

Internal Audit Report 2017/18

Vik Kapoor

Final

December 2017

Payroll

▶ Click to launch



Contents

Executive summary

1

Background and scope

2

Findings

3

Prior year open findings

4

Appendices

- A. Basis of our classifications
- B. Limitations and responsibilities
- C. [Best practice and insight]

Distribution list

For action:

Payroll, Pensions, Recruitment and MI Manager

Principal Payroll Officer

Chief Finance Officer

For information:

Strategic Director Resources

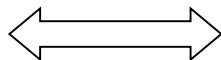
Executive summary (1 of 6)

Report classification



Limited

Trend



Total number of findings

	Critical	High	Medium	Low	Advisory
Control design	-	-	4	-	-
Operating effectiveness	-	2	2	2	-
Control design and operating effectiveness	-	2	2	-	1
Total	-	4	8	2	1

Key:

- Control Design Issue (D) – There is no control in place or the design of the control in place is not sufficient to mitigate the potential risks in this area.
- Operating Effectiveness Issue (OE) – Control design is adequate, however the control is not operating as intended resulting in potential risks arising in this area.

Executive summary (2 of 6)

Headlines/summary of findings

Overall conclusions

The objective of this review was to identify and test the design and operating effectiveness of key controls in relation to the Council's payroll process. A number of areas for further improvement have been identified. We identified four high priority, nine medium and one low risk finding as a result of the review.

It should be noted that whilst we were given assurances by management that the parameters for statutory deductions are set by the provider of One Oracle (Cap Gemini), we were unable to confirm this as evidence was not provided by management. We are therefore unable to provide any assurance that these deductions are accurately and consistently applied.

Key Findings

The high risk findings relate to:

- *Net Pay Variance Exception Reports* - Not all variances in the monthly report of variances in net pay from previous month to current month have been checked as required. **See Finding #1**
- *Acting up and Honoraria Payments* – Some acting up and honoraria payments were awarded for periods of more than six months and some for more than three increments. In both scenarios, the appropriate authorisation from the HR Director had not been obtained. **See Finding #2.**
- *Overtime* – Overtime claim spreadsheets are not always completed in full or submitted on a timely basis. The submission of overtime claim spreadsheets is not restricted and does not need to be submitted via a manager. **See Finding #3.**
- *Overpayments* – There is currently no policy in place for the recovery of overpayment from both existing and ex-employees. The total value of overpayments made is not currently monitored or reported. There is no analysis undertaken of the root cause of overpayments. No follow-up action has been taken on the recovery of overpayments to ex-employees. The level of overpayments currently stands at £124,000 for current employees and £195,000 for ex-employees. **See Finding #4.**

Executive summary (3 of 6)

Headlines/summary of findings

Key Findings continued:

The medium risk findings relate to:

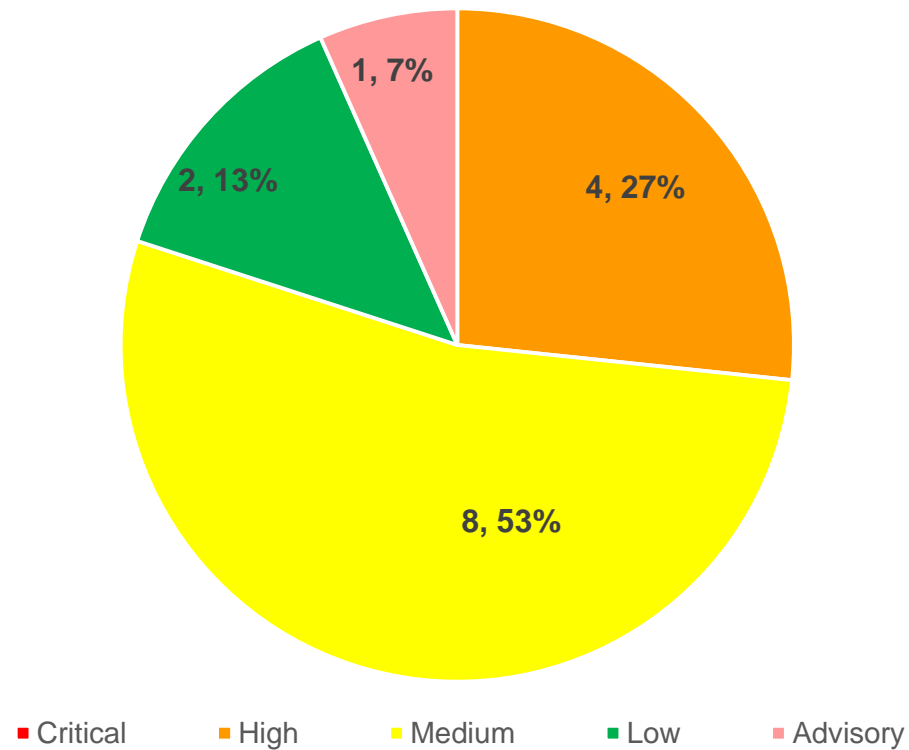
- *Policies, Procedures, Roles and Responsibilities* – Lack of formally documented payroll procedures specifically for the use of staff within the Payroll Team. Roles and responsibilities of staff within the Payroll Team not formally set out. **See Finding #5.**
- *Sickness Payments* – Managers are not promptly updating One Oracle with details of employee sickness absence dates. **See Finding #6.**
- *Amendments to Data and Segregation of Duties* – Officers within the Payroll Team have the ability to amend employee bank details. Whilst an audit trail of any changes made is maintained on One Oracle, no reports are currently generated to show any changes made by the Payroll Team, Pensions Team or Management Information Team. **See Finding #7.**
- *Emergency Payments* - Circumstances for making emergency payments not documented and neither has a review been undertaken of the reasons for which emergency payments are currently being made. **See Finding #8.**
- *HMRC queries* - A number of new starters have had incorrect tax codes assigned to them. The Payroll Team do not maintain a record of the number or type of HMRC queries received from employees. **See Finding #9.**
- *Risk Management* – The Payroll Team do not have a current risk register to identify and effectively manage risks within their service area (most recent is from 2015/16). **See Finding #10.**
- *Authorised Signatory List* –The authorised signatory list does not include all officers with the authority to approve payroll documents. It also includes officers who are no longer employed by the Council. **See Finding #11.**
- *Debts Owed by Employees* – Details of employees for whom instructions have been received by the Payroll Team from Brent Council in relation to e.g. unpaid council tax or overpayment of housing benefit are not being passed onto the Council's Investigations Team to take appropriate action where employees may have failed to comply with the Council's Code of Conduct. **See Finding #12.**

