

FROM: Audit and Risk Manager **SUBJECT:** Payroll & Staff Expenses
TO: Chief Executive **DATE:** 14 January 2019
C.C. Head of Finance
HR Manager
Portfolio Holder (Cllr Mobbs)

1 Introduction

- 1.1 In accordance with the Audit Plan for 2018/19, 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.
- 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 The payroll function has been outsourced to Coventry City Council since 2015 with different processes being transferred to a 'self-serve' approach on a phased basis since that time.
- 2.2 HR staff deal with the 'in-house' elements on the processes that have not moved to self-serve, with individual line managers being responsible for checking and authorising payments etc. where a self-serve process has been implemented.

3 Scope and Objectives of the Audit

- 3.1 The audit was undertaken to test the management and financial controls in place.
- 3.2 In terms of scope, the audit covered the following areas:
- Policies and procedures
 - Establishment, starters and leavers
 - Deductions
 - Variations to pay (including travel and subsistence)
 - Members' allowances
 - Payments, reconciliations and management information.
- 3.3 The audit programme identified the expected controls. The control objectives examined were:
- The payroll is accurately processed

- Staff, including those with specific payroll responsibilities, are aware of what needs to be done to ensure that payroll is accurately processed
- The (staffing) establishment is appropriately maintained
- New staff are paid appropriately when they commence their employment with the Council
- Staff leaving the organisation are paid appropriately when they cease their employment with the Council
- All staff pay the appropriate amount of tax and National Insurance
- All staff are paid the appropriate amount, taking account of relevant deductions
- All deductions are paid to the relevant account or organisation
- Staff are paid the correct amount for any overtime and casual hours worked
- Staff are paid appropriately for works over and above their normal roles
- Maternity and paternity payments are correctly paid
- Staff are paid at the correct rate following pay awards and re-gradings
- Travel and subsistence payments are only made where expenditure has been incurred
- Members are aware of what they can be paid for
- Payments made to Members accurately reflect the positions they hold and the expenses to which they are entitled
- Emergency payments are only made in exceptional circumstances
- The general ledger reconciles with payments made to staff
- Managers and relevant staff are provided with appropriate information.

3.4 As the payroll function is outsourced, the system itself was not audited. However, Internal Audit at Coventry City Council advised that their last audit of payroll had provided a substantial assurance opinion. Their external auditors had also reviewed the system and the recommendations they made in relation to system access had been responded to as appropriate.

4 Findings

4.1 Recommendation(s) from Previous Reports

4.1.1 The current position in respect of the recommendation from the audit reported in March 2016 was also reviewed. The current position is as follows:

Recommendation	Management Response	Current Status
A suitable document and record management solution for HR and payroll supporting documentation should be explored.	We are reviewing the benefits of the FORTIS system as part of our ongoing review of document management.	No specific system is used for retaining documentation, with scanned / electronic documents all being held in the relevant network folders. The Learning & Development Officer (LDO) advised that the old paper files are being worked through with

Recommendation	Management Response	Current Status
		relevant documents being scanned and saved to the relevant folder with other documentation being destroyed as required.

4.2 Policies & Procedures

- 4.2.1 A formal, signed, service level agreement is in place with Coventry City Council (CCC) with the details being included on the contracts register as appropriate. The HR Manager advised that this is currently in the process of being reviewed. Upon review, the document was found to clearly set out the scope of the agreement and the obligations of CCC.
- 4.2.2 Policy and procedural documentation is held in a variety of different places and takes different forms dependant on who the audience is.
- 4.2.3 Some documentation is held on the intranet within the HR Handbook 'page'. However, it is not particularly easy to locate specific documentation due to the inconsistent categorisation of documents (e.g. there is a section for Leavers which included a number of relevant documents, but there is also a section for Starters and Leavers which includes the Leavers Procedure document; similarly, there is the Expenses for Subsistence Policy under the Employee Benefits heading, whereas the Subsistence Rates document is under the Payroll heading).

Risk

Staff may be unaware of the correct processes to follow.

Recommendation

The categorisation of documents on the HR handbook should be reviewed so that relevant documents can be easily located.

