

Appendix Five

Northampton Borough Council Internal Audit Report 2007-08 Payroll Review

Report No. 07_08 NBC 10 – Final Report

Assurance rating this review	Limited Assurance
Assurance rating previous review	Limited Assurance

Distribution List

David Hemingway – Interim HR Corporate Manager
Nicole MacDonald – Peoples Operations Manager
Karen Holmes – Payroll Team Leader
Isabell Procter – Finance Director
Gavin Chambers – Head of Finance
Clive Thomas – Corporate Director
Councillor Perkins – Chair of Audit Committee

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Timetable

Action	Planned date	Actual date
Agreement of terms of reference	31 October 2007	31 October 2007
Fieldwork start	5 November 2007	5 November 2007
Fieldwork complete	29 November 2007	18 December 2007 (Further work undertaken)
Draft report to client	11 January 2008	30 January 2008 (Number of issues raised and further review delayed issue)
Response by client	20 February 2008	11 April 2008 & 15 August 2008
Final report	22 August 2008	2 September 2008

Background and scope

Introduction

This review was undertaken as part of the 2007/08 Internal Audit Plan agreed by the Audit Committee.

This report has been prepared solely for Northampton Borough Council in accordance with the terms and conditions set out in our contract dated 1st January 2007. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

Background

This report is intended to inform management of the results of our review of Payroll. This review has been undertaken as part of the Core Financial Systems audit work included within the 2007/08 Internal Audit Plan. This report reflects our findings over the controls and processes in place as at the time of our internal audit fieldwork which took place during November/December 2007.

The Payroll department is an in-house managed team. There are currently 5 separate payrolls in operation as shown below with the majority of staff being included on the main monthly or weekly payroll runs. As such our work has primarily been focused upon these 2 payrolls.

- Weekly - Approximately 531 people
- Monthly - Approximately 1080 people
- Monthly for elected members - 47 elected members
- Monthly for casuals - Approximately 7 in total on the payroll
- Quarterly for annuitants - (a small pension for pensioners who worked for Northampton Transport years ago and were unable to join the pension scheme) Approximately 8 people

Approach and scope

Approach

Our work is designed to comply with Government Internal Audit Standards [GIAS] and the CIPFA Code

Scope

In accordance with our Terms of Reference in Appendix 1, agreed with the Head of Finance, Peoples Operations Manager and Payroll Team Leader, we undertook a limited scope audit of the Payroll System.

This limited scope audit involved a review of the design of the key controls together with detailed testing to determine whether the controls are operating in practice.

Limitations of scope

The scope of our work was limited to those areas identified in the terms of reference.

Staff involved in this review

We would like to thank all client staff involved in this review for their co-operation and assistance.





Name of client staff
Howard Crabtree – HR Corporate Manager
Nicole MacDonald – Peoples Operations Manager
Karen Holmes – Payroll Team Leader
Ann Skingsley – Salaries officer
Alex Thompson – Temporary payroll assistant

Our opinion and assurance statement

Introduction

This report summarises the findings of our review of the Payroll System.

Each of the issues identified has been categorised according to risk as follows:

Risk rating	Assessment rationale
 Critical	Control weakness that could have a significant impact upon, not only the system, function or process objectives but also the achievement of the authority's objectives in relation to: <ul style="list-style-type: none"> the efficient and effective use of resources the safeguarding of assets the preparation of reliable financial and operational information compliance with laws and regulations.
 High	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall authority objectives.
 Medium	Control weakness that: <ul style="list-style-type: none"> has a low impact on the achievement of the key system, function or process objectives; has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.
 Low	Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.

Summary of Findings

Our detailed findings and recommendations are set out in the findings and recommendations section of this report. The table below summarises the number of findings raised and the priority rating assigned.

Risk Rating	Number of findings
Critical	0
High	5
Medium	7
Low	7
Total	19

Opinion

We are required to provide an opinion on the adequacy and effectiveness of internal control in relation to the area under review. Our opinion is based on the work performed as set out in the agreed terms of reference and is subject to the inherent limitations set out in the limitations and responsibilities section of this report. We also provide an assurance statement for the area under review.

Design of the controls under review

We identified 10 weaknesses in the design of controls in relation to the Payroll System, 2 of which have been assessed as high risk. In our opinion these control weaknesses are likely to have a significant impact on the achievement of the key objectives of the Payroll System.

