

AUDIT AND RISK COMMITTEE

24 September 2013

PAYROLL INTERNAL CONTROLS REVIEW

Report of the Assistant Director (Finance)

STRATEGIC AIM:	All
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1. PURPOSE OF THE REPORT

- 1.1 At the Audit and Risk Committee in June 2013, the Interim Strategic Director for Resources presented a report (142/2013) which explained some of the background to the payroll errors and set out what changes had been made to ensure that any problems did not reoccur.
- 1.2 This report gives an update on further action taken to strengthen payroll arrangements.

2. RECOMMENDATIONS

- 2.1 **That the Committee notes the actions taken to address internal control matters and receives an independent report from Internal Audit in January 2014 on payroll arrangements.**

3. UPDATED POSITION

3.1 Status of key actions

As reported in June, following the completion of the pay audit, a workshop with processing staff in payroll and HR was undertaken. The purpose of this workshop was to document end to end payroll processes and to identify where there are weaknesses. Subsequent to the workshop, payroll and HR staff have developed a new control model, the 'To Be' Model which addresses the identified weaknesses. Some improvements had already been put in place, and others were a work in progress. The table below updates Members on the current position:

Weakness	Action taken in June	Further action planned	Where are we now?
1. Lack of procedures governing payroll operations	Payroll procedures are being developed around the 'To Be' model.	All staff concerned have been involved in the design of the 'To Be' model so understand how it works. Procedures are being written and will be completed by end June.	Procedures for amendments to payroll records and the processing of the pay run developed and reviewed with HR and Payroll. Tested with a number of scenarios to ensure that the procedures are robust.
2. Managers do not understand general responsibilities and specific responsibilities when authorising claims	Manager briefing note produced and a briefing organised. Timesheet/overtime claims have been updated to give more clarity as to what is expected.	Briefing note circulated and briefing organised.	A briefing note has been circulated to managers updating them on their responsibilities. Forms have been rewritten to make them clearer and easier to complete. Briefing sessions have been held with managers who authorise claims to advise them of the new process.
3. Independent checks on data input are not comprehensive.	Staff have been informed of what is expected from the checking process. This is being built in to revised procedures.	Action completed.	Further checks have been built into the review process to make this more robust (see exception report list at point 7 below). A new starter checklist has been built into the new procedures to allow payroll to "audit" this. On a monthly basis 10-15 random employees' records are checked for discrepancies between their pay and their contract terms. These checks have currently identified no anomalies.
4. There is no way to define Terms and Conditions when creating a new employee on Agresso	Add in a flag to define employee's specific T&Cs, e.g. enhanced rate paid on Sundays and run exception reports to highlight where any employees receive payments where they are not eligible to receive them.	Currently in testing, to be in place by the end of June.	A new field has been added to Agresso for the recording of staff Terms and Conditions and data is being populated for existing employees by HR.

5. The basis for HR/Payroll checks is a manually produced spreadsheet	Checks to be based on a system generated report.	Starters and Leavers reports already in place, however Contract change report will require assistance from Unit 4. In the meantime the 'amendment logging' report provides an audit trail and is being used.	Exception Reports now generated automatically by the system monthly. Payroll also getting variants reports from the system. Bank changes report has been setup which highlights any changes to bank account details (sort code, account number etc.) Amendment logging report still proving useful for double checking when changes were made and by who.
6. Payroll Team Manager/H R Advisor access too broad.	Permissions to be restricted	Action completed	Permissions of these users have been amended in line with the new procedures.
7. No system controls in place to stop Payment and Deductions being paid/deducted against certain Pay scales, e.g. overtime.	Use the 'Overtime' tick box in Agresso to stop overtime being paid to employees who are not eligible to receive it (over SCP 28). The secondary check in input will confirm that this has been done. For other payments or deductions, exception reports to be produced to catch any employees who receive payments where they are not eligible to receive them. Such reports to be investigated by the Payroll Officer independent of the processing team.	' Overtime' box in Agresso implemented. An exercise has been completed to 'tick' the box for all staff over SCP28. Exception reports currently being written and tested, to be in place by the end of June.	Overtime flag now setup for every employee, and checks built into exception report (see below) Exception reports now being issued monthly to manager in HR and Payroll to follow up. The report contains a number of tabs including: <ul style="list-style-type: none"> • Employees above SCP28 receiving overtime. • Employees where the overtime box is not ticked. • Overtime payments over £100 in the last month. • Employees whose gross pay was over £4000 in the last month. • Employees with an end date (leavers) whose pay status is still active. • Holiday mismatches • Employees with incorrect pay statuses. • Employees with no bank details.
8. BACS file not encrypted and Payroll Team manager has access both to run	Duties to be segregated so that Payroll Admin run the BACS file and Payroll Team Manager submits the payment. BACS folder to be made read-only so that it cannot be amended.	Action completed Currently in	Permissions changed so that Payroll admin/team manager is now able to only complete part of the BACS process. Manager is only able to review/submit the payment at the end of the process and is unable to amend it.

and pay BACS file.		investigation	Permissions on BACS folder have been changed to stop the BACS file being edited once it has been generated. A new process has been put in place requiring managers to request access should amendments be needed so this can be recorded.
9. No controls or report in place to highlight employees with pay anomalies, e.g. no NI/on zero pay/negative pay	Run variants report as a comparison against previous month and investigate anomalies.	Action completed	Payroll now have reports setup that are run each time payroll is put "in proposal", alerting them of any issues with NI, pay, etc. This also produces a gross/net variance report to allow any large variances in pay from previous months to be checked.

The Assistant Director (Finance) is able to confirm that the cumulative impact of action taken will be sufficient to prevent a reoccurrence.

The high profile of Payroll means that HR/Payroll meet monthly to discuss issues and progress.

3.2 Independent assurance

The internal auditors have been asked to undertake further work to assess changes made. This work will be undertaken in November 2013 and be reported to the Audit and Risk Committee in January 2014.

4. RISK MANAGEMENT

RISK	IMPACT	COMMENTS
Time	High	It is imperative that weaknesses in the Council's internal control systems are addressed promptly.
Viability	Low	There are no direct implications within this report.
Finance	Low	There may be a cost to upgrading Agresso (but this is being investigated).
Profile	High	Failure to rectify problems would lead to further adverse publicity.
Equality and Diversity	Low	Initial Equality Impact Assessment completed, there are no particular issues in this area.

Background Papers

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A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577.