Executive summary (4 of 6)

1	Exception Reports	High	9	HMRC queries	Medium
2	Acting up and Honoraria Payments	High	10	Risk Management	Medium
3	Overtime	High	11	Authorised Signatory List	Medium
4	Overpayments	High	12	Debts Owed by Employees	Medium
5	Policy, Procedures, Roles and Responsibilities	Medium	13	Leavers	Low
6	Sickness Payments	Medium	14	Gross to Net Ratio Reports	Low
7	Amendments to Data and Segregation of Duties	Medium	15	Automation of Forms	Advisory
8	Emergency Payments	Medium			

Executive summary (5 of 6)

Audit findings by risk rating



Executive summary (5 of 6)

Summary of findings by areas of scope:

Area of scope	Number of findings					Finding reference
	Critical	High	Medium	Low	Advisory	
Area 1 – Policy and Procedures			1		1	5, 15
Area 2 – Risk Management			1			10
Area 3 – Starters (No testing undertaken)						
Area 4 – Leavers		1		1		1*, 13
Area 5 – Deductions (Statutory and Voluntary) including HMRC			2	1		9, 12
Area 6 – Variations and Amendments to Pay		1	2			2, 6, 11
Area 7 – Payroll Masterfile/Standing Data			1			7
Area 8 - Overpayments		1				1*, 4
Area 9 – Overtime and Special Payments		1	1			1*, 3, 8
Area 10 – Processing of Payroll and Reconciliations						
Area 11 – Management Information and Performance						
Area 12 – Data Protection						

Background and scope (1 of 2)

Background

The Council's Payroll Team forms part of the Human Resources and Organisational Development Service which sits within the Resources Department. The Director of HR and Organisational Development has overall responsibility for payroll operations. The Payroll team is due to transfer to the Finance Department as part of a restructure of the Resources department.

The system used by the Council to process payroll is One Oracle. The Council began using One Oracle in August 2014.

It should be noted that payroll runs are processed via BACS and undertaken by the Council's Finance Service Centre. In addition to processing payroll for the Council staff, the Payroll Team have (until 2nd October 2017) been responsible for processing the payroll for Brent Housing Partnership (BHP).

SOCITM have recently reviewed the payroll processes interface with Oracle financials – this audit review will not duplicate any of that work.

A payroll audit was undertaken during 2015/16 and a draft report issued in July 2016. This audit was not finalised at that time. The issues raised in the 2015/16 audit will be considered as part of this review.

Background and scope (2 of 2)

Scope and limitations of scope

The overall objective of this audit was to provide the Council, members and other officers with an opinion on the adequacy and effectiveness of the key controls in the following areas:

- Policies and Procedures;
- Risk Management;
- Starters – (no testing undertaken as reviewed part of recent 'continuous audit monitoring');
- Leavers;
- Deductions (Statutory and Voluntary) including HMRC;
- Variations and Amendments to Pay;
- Payroll Masterfile / Standing Data;
- Overpayments;
- Overtime and Special Payments;
- Processing of Payroll and Reconciliations;
- Management Information and Performance, and
- Data Protection.

Limitations of scope

Our work was limited to the sub-processes and control objectives outlined in the table above.