Operation of the controls under review

We identified 9 instances where the controls were not operating as designed in practice at the time of our audit, 3 of which have been assessed as high risk. In our opinion these weaknesses are likely to have a significant impact on the achievement of the key objectives of the Payroll System.

Value for Money

During our review we were unable to verify that overtime was being properly authorised. There is therefore a possibility that employees are working excessive amounts of overtime which may not be necessary.

Assurance statement

Limited assurance

There are some weaknesses in the design and operation of controls which could have a significant impact on the achievement of key system, function or process objectives but should not have a significant impact on the achievement of organisational objectives. However, there are discrete elements of the key system, function or process where we have not identified any significant weaknesses in the design and operation of controls which could impair the achievement of the objectives of the system, function or process. We are therefore able to give **limited assurance** over certain discrete aspects of the system, function or process as follows:

- Payments are made in line with contractual terms;
- Any increases to pay are appropriately authorised and temporary variations monitored and reverted;
- Calculation of deductions is correct.

In arriving at this level of assurance we also took into account progress made in implementing prior year recommendations. **Of the 19 recommendations made, 17 remained outstanding or only partially implemented.**

Follow-up

The table below summarises the recommendations made during our 2006/07 review of Payroll current status.

Risk Rating	Number of findings	Implemented or no longer relevant	Outstanding or partially implemented
Critical	0	N/a	N/a
High	0	N/a	N/a
Medium	13	1	12
Low	6	2	4
Total	19	2	17

Where issues have been identified as outstanding these have been raised once again in the main body of the report and a revised management response requested.

A follow-up review of all the agreed actions should be undertaken as part of the 2008/09 internal audit plan.

Detailed findings and recommendations

Our detailed findings and recommendations are set out in the findings and recommendations section of this report. Management responses are included which identify actions to be taken, responsibility and timeframe.

Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of the Payroll Function, subject to the following limitations.

Internal control

Internal control, no matter how well designed and operated, can provide only **reasonable** and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

The assessment of controls relating to the Payroll Function is that historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We shall endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

Findings and recommendations

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
Control Design						
1	BACS payments are being approved without specific delegated authority to do so.	<p>It was noted that the authorised signatory list does not refer to BACS payments. As such any officer who can authorise an invoice for payment can also authorise BACS payments. Given that payments made in respect of payroll vary from £70,000 for weekly payroll to £1.5 million for monthly payroll these should be more closely controlled.</p> <p>In addition the reconciliation of the BACS payment to Payroll is not being dated when evidenced as reviewed.</p>	<p>● High</p>	<p>The Authority should ensure that only staff with delegated authority are able to authorise BACS payments.</p> <p>When reconciliations are carried out between BACS payment made and the Payroll, these should be signed and dated by preparer and reviewer.</p>	<p>Agreed.</p> <p>People Operations Manager in charge of payroll has delegated authority to sign off BACS payments.</p> <p>Authorised signatory list will be updated to reflect this change.</p>	<p>Nicole Macdonald</p> <p>30 April 2008</p>

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
2	Confidential data is not secure.	It was noted that although personal files are locked away in a cabinet the keys to this cabinet are left in the Payroll Team Leaders draw which is not locked.	● Low	The Authority should ensure that adequate controls are in place over confidential data and keys are held securely.	Agreed. New key cupboard to be installed.	Karen Holmes Implemented 1 March 2008

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
Operating Effectiveness						
3	Fictitious employees could be input onto the payroll.	<p>New staff are entered on the HR/Payroll system by staff within the HR function.</p> <p>During testing of 20 new starters we identified the following:</p> <ul style="list-style-type: none"> • For one starter the start date on the contract is different to the start date on the payroll. No documentation was available to support this amendment. • In one instance the National Insurance (NI) number in the contract did not agree with the correct NI number on payroll . • There was no authorisation from HR for one of the new starters. • In one instance there was no NI number documented per the payroll. It was defined as 'N/A' • For eight starters, the authorisation date on the contract or the employment detail form is after the start date on the payroll. 	<p>● Medium</p>	The Authority should ensure that new members of staff are not added onto the payroll system until all relevant information has been received and appropriate evidence is retained within the personnel file.	<p>All new members are set on the system by HR admin. Payroll enters details such as tax, NI etc. This employee will be classified as parked on the system until all information has been inputted. Therefore this reduces the risk of ghost employees being paid.</p> <p>All input is now checked by Payroll Team Leader.</p>	<p>Karen Holmes</p> <p>Implemented 1 March 2008</p>