- 4.2.4 Guidance for managers and staff relating to the processing of 'irregular claims' (i.e. travel and subsistence) are included on the payroll system.
- 4.2.5 In terms of the processes to be followed by HR staff, some (e.g. starters and leavers) are set out within the checklists that are to be completed for the relevant tasks.

4.3 Establishment, Starters & Leavers

- 4.3.1 Where changes are made to the establishment, HR staff will send spreadsheets to CCC to provide the relevant details (e.g. the post title, the grade, and where it sits in the hierarchy).
- 4.3.2 The creation of a number of new posts was identified on a sample of these spreadsheets and these were reviewed to ensure that there had been

appropriate approval for the post to be created and that the post had been created appropriately by CCC. This test proved satisfactory.

- 4.3.3 The LDO advised that establishment reports are run on a monthly basis, with two specific reports being generated, with one showing filled posts (post holder report) and the other covering all posts including vacancies (the hierarchy report). She advised that the reports would not be checked in detail due to the number of posts included, but specific issues would be followed up. Ad-hoc reports would also be run if queries were raised.
- 4.3.4 She also highlighted that reports are sent to Heads of Service on a quarterly basis for checking. The relevant Senior HR Business Partner advised that responses are only required on an exception basis (i.e. if everything is correct the Head of Service doesn't need to respond).
- 4.3.5 The LDO highlighted that there may be some posts shown with more than one post holder. These would mainly be casual staff but there are also job shares and there are occasionally cases where there has been some overlap between one staff member leaving and their replacement starting to allow for a handover.
- 4.3.6 Upon review of the post holder report, a number of posts filled with more than one employee were identified. The majority of these were casuals or Councillors. However, five other post numbers were found to be filled by more than one person.
- 4.3.7 In two cases the posts were job shares and, in another case, the 'post' comprised pension-related payments to three ex-employees. Two other posts were, however, seemingly filled, in each case, by two members of staff. It was confirmed that this had been caused as a result of erroneous information being provided by HR staff to CCC. These issues were rectified at the time of the audit.
- 4.3.8 A sample of recent starters was identified and testing was undertaken to ensure that appropriate procedures had been followed with supporting documentation being held as appropriate. This test proved largely satisfactory, with completed starters' checklists being in place and other supporting documentation being found on the HR network files.
- 4.3.9 However, whilst supporting documentation was eventually found in each case, there was an issue with the way in which different members of staff stored the documentation, and this inconsistency caused an element of delay to the testing. This 'issue' was also relevant to a number of other subsequent tests undertaken.

Risk

HR staff may not be able to respond to queries in a timely manner and time may be wasted in tracking down relevant information.

Recommendation

A consistent method of storing documents in the HR network folders should be introduced.

- 4.3.10 Similar testing was also undertaken for a sample of leavers. The review confirmed that leavers' checklists were being completed appropriately, with resignation letters or another form of formal notification (e.g. details re redundancies or settlements) generally being held. The testing also confirmed that the final payments were correct based on the leaving date.
- 4.3.11 HR staff highlighted two recent instances where staff had left owing the Council money due to annualised hours being worked. In one case the final salary was held back (with the agreement of the employee) to recover this payment. In the other case, an invoice had been raised to recover the overpayment.

4.4 Deductions

- 4.4.1 On the post holder report, all staff are shown to have a valid tax code in line with the HMRC coding conventions. However, the report includes two employees with no NI number.
- 4.4.2 The LDO advised that CCC would not ask for the information if it wasn't provided but these NI numbers had been provided. However, one had not been entered and the other was missing as the report had been run prior to the information being input by CCC.
- 4.4.3 Samples of both voluntary and 'non-voluntary' deductions (e.g. student loans) were tested to ensure that formal instructions had been received from the individual or the requesting organisation. These tests proved satisfactory.
- 4.4.4 Upon interrogation of the relevant deductions elements on the payroll reports, two positive amounts were identified. Upon discussion with HR staff, it was highlighted that these were as a result of errors by CCC staff and an email was provided which corroborated this.
- 4.4.5 A review was also performed to ensure that each 'category' of deduction had its own holding code on the TOTAL system, with the payments being made to the relevant body or transferred to the relevant internal system as appropriate. No issues were identified.