Our internal audit testing was performed on a judgemental sample basis and focused on key risk areas. Our testing is designed to assess the adequacy and effectiveness of key controls in operation at the time of the audit.

Findings (1 of 15)

Exception Reports Operating Effectiveness

1

Finding rating

Rating

High

Finding and root cause

Exception reports (Net Pay Variance reports) are run on a monthly basis both after the “dummy” payroll run and before the “live” payroll run which will detail all variations in payments (i.e. variations of over 15% for Council employees and previously for over 10% for BHP employees) that have been made since the last month. The exception report should be checked by a Payroll Officer to confirm that the exceptions are valid and the report annotated with the reason for the exception and the initials of the officer undertaking the checks.

We reviewed a sample of Net Pay Variance reports for the period from May 2017 to July 2017 for the Council and BHP and noted the following:

- Not all variances in the reports appear to have been checked as required. The reports reviewed indicated the following percentage of checks having been undertaken:

Month	Council	BHP
May 2017	22%	0%
June 2017	76%	70%
July 2017	99.7%	100%

Discussions with the Principal Payroll Officer with regards to these exceptions indicated that she believes all variances are checked but that the Payroll Officer may not always have annotated the report as evidence of this check.

Risk

The failure to undertake the agreed level of checks on the exception reports may result in errors or invalid or incorrect payments being made and not being promptly identified. This could result in inaccuracies in the payroll.

The failure to annotate exception reports to indicate the samples checked may result in management being unable to demonstrate that appropriate checks are being undertaken to identify and investigate the reasons for any anomalies in the payroll and that corrections have been made as required.

Findings (1 of 15 continued)

Exception Reports Operating Effectiveness

1

Finding rating

Rating

High

Recommendations

Management should:

- Satisfy themselves that exception reports are fully checked and annotated with the reason and their initials to confirm that the variance has been checked.
- Ensure that all previous variances have been adequately checked and resolved where necessary.

Management response

Accepted.

Management will do the following:

1. Send out instruction to all Payroll Officers that net pay variance reports are fully checked and annotated with the reason and their initials to confirm that the variance has been checked.
2. A programme of senior management review and quality assurance of the checking of the NPV reports will be conducted over the period December 2017 to March 2018 to confirm the accuracy of processing controls, after which the need for (and frequency of) this additional control will be reviewed in the light of evidence obtained.
3. Check any large variances from sample that were audited where 100% was not achieved and investigate if necessary. (May/Jun/Jul 2017).

Target date: 22 December 2017 (1 and 3); 31 March 2018 (2).

Responsible officer: Principal Payroll Officer (1 and 3); Chief Finance Officer (2).

Findings (2 of 15)

Acting Up and Honoraria Payments

Operating Effectiveness

2

Finding rating

Rating

High

Finding and root cause

A total of £97,935 was paid for acting up and honorarium payments from January 2017 to September 2017. Acting up and honorarium payments are made to employees for undertaking additional duties carried out over and above their normal duties and responsibilities. Whilst an acting up/honoraria policy is included in the Pay Policy document, it is not sufficiently comprehensive. A form should be completed and signed off by the relevant manager and submitted to the Payroll Team for processing. The policy on Acting up and honorarium payments is as follows:

- They should not exceed six months. Where there are exceptional circumstances and a business case can be made for such payments to be made to an employee for a period of over six months and up to 12 months, this should be agreed with the HR Director and the relevant Operational Director.
- They should not exceed more than three increments. Again, where there are exceptional circumstances and a business case can be made for such payments to be more than three increments, this should be agreed with the HR Director.

We reviewed a sample of 10 acting up/honoraria payments (one acting up and nine honoraria) made between July 2016 and July 2017 (eight for Council employees and two for BHP employees). Whilst they were all supported by a form signed off by the manager, the following exceptions were noted:

- In 4/10 (40%) of cases, the acting up/honoraria payments were for periods of more than six months. In 3/4 (75%) of these cases the payments were not approved by the HR Director as required. In addition, in 4/4 (100%) cases none of the payments were approved by the relevant Operational Director. In 1/4 (25%) cases the honoraria payment did not have an end date. It is acknowledged that this one employee was a BHP employee and that BHP had a separate policy with regards to honoraria. However given that BHP employees are now Council employees, they are now required to comply with the Council's Pay Policy going forward.
- In 6/10 (60%) cases the acting up/honoraria payments were for more than three increments. In 4/6 (67%) of these cases the increments were not approved by the HR Director as required.

It was also noted that the forms to be completed for acting up and honoraria payments does not included a section for approval by the HR Director and the relevant Operational Director where payments are to be made to employees for a period of over six months and up to 12 months

Whilst the value of honoraria payments and acting up allowances Council Wide are reported to CMT on a quarterly basis, it was noted that it does not include the number of honoraria payments and acting up allowances and neither does it include the breakdown by departments.