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
4	Overpayments could be made if leavers are not notified to payroll promptly.	<p>Testing of a sample of 20 leavers identified the following:</p> <ul style="list-style-type: none"> For two leavers there was no notification of change form on file, instead leaving dates were agreed to a pension leaving form. In one case the leaving date on the employee file is different to that on the payroll system. The Payroll Team Leader informed us that this employee left earlier than expected but their personal file was not updated to reflect this. For two leavers there were no leaving details on the employee files. In one instance there was a delay in payroll being notified by HR. 	<p style="text-align: center;">● Medium</p>	<p>The Authority should ensure that a robust system is in place for notifying payroll of all leavers on a timely basis, so that appropriate adjustments can be made to final salary. All forms should be completed fully and retained on the employee file.</p>	<p>Agreed.</p> <p>Notification of Change being revised to incorporate more relevant details concerning leavers.</p> <p>Process will be robust to ensure payroll are made aware of leavers by HR Admin via a Notification of Change form as soon as they are made aware of a leaver's details.</p>	<p>Nicole Macdonald</p> <p>30 April 2008</p>

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
5	Inaccurate payments may be made or overtime may not be appropriately authorised.	<p>During our testing of a sample of 25 overtime claim sheets (10 monthly, 15 weekly) the following issues were noted:</p> <ul style="list-style-type: none"> • One overtime sheet was not signed as being authorised yet it was processed by payroll. • PwC recalculated overtime from the sample above and a small variance was noted for one employee who had been underpaid. • Signatures of supervisors are not included on the authorised signatory list, as such PwC have been unable to conclude whether or not overtime has been appropriately authorised. • Overtime forms are not always dated when authorised, which could indicate that overtime sheets are not being reviewed on a timely basis. • Blank sections of the timesheets are not being crossed out meaning that the timesheet may be altered after it has been authorised. 	<p>● High</p>	The Authority needs to ensure that procedures are followed for the payment of overtime claims. All forms should be fully completed and authorised in a timely manner.	<p>Agreed.</p> <p>Procedures are in place to check all overtime sheets and timesheets against an up to date authorised signatories list.</p>	<p>Karen Holmes</p> <p>1 April 2008</p>

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
6	Car loans may be used inappropriately.	Although only one car loan has been made this year (up to November 2007), we noted that no receipt had been kept on file to support this purchase.	● Low	The Authority should ensure that receipts are obtained from all employees who take advantage of the car loan scheme.	Reminder has been sent to the member of staff concerned regarding the purchase receipt. In addition, the work instruction sheet has now been updated with details of what checks need to be carried out at each stage of the loan application.	Michael Davis Implemented.
7	Payments are being processed without appropriate level of authorisation.	Although the authority has implemented an authorisation list, it is not complete. This was highlighted during testing of overtime where we noted that supervisors were not included on the authorised signatory list and as such these overtime forms could not be verified as appropriately authorised. In addition payroll staff advised that the authorisation rights of certain individuals do not appear to be in line with their roles.	● High	The authority should ensure that the authorised signatory list is updated to include supervisors and any other necessary staff. The authorisation levels should also be checked for all staff to ensure that these are appropriate given their respective roles and responsibilities.	Agreed. Authorised signatory list has been updated.	Karen Holmes 1 April 2008

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
8	There is a risk of inaccurate or fraudulent expense payments.	<p>During testing of 20 expense claim forms the following issues were noted:</p> <ul style="list-style-type: none"> • One expense claim was not submitted and processed in a timely manner. The employee submitted expenses for June, July, Aug, Sept, Oct, Nov, Dec, Jan, Feb, March all in one go. These were processed even though procedures state expenses incurred over 3 months ago but not submitted are invalid. • Five of the expense claim forms were not completed in full. • Two expense claim forms were authorised by employees who were not included on the authorised signatory list. • Three expense claim forms were authorised by employees who did not have the appropriate level of authorisation. • One employee was reimbursed at the wrong rate. • The mileage from one claim form did not agree with the mileage as per the payroll. 	<p>● High</p>	The Authority needs to ensure that any expense claims submitted are fully completed in line guidance, authorised and accurately processed.	<p>Agreed.</p> <p>This is now in place.</p>	<p>Karen Holmes</p> <p>1 April 2008</p>

