors in respect of special responsibility allowances were incorrect.
- 4.10.7 In one instance, an incorrect calculation was made with regards to how much a Member should have been paid in 2013/14 when he took over as Chair of one of the committees. This figure has also been erroneously carried forward into payments made in 2014/15 resulting in a total underpayment of £609.84.
- 4.10.8 In the other instance an overpayment had already been identified and monthly deductions should have been taken from the Member for three months to recover this. However, the deductions had erroneously continued for a further three months resulting in an underpayment of £182.67.
- 4.10.9 These issues were flagged with the Payroll staff during the course of the audit. They then checked all other special responsibility payments and identified a further three Members who had been underpaid. All of the identified underpayments have now been processed on the system, with amendments being paid to the affected Members as part of the December payroll.

4.10.10 Where changes to special allowances had occurred during a financial year, manual calculations had been undertaken to work out how much the Member should be paid each month. The sampled documents did not generally include any evidence of the calculations being checked by the other Payroll staff member.

Risk

Incorrect payments may be made.

Recommendation

All manual calculations should be checked by another member of Payroll staff.

5. Summary & Conclusion

5.1 Following our review, we are able to give a MODERATE degree of assurance that the systems and controls in place in respect of Payroll & Staff Expenses are appropriate and are working effectively.

5.2 A number of issues were identified during the course of the audit relating to:

- The maintenance of the establishment hierarchy on HRMS and management reviews of their establishment.
- The currency of information on the HR Handbook.
- The lack of checking as to whether the notification of changes to permanent payroll information are being received from authorised staff and the piecemeal receipt of such information.
- Missing documents on FORTIS.
- Errors in payments to staff and Members.
- A lack of independent checks on reports detailing instances of staff members updating their own records.

6. Management Action

6.1 The recommendations arising above are reproduced in the attached Action Plan (Appendix A) for management attention.

6.2 It may be that some of the actions will be superseded following the outcome of the current payroll review project. However, some of the issues raised may still be relevant no matter what future direction is taken, or the points may need to be noted to ensure that they are addressed if the payroll and the establishment are migrated to another system.

Richard Barr
Audit and Risk Manager