4.5 Variations to Pay (Including Travel & Subsistence)

- 4.5.1 Where staff undertake duties that are over and above their normal roles they can be paid an honorarium. A sample of staff being paid honoraria was chosen and testing was undertaken to ensure that there was appropriate authorisation in place for this to be paid.
- 4.5.2 Authorisation from the Chief Executive was found in four of the five sampled cases. In the other case it was highlighted that the payment was not actually an honorarium but there was no specific code against which this could be classed on the payroll system. The Senior HR Business Partner advised that

the payment was actually part of a secondment into a role that the applicant was not initially qualified for and correspondence was on file confirming this to be the case. As such, it was suggested that authorisation from the Chief Executive was not required.

- 4.5.3 Amendments relating to maternity and paternity payments were all supported by a MATB1 form as appropriate. The specific payments were not directly checked as the HR & Payroll Support Adviser suggested that the payments were automatically calculated on the system at CCC using the relevant start date and the 'real time information'.
- 4.5.4 The Council can reclaim a percentage of the statutory maternity and paternity payments made and it was confirmed with the Assistant Accountant that this reclaim would go through as a credit against the monthly payment to HMRC, with the figures being calculated based on the figures on the relevant payroll reports received. A review of a recent reclaim was undertaken and the correct figures were found to be included.
- 4.5.5 A sample of permanent amendments to pay was also tested (i.e. following formal HAY regrades). Upon review, it was confirmed that payments were in line with the new grade for the post, with each member of staff starting at the bottom of the grade. Arrears (due to pay awards being backdated to the date of the HAY panel) had also been calculated and paid appropriately.
- 4.5.6 Travel and subsistence payments are processed under self-serve with managers directly authorising the claims on the system.
- 4.5.7 All receipts for travel and subsistence claims should be forwarded to the Corporate Support Team (CST) once the payments have been approved, with receipts being annotated with the claim reference number.
- 4.5.8 The CST Manager advised that there have been no specific instructions regarding how the receipts should be stored or how long they need to be kept for so, at present, the hard-copy receipts received are stored in numerical (claim reference number) order, although she would not be aware whether she had received all approved receipts
- 4.5.9 She also highlighted that some are received in envelopes with name / reference number etc. recorded with others being received with no envelope and just the reference number being recorded. These would be placed in envelopes so that they can be stored more easily. All receipts that have been received are currently being retained, with full boxes being moved to the Document Store.
- 4.5.10 The LDO advised that there is no report available from the system at present which shows the claim reference numbers for the payments, so it was not possible to check that the receipts are being passed to the CST accordingly.
- 4.5.11 There is no suggested 'best practice' with regards to the method of storage, although HMRC guidance suggests that these should be retained for three years plus the current financial year. With future storage space potentially becoming an issue as the Council moves to new premises, the balance between physical and electronic storage costs should be reviewed along with

the potential need to retrieve the documents should HMRC ever request to review them.

Risk

It may not be possible to locate receipts when required.

Recommendation

HR should review the requirement for retaining expenses receipts. Should it be confirmed that there is a requirement to retain them, the method of storing the receipts should be reviewed to ensure appropriate accessibility and retrieval.

4.6 Members' Allowances

- 4.6.1 A Members' Allowances Scheme is currently in place which sets out all relevant allowances. This includes the basic allowance that is paid to all Members along with schedules showing the designated posts which attract 'special responsibility allowances' and the 'qualifying meetings' (i.e. the approved duties).
- 4.6.2 A sample of allowances paid was checked to ensure that the recipients were Members at the time of the payment, that they held the relevant role with regards to any special allowances payments, and that the payments were made at the correct rate.
- 4.6.3 Whilst all payments were found to be appropriate, an issue was noted with regards to payments made where roles had changed during the year. There was found to be an inconsistency in the dates used, with some changes being effective from the date of the relevant committee whereas others became effective on the following day. Whilst the differences were small in monetary terms, a consistent method should be adopted.