Outstanding prior year issues brought forward

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
Control Design						
9	There is a risk that duplicate payments could be made and go undetected.	It was noted that there is no specific exception report that highlights duplicate payments. Initially this would be down to the person inputting the payroll to pick up and then subsequently the budget holder whose cost centre would be affected.	● Medium	The authority should ascertain whether the payroll system can be amended to produce an exception report that identifies potential duplicate payments.	Karen Holmes believes this to be a system limitation in that Agresso cannot produce an exception report highlighting duplicate payments. To be investigated.	Karen Holmes Systems team are still working on this. (ongoing)
10	There is a risk that statutory returns to HMRC are inaccurate.	Statutory year end returns regarding payroll deductions have not been subject to an independent review prior to their submission.	● Low	Year end returns should be subject to an independent review, by a senior member of the department, prior to submission.	This is to be put into place by the end of March 2008.	Karen Holmes 31 March 2008

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
11	Inaccurate or fraudulent changes are made to standing data.	<p>It is not currently possible to identify amendments to standing data through the reports utilised by payroll – which offer little in terms of useful information.</p> <p>Furthermore, testing of 8 changes to standing data identified 1 instance where tax code details had been amended but there was no evidence on file as to reason why and a further exception where start dates had been amended but no explanation held on file.</p> <p>Lastly there is no secondary review or sample testing undertaken of standing data amendments.</p>	<p>● Medium</p>	<p>The Authority should ensure that amendments to standing data are only made upon receipt of appropriately authorised documentation and that reports are generated and reviewed to ensure inaccurate or fraudulent changes to standing data are identified.</p> <p>Furthermore, review and sample testing should be undertaken to gain assurance that amendments are being processed accurately.</p> <p>As a minimum reports on bank details changes, name and address changes, pay scale changes and starter and leavers should be generated and reviewed.</p>	<p>The reports produced at the moment are not very easy to follow and it is difficult to pull off the relevant information. Karen believes this to be a system limitation and doesn't believe the reports can be simplified.</p> <p>These are now checked manually by the Payroll Manager.</p>	<p>Karen Holmes</p> <p>1 April 2008</p>

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
12	Ineffective checks or fraudulent activity may occur where an appropriate segregation of duties does not exist.	Members of the HR admin team have the same levels of access as payroll team to payroll data. Furthermore members of the payroll team can also access and amend HR information.	● High	The authority should ensure that an appropriate segregation of duties exists between the Payroll and HR department and user access levels are relevant to posts.	Both HR and payroll have access to employee information as it is an integrated system. Karen has scheduled a meeting with HR, but yet to taken place, to discuss what access levels should be between HR and payroll.	Karen Holmes 31 January 2008.
13	There is a risk that loans may be made without appropriate levels of authorisation, thus affecting recoverability.	It was noted that there is no formal policy or procedure in place for the granting of welfare loans. In general, members of staff would have to apply in writing to payroll, who would approve and make the loan payment and future deductions from the employee's salary.	● Medium	The authority should ensure that a policy and procedure for granting of welfare loans is introduced and appropriate evidence is retained on the individuals file. Where amendments are made employee signatures should be obtained to show authorisation and agreement.	Salary advances are granted to employees and a process is followed in payroll to do this. Staff are issued with a letter confirming their agreement to make the deductions for future salary payments.	Karen Holmes 28 February 2008

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
14	Changes could be made to bank account details without the appropriate level of authorisation.	No checks are carried out in respect of amendments to bank account details.	● Medium	The Authority need to ensure that procedures are in place and followed when amending bank account details.	Notifications of changes to bank details are only provided by the employee via email or completion of the appropriate form. However no checks are carried out in respect of amendments to bank account details. This is now checked by the Payroll Manager.	Karen Holmes 1 February 2008
15	There is a risk that the performance of the payroll department is not being assessed and therefore may not be operating efficiently and effectively.	Within the authority the department is not benchmarked or monitored against any performance measures. For example the department does not report on the levels of errors and mistakes.	● Low	The Authority should set the payroll department performance targets to achieve in relation to the level of errors and mistakes.	In the corporate plan there are going to be certain areas that will be benchmarked which are currently not subject to BVPIs. The Payroll Manager monitors the level of errors, which is currently less than 1%.	Karen Holmes 30 September 2008
16	In the absence of detailed procedures there is a risk that errors could arise during payroll processing.	We were unable to locate any detailed written procedures in respect of payroll activities. This also extended to activities such as dealing with overpayments, duplicate payment, welfare loans and payments in advance.	● Low	The authority should ensure that detailed payroll written payroll procedures are put into place and these are subsequently adhered to.	These are in the process of being drafted.	Karen Holmes 28 February 2008