Findings (2 of 15 continued)

Acting Up and Honoraria Payments

Operating Effectiveness

2

Finding rating

Rating

High

Risk

The failure to obtain authorisation from the HR Director and relevant Operational Director for acting up and honoraria payments made over and above a six month period and the failure to obtain authorisation from the HR Director for acting up and honoraria payments of more than three increments, may result in incorrect or inappropriate payments being made and thus in financial loss to the Council. It may also result in unfair practices and decisions should honoraria payments be made to an employee without a business case having been made.

The failure to monitor and report on the number of honoraria and acting up payments being made may result in management being unaware of the extent of such payments. It may also result in excessive payments being made and this not being identified or appropriate action taken to minimise them or to deal with any staffing / resourcing issues which may need to be addressed.

Recommendations

Management should:

- Remind payroll officers are of the need to ensure that only appropriately authorised honoraria payment forms are processed on One Oracle and that all payments made are in line with the council policy.
- Monitor and report on the number of honoraria payments being made. Monthly reports should be made available to CMT.
- The acting up and honoraria payment form should be amended to include a section for the approval of the HR Director and relevant Operational Director for acting up and honoraria payments made over a six month period. The acting up/honoraria policy should be made more comprehensive.

Findings (2 of 15 continued)

Acting Up and Honoraria Payments

Operating Effectiveness

2

Finding rating

Rating

High

Management response

Accepted.

Management will do the following:

1. Remind all Payroll Officers not to process documents which have not been appropriately signed off; in particular those that are more than 3 points increase or longer than a period of 6 months need sign off from HR Director.
2. All existing acting up and honoraria payments to be reviewed to ensure that appropriate authorisations are in place.
3. The cash amount of honoraria payments is already included in the Monthly and Quarterly HR Report and will update to include number of payments as well.
4. Amend and update the acting up and honoraria payment form.

Target date: 22 December 2017 (1); 31 January 2018 (2, 3, 4).

Responsible officer: Principal Payroll Officer (1); Payroll, Pensions, Recruitment and MI Manager (2, 3, 4).

Findings (3 of 15)

Overtime

Control Design and Operating Effectiveness

3

Finding rating

Rating

High

Finding and root cause

Our review indicated that there was no documented policy in place with regards to overtime. For overtime to be paid, the line manager is required to complete an overtime claim spreadsheet and electronically submit it to Management Information Team (MIT) for uploading onto One Oracle. The overtime spreadsheets are available on the intranet. Overtime payments due are automatically calculated on One Oracle according to the employee's grade and the number of hours of overtime worked.

We tested a sample of 15 overtime payments made between July 2016 and July 2017 and noted the following:

- Whilst we confirmed that a spreadsheet had been submitted to MIT for processing in 15/15 (100%) of cases, we were however unable to confirm whether the submissions had been made directly by the relevant line manager as this information was not recorded on all spreadsheets.
- The submission of overtime claim spreadsheets is not restricted in that they do not need to be submitted via a manager. Currently a manager or an administrator is able to submit overtime spreadsheets to MIT.
- We verified through discussion that the Management Information Team (MIT) do not undertake checks to ensure that the spreadsheets have been submitted by the relevant line manager or that the number of hours and the overtime rate indicated on the spreadsheet is correct.
- Overtime spreadsheets were not completed in full and did not always include details such as the actual date of the overtime. Claim spreadsheets are not being submitted on a timely basis by managers with some spreadsheets including claims for overtime covering periods of a few months.

Findings (3 of 15 continued)

Overtime

Control Design and Operating Effectiveness

3

Finding rating

Rating

High

Risk

The failure to have a policy on overtime may result in inconsistencies in the claiming, processing and management of overtime payments.

The failure to check that the overtime spreadsheets have been submitted by an authorised or approving manager and that the overtime rates indicated are correct may result in unauthorised, incorrect, excessive overtime or underpayments being made to employees.

The failure to complete overtime spreadsheets in full may result in incorrect payments being made or errors occurring and not being promptly detected.

The failure to submit overtime spreadsheets to MIT monthly or promptly may result in budget holders being unable to effectively monitor their budgets and this in turn may result in potential overspends not being promptly identified and actioned.

Recommendations

Management should do the following:

- Develop a policy and procedures on overtime which should include guidance on the standards required for approving, recording and certifying overtime in services. Once developed the policy and procedures should be made available to all staff.
- Require the Management Information Team (MIT) to check overtime spreadsheets to confirm that they have been completed in full, have been submitted by a manager with the authority to approve overtime claims and that the rates indicated on the claims are correct. Where the spreadsheets have not been completed in full or properly, the MIT should not process the claims for payment and should be required to return them to the manager for correction. Alternatively, the overtime spreadsheets should be redesigned and be automatically 'work flowed' to the line manager or Head of Service prior to being submitted to MIT.
- Remind all authorised managers across all services / departments to ensure that overtime spreadsheets are completed in full (including details of the dates worked and the name of the manager) and that they are promptly submitted to MIT for processing.