Risk

Members' allowances payments may be incorrect and open to challenge.

Recommendation

A decision should be taken with regards to the dates that Members' allowances changes become effective, with this being consistently applied.

4.7 Payments, Reconciliations and Management Information

- 4.7.1 The vast majority of payments are made by BACS following the calculation of the relevant amounts by CCC. However, in some instances, emergency payments are required which fall outside of the normal payroll runs.
- 4.7.2 Five such payments had been made during the current financial year at the time of audit testing and it was confirmed that there had been appropriate

reasons for these to be made and that 'regular' payroll payments had subsequently been amended as appropriate to reflect these emergency payments.

- 4.7.3 The relevant Assistant Accountant confirmed that the TOTAL system is reconciled to the payroll amounts on a monthly basis and provided a Summary Reconciliations spreadsheet to evidence that this check was being undertaken.
- 4.7.4 The LDO advised that, in terms of management information, 'Business Objects' is used for the production of relevant reports. Some of the reports are automatically generated whereas others need to be manually run if there are any variables that need to be input. She also highlighted that ad-hoc reports could be run whenever required / requested.
- 4.7.5 Screenshots of the Business Objects 'system' were provided that confirmed that regular reports were being run, although it was noted that some reports had not been run for a long period. The LDO suggested that some would be run by CCC for their needs and would not, therefore, be required each month by the Council.

5 Conclusions

- 5.1 Following our review, in overall terms we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place in respect of Payroll & Staff Expenses are appropriate and are working effectively.
- 5.2 The assurance bands are shown below:

Level of Assurance	Definition
Substantial Assurance	There is a sound system of control in place and compliance with the key controls.
Moderate Assurance	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited Assurance	The system of control is generally weak and there is non-compliance with controls that do exist.

- 5.3 A number of minor issues were, however, noted:
 - The categorisation of documents on the HR handbook is inconsistent which may lead to incorrect processes being followed.
 - Two established posts were found to be filled by more than one staff member due to the incorrect assignment of post numbers, although this was rectified at the time of the audit.
 - The method of storing documentation in HR network folders was inconsistent across the team.
 - The storage of receipts relating to expenses claims may need to be reviewed.
 - The effective dates used for changes to Members' allowances were inconsistent.

6 **Management Action**

- 6.1 The recommendation arising above is reproduced in the attached Action Plan (Appendix A) for management attention.

Richard Barr
Audit and Risk Manager

Action Plan

Internal Audit of Payroll & Staff Expenses – January 2019

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.2.3	The categorisation of documents on the HR handbook should be reviewed so that relevant documents can be easily located.	Staff may be unaware of the correct processes to follow.	Low	HR Manager	This has been reviewed previously with Media. However, the issue will be revisited.	September 2019
4.3.9	A consistent method of storing documents in the HR network folders should be introduced.	HR staff may not be able to respond to queries in a timely manner and time may be wasted in tracking down relevant information.	Low	HR Manager	HR Support are reviewing how they save and are agreeing best practice.	January 2019
4.5.11	HR should review the requirement for retaining expenses receipts. Should it be confirmed that there is a requirement to retain them, the method of storing the receipts should be reviewed to ensure appropriate accessibility and retrieval.	It may not be possible to locate receipts when required.	Low	HR Manager	Agreed. Payroll will be contacted to review the retention requirements with action taken accordingly thereafter.	April 2019

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.6.3	A decision should be taken with regards to the dates that Members' allowances changes become effective, with this being consistently applied.	Members' allowances payments may be incorrect and open to challenge.	Low	Democratic Services Manager and Civic & Committee Services Manager	We welcome this finding and agreed this would be implemented with the leave date being the date the Councillor was removed from the Committee and the replacement Councillor starting the day after.	Completed

* Risk Ratings are defined as follows:

High Risk: Issue of significant importance requiring urgent attention.

Medium Risk: Issue of moderate importance requiring prompt attention.

Low Risk: Issue of minor importance requiring attention.