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
Operating Effectiveness						
17	There is a risk that transactions included within suspense accounts are not adequately investigated and cleared.	It was noted that reconciliations of deductions suspense accounts are not being regularly performed. In addition the deductions suspense account is not being cleared promptly.	● Low	The Authority should ensure that reconciliations of the deduction suspense account are performed on a monthly basis and evidenced as reviewed.	Although NI, PAYE and pensions reconciliations are done on a monthly basis, the other suspense accounts are slightly behind. Karen has done up to September 2007 but plans to have all suspense accounts up to date by Feb 2008.	Karen Holmes 31 January 2008
18	There is a risk of inaccurate or fraudulent advance payments or that advance payments may not be recovered where detailed records are not kept.	It was noted that due to timing constraints payroll staff have not been maintaining suspense accounts detailing any advance payments being made and ensuring that the suspense account is regularly cleared. Prior year testing of 30 advance payments found that in 22 cases the form confirming receipt of the advance payment had not been signed and returned to the Payroll department by the employee. Also in one case no supporting evidence was found to support the payment.	● Medium	The authority need to ensure that advance payment suspense accounts are reviewed on a monthly basis. Procedures put in place by the authority need to be followed at all times.	A process is currently being developed to ensure advance payments are reviewed on a monthly basis. These will be paid via a separate supplementary payroll run to incorporate late payments. Supplementary payroll is now running on a monthly basis.	Karen Holmes 28 February 2008

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
19	There are a number of potential risks associated with payroll staff inexperience's.	It has been noted that there is a lack of structured training within the payroll department. All staff have undertaken training on the new system, however there is still a lack of awareness on the system in terms of reporting.	● Low	A structured training programme for the payroll team needs to be implemented and actioned to ensure all team members are confident with the payroll system functions.	Karen has not yet been on an Agresso training course due to timing constraints. This is in her current personal development plan. Training has been carried out.	Karen Holmes 31 March 2008

Follow up of prior years recommendations

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Current Status
1	In the absence of detailed procedures there is a risk that errors could arise during payroll processing.	We were unable to locate any detailed written procedures in respect of payroll activities. This also extended to activities such as dealing with overpayments, welfare loans and payments in advance.	● Low	The authority should ensure that detailed written payroll procedures are put into place and that these are subsequently adhered to. These could possibly be produced in line with the implementation of the integrated payroll and human resources system.	Written procedures are in the process of being developed. Completion date: End of October 2007. Karen Holmes	Outstanding. See issue 17 in Outstanding prior year issues brought forward.
2	Changes could be made to the payroll system without appropriate authorisation.	There is currently no up to date authorised signatory list held by the payroll department, although payroll staff did demonstrate an awareness of who was authorised to sign for what. The list is currently in the process of being updated.	● Medium	The authority should ensure that the update of the authorised signatory list is completed and a process implemented for any amendments to be incorporated on a timely basis.	Authorised signatory list is updated and will be implemented with immediate effect. Beginning of June 2007 Nicole Macdonald	Implemented See issue 7 in findings and recommendations section.

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Current Status
3	There is a risk that transactions included within suspense accounts are not adequately investigated and cleared.	It was noted that reconciliations of deductions suspense accounts are not being regularly performed. In addition the deductions suspense account has not been cleared for almost a year.	● Medium	The authority should ensure that reconciliations of the deduction suspense account are performed on a monthly basis with evidence that a review has occurred.	The Agresso payroll system is still very new and currently being embedded into the organisation. Reconciliations of the suspense account will start to be performed on a monthly basis by end October 2007. Karen Holmes	Implemented. See issue 18 in Outstanding prior year issues brought forward.
4	There is a risk that duplicate payments could be made and go undetected.	It was noted that there is no specific exception report that highlights duplicate payments. Initially this would be down to the person inputting the payroll to pick up and then subsequently the budget holder whose cost centre would be affected.	● Medium	The authority should ascertain whether the payroll system can be amended to produce an exception report that identifies potential duplicate payments.	Work needs to be done with Systems Department to establish capability of the payroll system to produce this report. End October 2007 Nicole Macdonald	Outstanding. See issue 9 in Outstanding prior year issues brought forward.
5	There is a risk that the amounts in the general ledger (GL) do not match actual payroll amounts	It was noted that no reconciliation of payroll to GL has been performed.	● Medium	Reconciliations of the payroll system to the GL should be undertaken on a monthly basis and monitored.	Work needs to be done with Systems Group to establish this functionality. End October 2007 Nicole Macdonald	Implemented.

