

INTERNAL AUDIT REPORT



**PAYROLL
2013-14**


PAYROLL

EXECUTIVE SUMMARY

1. INTERNAL AUDIT OPINION

The key risks associated with the Payroll System are that employees' pay is incorrectly calculated; that employees receive payments that they are not entitled to; or payments are made to individuals not employed by the Council. The Exchequer and HR Teams were able to demonstrate that they have put in place, and continue to develop and enhance, a framework of controls designed to assure the accuracy and legitimacy of payroll transactions. Testing found no evidence of significant non-compliance with prescribed processes; and the only errors discovered were insignificant (e.g. a £38 underpayment of back pay to one employee). It is, therefore, the Auditor's Opinion that the design and operation of controls provides **Substantial Assurance**. The audit was carried out in line with the scope set out in the approved Audit Planning Record. Further information about the identification and analysis of controls; and the testing undertaken is shown as Appendices 1 and 2.

The Opinion is based upon testing of the design of controls to manage the four risks about which the Client sought assurance and testing to confirm the extent of compliance with those controls as summarised below

Internal Audit Assurance Opinion	Direction of Travel				
Substantial Assurance					
Risk	Design	Comply	Recommendations		
			H	M	L
Risk 1. Incorrect Payroll Records	Substantial	Substantial	0	0	0
Risk 2. Incorrect processing of standard salary payments	Substantial	Substantial	0	0	0
Risk 3. Incorrect processing of variable payments	Substantial	Substantial	0	0	0
Risk 4. Incorrect Salary payments whether by recipient or amount	Substantial	Substantial	0	0	0
Total Number of Recommendations			0	0	0

2. ISSUES REQUIRING MANAGEMENT ATTENTION

The findings of the audit gave rise to no material issues of concern and therefore no recommendations have been issued but management needs to recognise that

The accuracy of payroll processing is dependent upon the quality of information provided by Line Managers. Dispersed controls operate to provide assurance about accuracy of data but a residual risk remains. The Exchequer Team Leader has recently put in place arrangements to monitor the quality of claims submitted and provide strong feedback to Line Managers but may require management support to achieve improvements in quality of information received in respect of leavers and sickness absence.

Procedures have been documented so that proper processes are followed and proper checks are undertaken consistently by the HR and Exchequer Teams. Work is in hand to develop more detailed Procedural Manuals, which would be valuable in the event of staff turnover. This will allow management to take an overview of all the checks and controls now in place and consider what works well and what does not.

The Payroll Administrator has a central role in ensuring that data input to the Payroll System is accurate and legitimate; and proper processing results in correct payments to employees. Back up procedures are in place to cover absences but those involve – for limited periods – some relaxation in separation of duties. The Exchequer Team Leader is working to train and develop other members of her Team so that more suitable arrangements can be introduced.

3. AREAS WHERE CONTROLS WORKED AS DESIGNED

Sample testing confirmed that control arrangements are delivering accurately drafted contracts and employee payroll accounts that reflect contractual entitlements. Employees are receiving the salary payments to which they are contractually entitled.

Sample testing confirmed that controls over data input exercised by the Exchequer Team are delivering accurate and contract compliant payments for additional hours. Only employees with contractual entitlement receive overtime payments and those payments are accurately calculated and paid at the correct rate.

4. LIMITATIONS TO THE SCOPE OF THE AUDIT

The Auditor did not:

- undertake testing of statutory or voluntary deductions from employees' salaries;
- undertake testing of expenses paid to employees
- examine arrangements relating to holiday pay entitlements of casual employees
- examine arrangements relating to maternity pay.

The Auditor's work does not provide any guarantee against material errors, loss or fraud. It does not provide absolute assurance that material error; loss or fraud does not exist. The residual risks that the Auditor was able to identify are recorded in the Appendix 1 to the report.

GLOSSARY

The Auditor's Opinion

The Auditor's Opinion for the assignment is based on the fieldwork carried out to evaluate the design of the controls upon which management rely and to establish the extent to which controls are being complied with. The table below explains what the opinions mean.

Level	Design of Control Framework	Compliance with Controls
SUBSTANTIAL	There is a robust framework of controls making it likely that service objectives will be delivered.	Controls are applied continuously and consistently with only infrequent minor lapses.
SUFFICIENT	The control framework includes key controls that promote the delivery of service objectives.	Controls are applied but there are lapses and/or inconsistencies.
LIMITED	There is a risk that objectives will not be achieved due to the absence of key internal controls.	There have been significant and extensive breakdowns in the application of key controls.
NO	There is an absence of basic controls which results in inability to deliver service objectives.	The fundamental controls are not being operated or complied with.