Findings (3 of 15 continued)

Overtime

Control Design and Operating Effectiveness

3

Finding rating

Rating

High

Management response

Accepted.

Management will do the following:

1. Develop a policy on overtime which should include guidance on the standards required for approving, recording and certifying overtime in services. Once developed the policy and procedures will be made available to all staff.
2. With support from Digital Services test and launch e-forms for the submission of overtime and additional payments to enhance efficiency and control.
3. Send reminder to all managers to ensure current overtime spreadsheets are completed in full and submitted in line with the payroll deadlines. Until the proposed e-form is live additional checks on spreadsheets will be introduced to reduce the risk of error.

Target Date: 31 March 2018 (1 and 2); 22 December 2017 (3).

Responsible officer: Chief Finance Officer (1); Payroll, Pensions, Recruitment and MI Manager (2 and 3).

Findings (4 of 15)

Overpayments

Control Design and Operating Effectiveness

4

Finding rating

Rating

High

Finding and root cause

Salary overpayment may occur for a number of reasons including (but not limited to): late notification to payroll of leaver/change of contract; excess annual leave taken; employee not returning from maternity leave; payroll error etc. Overpayments are identified either as a result of the review of monthly Net Pay Variance reports; by employees contacting the Payroll Team or by budget holders as part of their review monthly budget monitoring reports. From July 2016 to September 2017, the total value of overpayments made to current employees is £123,775.

The review of payroll overpayments identified the following issues:

- There is no policy in place for the recovery of overpayment from both existing employees and ex-employees;
- Whilst we confirmed that the number of monthly overpayments is reported as part of internal HR KPIs, they are however not reported corporately;
- The total value of overpayments made is not reported in the internal HR KPIs;
- No analysis is currently undertaken of the root cause of overpayments; and
- Details of the payroll error that resulted in an overpayment not always recorded.

The number of overpayments for the last 12 months is detailed below:

Sept 2016	Oct 2016	Nov 2016	Dec 2016	Jan 2017	Feb 2017	Mar 2017	Apr 2017	May 2017	June 2017	July 2017	Aug 2017	Sept 2017
0	0	2	0	1	3	1	4	1	9	2	4	5

Following the identification of an overpayment to an existing employee, the employee should be contacted to agree recovery action and the details should be input onto One Oracle so that recovery can commence as agreed. Evidence of all correspondence should be retained.

For a sample of 10 overpayments made to current employees between July 2016 and July 2017 (7 Council and 3 BHP employees), the following was noted:

- In 4/10 (40%) of cases evidence of correspondence with the employee to agree the repayment terms could not be located. We were thus unable to ascertain the reason for the overpayment or the agreement to repay the overpaid amount. In the 6/10 (60%) cases for which we found evidence of correspondence, the overpayments occurred as a result of late notification to payroll in 3/6 (50%) cases and payroll error in the remaining 3/6 (50%) cases.

Findings (4 of 15 continued)

Overpayments

Control Design and Operating Effectiveness

4

Finding rating

Rating

High

Finding and root cause

Ex -employees

Where an overpayment relates to an ex-employee, the Payroll Team should calculate the amount due and then pass on details of the debt to the Council's Debt Recovery Team so that an invoice can be raised and follow up action taken. The total amount of outstanding debt relating to ex-employees at the end of August 2017 was approximately £121.5K. We confirmed through discussions with the Debt Recovery Team that although invoices have been sent to these ex-employees that no further follow up action has however been taken to recover these debts as a result of resource constraints. We have been informed that these debts have recently been allocated to an officer within debt recovery team to actively pursue.

Risk

The failure to have in place a policy on the recovery of payroll overpayments may result in inconsistencies in the recovery of such overpayments. It may also result in overpayments not being recovered in a timely manner or in full.

The failure to report on the value of payroll overpayments to senior management may result in management being unaware of the level and cost of overpayments.

The failure to undertake an analysis of the root cause of overpayments may result in trends in the number and nature of overpayments not being identified. This may in turn result in appropriate action not being taken to minimise overpayments and increased time and resources having to be allocated to their recovery.

The failure to retain evidence of agreements reached with current employees for the recovery of payroll overpayments may result in employees failing to honour the agreement leading to difficulty in enforcing such agreements.

The failure to take appropriate follow-up action to recover payroll debts owed by ex-employees and in a timely manner may result in the probability of such debts not being recovered. This may result in unjustified write offs and thus in financial loss to the Council.

The failure to record details of payroll error may result in excessive resources being required to investigate the cause of the overpayment in the event of a query being received.