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Current Status
6	There is a risk that statutory returns to HMRC are inaccurate	Statutory year end returns regarding payroll deductions have not been subject to an independent review prior to their submission.	● Low	Year end returns should be subject to an independent review, by a senior member of the department, prior to submission	This will be in place for end of March 2007. Karen Holmes	Implemented for end of march 2008. See issue 10 in Outstanding prior year issues brought forward.
7	There is a risk of inaccurate or fraudulent advance payments or that advance payments may not be recovered where detailed records are not kept.	It was noted that due to timing constraints payroll staff have not been maintaining suspense accounts detailing any advance payments being made and ensuring that the suspense account is regularly cleared. Testing of 30 advance payments found that in 22 cases the form confirming receipt of the advance payment had not been signed and returned to the Payroll department by the employee. Also in one case no supporting evidence was found to support the payment.	● Medium	The authority need to ensure that advance payment suspense accounts are reviewed on a monthly basis. Procedures put in place by the authority need to be followed at all times	A process is currently being developed to ensure advance payments are reviewed on a monthly basis. These will be paid via a separate supplementary payroll run to incorporate late payments. End of September 2007 Karen Holmes	Implemented See issue 19 in Outstanding prior year issues brought forward.

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Current Status
8	Inaccurate or fraudulent changes are made to standing data.	<p>It is not currently possible to identify amendments to standing data through the reports utilised by payroll – which offer little in terms of useful information.</p> <p>Furthermore, testing of 5 changes to standing data identified 1 instance where details had been amended but no authorisation outside of payroll could be located.</p> <p>There is also no secondary review or sample testing undertaken of standing data amendments.</p>	<p style="text-align: center;">● Medium</p>	<p>The authority should ensure that amendments to standing data are only made upon receipt of appropriately authorised documentation and that reports are generated and reviewed to ensure inaccurate or fraudulent changes to standing data are identified.</p> <p>Furthermore, review and sample testing should be undertaken to gain assurance that amendments are being processed accurately.</p>	<p>Any amendments are currently authorised via a Notification of Change form, or an email.</p> <p>Sample testing will be undertaken going forward to ensure accurate processing.</p> <p>Beginning of July 2007 Karen Holmes</p>	<p>Implemented</p> <p>See issue 11 in Outstanding prior year issues brought forward.</p>
9.	Errors within payroll exception reports may not be detected in a timely manner.	<p>It was noted that daily exception reports reviewed by finance staff are not being dated to evidence when the review took place.</p>	<p style="text-align: center;">● Low</p>	<p>The authority should ensure that daily exception reports are signed and dated to evidence when review took place.</p>	<p>This review is undertaken by Finance Dept and is not a payroll function.</p>	<p>No longer applicable.</p>

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Current Status
10.	Ineffective checks or fraudulent activity may occur where an appropriate segregation of duties does not exist.	Members of the HR admin team have the same levels of access as payroll team, furthermore members of the payroll team can access and change HR info.	● Medium	The authority should ensure that an appropriate segregation of duties exists within the payroll department.	<p>The Agresso system currently allows access by payroll and HR as it is an integrated system. We are currently reliant on the honesty and integrity of our staff to keep the information confidential. Staff have signed documentation confirming their adherence to this.</p> <p>Work needs to be done with Systems Group to see whether access rights can be altered to ensure appropriate segregation.</p> <p>End of October 2007</p> <p>Nicole Macdonald</p>	<p>Outstanding.</p> <p>See issue 12 in Outstanding prior year issues brought forward.</p>

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Current Status
11	There is a risk that loans may be made without appropriate levels of authorisation, thus affecting recoverability	<p>It was noted that there is no formal policy or procedure in place for the granting of welfare loans.</p> <p>In general, members of staff would have to apply in writing to payroll, who would approve and make the loan payment and future deductions from the employee's salary.</p> <p>At present there are approximately 16 welfare loans that have been granted and our testing of a random sample of 5 found that in 2 cases there was no evidence of authorisation or letter of application held on the individuals file.</p> <p>It was further noted that 1 employee had requested a loan of £1800 and was only given £1500, there was no evidence of explanation with respect to the amount given. Also for 1 employee it was noted that the deduction amount had changed throughout the payment period and had been amended on the form but no evidence of a subsequent signature showing authorisation was evident.</p>	<p>● Medium</p>	<p>The authority should ensure that a policy and procedure for granting of welfare loans is introduced and appropriate evidence is retained on the individuals file.</p> <p>Where amendments are made employee signatures should be obtained to show authorisation and agreement.</p>	<p>A process is currently being developed to ensure that the granting of loans is monitored and evidenced.</p> <p>End of October 2007</p> <p>Karen Holmes</p>	<p>Implemented</p> <p>Salary advances are now granted. Each employee is given a letter confirming the amount of the advance and detailing the pay back arrangements.</p> <p>See issue 13 in Outstanding prior year issues brought forward.</p>

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Current Status
12	There is a risk that ghost employees or inaccurate information is added to the payroll system	<p>In a random sample of 30 starters added to the payroll system the following issues were noted:</p> <p>In two of the cases actual salary was not detailed on the starter form.</p> <p>For four starters the authorisation was after the start date.</p> <p>For one starter the information was taken from an e-mail. The correct pro forma and paperwork were not completed</p> <p>There was no authorisation from HR for two starters.</p> <p>No documentation was retained for one instance.</p> <p>For one starter the number of hours to work was not recorded.</p> <p>In one case a pro forma was not completed for new starter.</p> <p>Two staff members had changed department and role; no official new starter form had been completed.</p>	<p>● Medium</p>	<p>The authority should ensure that payroll do not add new members of staff onto the payroll system until relevant authorisation has been received. This authorisation should be fully complete and retained within the personnel file in accordance with procedures.</p>	<p>New members of staff are input into the system by HR Admin following receipt of an Appointment Recommendation Form signed by the Recruiting Manager. Payroll do not input new members of staff onto the system.</p> <p>Authorisation is retained on individual personnel files in accordance with procedures.</p> <p>Nicole Macdonald</p>	<p>Implemented</p> <p>See issue 3 in findings and recommendations section.</p>

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Current Status
13	There is a risk of inaccurate or fraudulent expense payments	<p>In a random sample of 30 expense claims the following points were noted:</p> <p>In one instance no employee number was recorded on the form</p> <p>There was a further case where the employee has not stated whether they are an essential or casual user</p> <p>On one occasion the employee had stated they were an essential user when in fact they were a casual user</p> <p>In one case it was noted that an employee has been paid for the same claim twice. 2 forms were submitted, the 2nd claim form states that the first was lost in the post and hence the lack of detail on the 2nd. The number of miles claimed on both forms is different and the number of miles paid for one of the claims differs to that actually claimed by 1 mile also.</p>	<p>● Medium</p>	The authority need to ensure that where expense claims are made these are done in accordance with procedures and only paid in such cases.	<p>Employee expense claims can be input by name of employee (employee number is not essential).</p> <p>The system automatically identifies whether the employee is an essential car user or a casual car user based on their post.</p> <p>Managers are responsible for authorizing payment of expense claims and ensuring the accuracy. It would take additional resource for payroll to check whether every expense claim has been accurately completed.</p>	<p>Implemented.</p> <p>See issue 8 in findings and recommendations section.</p>

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Current Status
14	There is a risk that duplicate payments are made or that stationery is removed	There is no controlled stationery. Stationery is standard however, not numbered sequentially or in any other way.	● Low	Stationery with sequential numbering should be used for payments within the payroll department	This is not a priority and other controls are in place to ensure duplicate payments are not made.	No Longer applicable.

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Current Status
15	There is a risk that leavers may not be accurately processed	<p>From a random sample of 30 leavers the following issues were noted:</p> <p>In 6 cases no authorising documentation was received by payroll prior to the leaver being removed from the payroll system.</p> <p>2 cases were noted where the form had not been dated to state when authorisation was given.</p> <p>1 case was noted where there was no termination form on the employees file.</p> <p>1 case was noted where the employees annual leave was noted on the form</p> <p>Furthermore, it was noted through testing overpayments that from the 8 tested 2 were due to the timeliness of HR informing payroll and 4 due to overtaking annual leave prior to leaving.</p>	<p>● Medium</p>	<p>The authority should ensure that a robust system is in place for notifying payroll of all leavers on a timely basis, so that appropriate checks can be made and deductions made from final salary. Forms should be completed fully and retained on the employees file.</p>	<p>HR Administration are responsible for notifying payroll of leavers via a Notification of Change Form.</p> <p>The risk of leavers not being accurately processed has been raised with HR Admin and the process will be reviewed to ensure accuracy.</p> <p>End of June 2007</p> <p>Nicole Macdonald</p>	<p>Implemented.</p> <p>See issue 4 in findings and recommendations section.</p>