Findings (4 of 15 continued)

Overpayments

Control Design and Operating Effectiveness

4

Finding rating

Rating

High

Recommendations

Management should ensure that:

- A policy on the recovery of payroll overpayments is developed, approved and circulated to officers within the Payroll Team and other employees.
- Data in respect of the number and value of the overpayments is being reported to senior management as part of the monthly performance reporting process.
- The Debt Recovery Team should be required to report monthly to the Payroll Team on the status of outstanding overpayments from ex-employees.
- A meeting is held with the Debt Recovery Team to determine what follow up action can now be taken to recover debts owed by ex-employees and to assess the likelihood of recovery.
- An analysis of the root cause for the overpayments should be undertaken to identify trends in the reasons for overpayments occurring.
- All relevant supporting documentation in relation to payroll transactions are properly retained including overpayment agreements.
- Payroll Officers are reminded of the need to ensure that details of payroll error leading to an overpayment are clearly recorded.

Findings (4 of 15 continued)

Overpayments

Control Design and Operating Effectiveness

4

Management response

Accepted.

Management will do the following:

1. A policy on the recovery of payroll overpayments is developed, approved and circulated to officers within the Payroll Team and other employees.
2. Data in respect of the number and value of the overpayments will be reported to senior management as part of the monthly performance reporting process together with the root cause.
3. Remind Payroll Officers to retain all paperwork in relation to overpayments and agreements.
4. Follow up discussions with debt recovery teams will ascertain the most effective way to assign responsibility for tracking recovery of overpayments to ex-employees.

Target date: 31 March 2018 (1); 31 January 2018 (2); 22 December 2017 (3); 31 January 2018 (4).

Responsible officer: Chief Finance Officer (1); Principal Payroll Officer (2 and 3); Payroll, Pensions, Recruitment and MI Manager (4)

Finding rating

Rating

High

Findings (5 of 15)

Policies, Procedures, Roles and Responsibilities

Control Design and Operating Effectiveness

5

Finding rating

Rating

Medium

Finding and root cause

Payroll team procedures

Policies and procedures help ensure that management directives are carried out and that necessary actions are taken to address risks to the achievement of the organisation's objectives. Having detailed, up to date and regularly reviewed procedures helps to ensure that consistent and up to date procedures are being followed by all staff.

Whilst we confirmed the availability of One Oracle procedures for the processing of payroll transactions, our review indicated a lack of local formally documented payroll procedures specifically for the use of staff within the Payroll Team. It is understood that management were in the process of developing these procedures as the audit was being undertaken.

Corporate procedures

It was also noted that the corporate 'Pay Policy and Procedures' document for officers generally is out of date and has not been updated to reflect the migration from the previous payroll system (Interact) to One Oracle.

Roles and Responsibilities

Setting out the roles and responsibilities of staff involved in the Payroll function will help to ensure that staff understand their responsibilities, undertake them effectively and can be held accountable for how they carry them out.

Our review indicated that the roles and responsibilities of staff within the Payroll Team have not been formally set out. Whilst some of these responsibilities are set out in job descriptions, they are not sufficiently detailed as they do not take account of the day to day responsibilities and functions of the Team.

Findings (5 of 15 continued)

Policies, Procedures, Roles and Responsibilities

Control Design and Operating Effectiveness

5

Finding rating

Rating

Medium

Risk

A failure to have formally documented payroll procedures in place may result in processes being followed which may be contrary to best practice and may result in inconsistencies in the processing of payroll transactions. There is also a risk to the Payroll's Team's ability to ensure continuity of functions/operations in the event of staff changes and that internal control processes will not be adequately addressed. Processes may also be followed inconsistently.

The failure to regularly review and update policies and procedures may result in staff not fully understanding the processes and controls required when undertaking their responsibilities. It may also lead to errors or gaps in controls.

The failure to set out the roles and responsibilities of payroll staff may result in essential duties not being carried out effectively and in duplication of effort. It may also result in payroll staff not understanding their responsibilities and not being held accountable for how their duties are carried out.

Recommendations

Management should ensure the following:

1. That the documentation of payroll procedures for the use of staff within the Payroll Team is expedited. Once complete, they should be circulated to all relevant staff within the Team and training provided if necessary.
2. All policies and procedures including the Pay Policy and Procedures document should be regularly updated so that they remain relevant and refer to current systems.
3. Set out formally (in writing) the roles and responsibilities of staff within the Payroll Team.

Findings (5 of 15 continued)

Policies, Procedures, Roles and Responsibilities

Control Design and Operating Effectiveness

5

Finding rating

Rating

Medium

Management response

Accepted.

Management will do the following:

1. Identify key procedures that require additional detail and document these for use by Payroll Officers to use in conjunction with the current One Oracle Procedures.
2. Update the Pay Policy to refer to One Oracle rather than the legacy Interact System, and other changes as necessary.
3. Set out formally (in writing) the roles and responsibilities of staff within the Payroll team.

Target date: 31 March 2018 (1, 2, 3)

Responsible officer: Payroll, Pensions, Recruitment and MI Manager (1, 2, 3).

Findings (6 of 15)

Sickness Payments Operating Effectiveness

6

Finding rating

Rating

Medium

Finding and root cause

When a an employee is absent as a result of ill health, the relevant manager is required to update One Oracle with the employee's sickness absence details. The amount of sick pay to which an employee is entitles is dependent on their length of service. The amount of sick pay due should be automatically calculated by One Oracle based on the number of days of sickness absence input on the system and the employee's length of service.