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Current Status
16	There are a number of potential risks associated with payroll staff inexperience's	It has been noted that there is a lack of structured training within the payroll department All have undertaken training on the new system, however there is still a lack of awareness on the system in terms of reporting.	● Low	A structured training programme for the payroll team needs to be implemented and actioned to ensure all team members are up-to-date with the payroll systems functions	On-the-job training is being carried out for all payroll staff. The payroll team manager is scheduled to attend the next training module to understand more about the functionality of the new Agresso Payroll system. She will then be responsible for training the rest of her team. End of October 2007 Karen Holmes	Implemented. See issue 20 in Outstanding prior year issues brought forward.
17	Changes could be made to bank account details without the appropriate level of authorisation.	No checks are carried out in respect of amendments to bank account details.	● Medium	The authority need to ensure that procedures are in place and followed when amending bank account details	Notification of changes to bank details are only provided by the employee via email or completion of the appropriate form.	Implemented. See issue 15 in Outstanding prior year issues brought forward.

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Current Status
18	There is a risk that inaccurate payments are made with regard to overtime submissions	<p>When testing a sample of 10 overtime forms an exception was noted that the overtime forms have not been dated when signed for authorisation. Thus, there is a risk that overtime sheets are not being reviewed on a timely basis. Also an exception has been raised over the fact that blank sections of the timesheets are not being crossed out meaning that the timesheet may be altered after it has been authorised.</p> <p>Furthermore, for 1/10 overtime sheets tested it was noted that the authorisation for overtime was received from the authorising officer via email (not provided) and hence there is no evidence of authorisation.</p>	<p>● Medium</p>	The authority needs to ensure that procedures are followed for the payment of overtime claims.	<p>Authorisation of overtime claims is the responsibility of management who should be vigilant in the way they are presented to payroll for payment.</p> <p>A communication will go out to all managers reminding them of their responsibility in this area.</p> <p>End of June 2007 Nicole Macdonald</p>	<p>Implemented.</p> <p>See issue 5 in findings and recommendations section.</p>

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Current Status
19	There is a risk that the performance of the payroll department is not being assessed and therefore may not be operating efficiently and effectively.	Within the authority the department is not benchmarked or monitored against any performance measures. The department does not report on the levels of errors and mistakes.	● Low	The authority should set the payroll department performance targets to achieve in relation to the level of errors and mistakes.	With the new system only recently gone live, it is too early to set performance targets. This will be done once the team is fully trained on the system. End of October 2007 Nicole Macdonald	Implemented See issue 16 in Outstanding prior year issues brought forward.

Appendix 1 - Terms of Reference

The objectives of our review were to ensure that:

- Sufficient controls exist over starters, leavers and amendments to payroll;
- Expense claims are supported and paid in line with policy;
- Adequate segregation of duties is in place;
- Payments are made in line with contractual terms;
- Any increases to pay are appropriately authorised and temporary variations monitored and reverted;
- Calculation of deductions is correct;
- Regular management and monitoring information is produced and reviewed;
- Payments made through BACS / Cheque are appropriately controlled;
- Payroll reconciliations are regularly performed;
- Systems security and integrity is satisfactory;
- Detailed policies and procedures are in place.

Appendix 2 - Assurance ratings

Level of assurance	Description
High	<p>No control weaknesses were identified; or</p> <p>Our work found some low impact control weaknesses which, if addressed would improve overall control. However, these weaknesses do not affect key controls and are unlikely to impair the achievement of the objectives of the system. Therefore we can conclude that the key controls have been adequately designed and are operating effectively to deliver the objectives of the system, function or process.</p>
Moderate	<p>There are some weaknesses in the design and/or operation of controls which could impair the achievement of the objectives of the system, function or process. However, either their impact would be less than significant or they are unlikely to occur.</p>
Limited	<p>There are some weaknesses in the design and / or operation of controls which could have a significant impact on the achievement of key system, function or process objectives but should not have a significant impact on the achievement of organisational objectives. However, there are discrete elements of the key system, function or process where we have not identified any significant weaknesses in the design and / or operation of controls which could impair the achievement of the objectives of the system, function or process. We are therefore able to give limited assurance over certain discrete aspects of the system, function or process.</p>
No	<p>There are weaknesses in the design and/or operation of controls which [in aggregate] could have a significant impact on the achievement of key system, function or process objectives and may put at risk the achievement of organisation objectives.</p>

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