For a sample of five employees who were in receipt of sick pay between September 2016 and September 2017 we carried out tests to confirm whether the payments made to them were correct and in accordance with Council policy. We noted the following:

- In 4/5 (80%) of cases the relevant managers had not promptly updated One Oracle with details of the employees' sickness absence dates (delays ranged from four weeks to nine weeks). Of these four cases, in one case (25%), the relevant manager only updated One Oracle with details of the employee's return to work date as a result of a query raised during the audit.

Risk

The failure by managers to promptly update One Oracle with details of employees' sickness absence dates may result in incorrect payments being made to employees.

Recommendations

All relevant managers across all departments should:

- Be reminded to promptly update One Oracle with details of sickness absence dates for their staff.

Findings (6 of 15 continued)

Sickness Payments

Operating Effectiveness

6

Management response

Accepted.

Management will:

- Remind departmental managers to promptly update One Oracle with details of sickness absence dates for their staff. Effective immediately, where payroll are notified of sickness absence more than two weeks after the return to work date (or one month from the first day of sickness, whichever is the sooner), then the Chief Finance Officer and relevant Strategic Director will formally be notified so that corrective action may be taken as required

Target date: 31 January 2018.

Responsible officer: Payroll, Pensions, Recruitment and MI Manager.

Finding rating

Rating

Medium

Findings (7 of 15)

Amendments to Data on One Oracle and Segregation of Duties

Control Design

7

Finding rating

Rating

Medium

Finding and root cause

Access to payroll data on One Oracle is restricted to officers based on their roles. We confirmed that only Payroll, Pensions and Management Information Team have access to HR and Payroll Control agent which allows them to make amendments to employee pay, grade, overtime etc.

The self service module on One Oracle allows employees to access the system and make changes to certain elements of their own standing data. Only changes to address details and bank details can be made by employees via the self service module. We confirmed through discussions that officers within the Payroll Team also have the ability to amend employee bank details.

Whilst an audit trail of any changes made is maintained on One Oracle, we verified through discussions that due to functionality issues with One Oracle no reports can currently be generated to show changes that have been made by Payroll, Pensions, Management Information Team or changes that have been made by employees via self-service.

Risk

Where Payroll, Pensions and MIT are able to make changes to employee's bank details, this may result in a lack of segregation of duties leading to invalid and inappropriate changes being made.

The failure to generate and review reports showing changes that have been made to payroll data may result in invalid or inappropriate changes being made that this is not identified in a timely manner.

Recommendations

Management should liaise with Cap Gemini to investigate the reasons why the required reports showing changes made to employee's personal information cannot presently be generated.

Findings (7 of 15 continued)

Amendments to Data on One Oracle and Segregation of Duties

Control Design

7

Management response

Accepted.

Management will investigate with Digital Services/Cap Gemini the possibility of creating an audit trail/exception report on bank account changes and to review cost and relevance before proceeding once established if possible or not.

Target date: 31 March 2018

Responsible officer: Payroll, Pensions, Recruitment and MI Manager.

Finding rating

Rating

Medium

Findings (8 of 15)

Emergency Payments

Control Design

8

Finding rating

Rating

Medium

Finding and root cause

Emergency payments are made outside of the payroll as they need to be made quickly and before the next payroll run. Examples of circumstances under which such payments may be made include: payment of termination agreement; payments as a result of payroll errors; leavers payments, and incorrect starter payments. Discussions with the Payroll Team indicated that the circumstances for making emergency payments is not documented and neither has a review been undertaken of the reasons for which emergency payments are currently being made.

For a sample of 20 emergency payments made between January to July 2017 the following was noted:

- In 6/20 (30%) cases the reason for making these payments was due to late or no notification to Payroll. In these instances the manager should have been notified by email of the irregularity.

Risk

The failure to document the circumstances for making emergency payments may result in emergency payments being made for invalid reasons leading to financial loss to the Council as there is an additional cost to making emergency payments.

The failure to undertake a review of the circumstances in which emergency payments are being made may result in emergency payments being made in inappropriate circumstances and that this may not be identified and action not taken to minimise emergency payments.

Recommendations

Management should undertake a review of the reasons for which emergency payments are being made. The circumstances in which emergency payments will be made should be documented, made available to all relevant officers and adhered to.

Staff (including managers) should be reminded of the need to ensure that notifications are sent to the payroll team on a timely basis and within the deadline stated in the payroll timetable for it to be processed in that month's payroll run.

Findings (8 of 15 continued)

Emergency Payments

Control Design

8

Management response

Accepted.

Management will :

1. Undertake a review of the reasons for which emergency payments are being made, and then to act on the findings as appropriate.
2. Remind departmental managers to submit all notifications in line with payroll deadlines. This will include Starters, leavers, overtime and additional payments.

Target date: 31 January 2018.

Responsible officer: Payroll, Pensions, Recruitment and MI Manager.

Finding rating

Rating

Medium

Findings (9 of 15)

HMRC queries

Control Design

9

Finding rating

Rating

Medium

Finding and root cause

When a new starter joins the Council, the tax code should come from form P45 given to them by their former employer. Where the new starter does not have a P45, then the Council should use a Starter Checklist to work out what tax code to use. It has been brought to our attention that a number of new starters have had incorrect tax codes assigned to them. It is understood that the Payroll Team do not maintain a record of the number or type of HMRC queries received from employees.

Risk

The failure to maintain a record of the number and type of HMRC queries received from employees may result in queries of a similar nature continuing to be received and action not taken to reduce or prevent them in future.

Recommendations

Management should maintain a record of the number and type of HMRC related queried received from employees. These will be reviewed on a regular basis to establish the root cause of the queries and take appropriate action to minimise them.

Low priority

Management response

Accepted.

The feasibility and practicality of this will be assessed, bearing in mind that HMRC's principal relationship regarding tax codes is with employees themselves.

Target date: 31 March 2018.

Responsible officer: Payroll, Pensions, Recruitment and MI Manager.

Findings (10 of 15)

Risk Management

Control Design

10

Finding rating

Rating

Medium

Finding and root cause

The Council has a statutory responsibility to have effective arrangements in place for the management of risk. Managers are responsible for managing risks within their own service areas and Directors are responsible for reviewing, on a regular basis, their key risks across their department and within any partnership working and for putting in place arrangements to manage that risk. The Payroll Team do not have a current risk register to identify and effectively manage risks within their service area (most recent is from 2015/16).

Risk

The failure to have in place an up-to-date risk may result in risks not being adequately controlled leading to these risks being realised together with their consequential impact.

Recommendations

Management should:

- Review the current risk register and update as necessary.

Management response

Accepted.

Management will review the current risk register (dated July 2015) and update as necessary.

Target date: 28 February 2018.

Responsible officer: Payroll, Pensions, Recruitment and MI Manager.

Findings (11 of 15)

Authorised Signatory Listing

Operating Effectiveness

11

Finding rating

Rating

Medium

Finding and root cause

Whilst it was noted that the Payroll Team maintains a lists of officers with the authority to approve payroll documents and that it had been updated in July 2017, our review indicated that the list did not include all officers authorised to approve payroll documents and that it also included officers who have left the Council.

Risk

The failure to have an up-to-date list if authorised signatories in place may result in payroll transactions being approved by officers without the appropriate authority.

Recommendations

Management should ensure that the authorised signatory listing is updated to include all officers with the authority to approve payroll transactions and that officers who have left the Council are removed. Management should consider accepting e-mail authorisation and retaining appropriate evidence.

Alternatively all payroll documents should be work flowed to the relevant line manager and/or Head of Service prior to being submitted to the Payroll Team.

Management response

Accepted.

Management will review the current the signatory list to ensure it includes all officers authorised to approve payroll documents and to remove officers who have left the Council.

Target date: 31 January 2018.

Responsible officer: Principal Payroll Officer.

Findings (12 of 15)

Debts Owed by Employees

Control Design and Operating Effectiveness

12

Finding rating

Rating

Medium

Finding and root cause

We established that debts are owed by employees to Brent Council for reasons such as unpaid council tax or overpayment of housing benefit. In these cases, the relevant body instructs the Payroll Team to make deductions from the employee's pay. The Council's Code of Conduct for employees states that employees should work with integrity and *"never, without good cause wilfully withhold any payments you owe to the council such as rent or council tax, or salary/wages overpayment"*.

Details of employees for whom instructions have been received by the Payroll Team from Brent Council in relation to e.g. unpaid council tax or overpayment of housing benefit are not being passed onto the Council's Investigations Team to take appropriate action where employees may have failed to comply with the Council's Code of Conduct.

Risk

The failure to refer details of employees with outstanding debts to the Council's Audit and Investigations Team may result in appropriate action not being taken where employees fail to comply with the Council's Code of Conduct.

Recommendations

Management should ensure that details of employees with outstanding debts to Brent Council are passed onto the Council's Audit and Investigations Team.

Management response

Accepted.

The principle of the recommendation is accepted and a policy will be developed to cover follow up action.

Target date: 31 March 2018.

Responsible officer: Chief Finance Officer.

Findings (13 of 15)

Leavers

Operating Effectiveness

13

Finding rating

Rating

Low

Finding and root cause

All managers are required to complete an electronic leavers form (available on the intranet) when an officer's employment with the Council ceases. All leavers forms should be submitted to the Payroll Team as soon as notice is given that an employee is leaving the Council. Where there are any adjustments to be made to the employee's final pay, (for example outstanding annual leave) then this should be indicated on the leavers form. Following receipt of the leavers form, a Payroll Officer should upload the details onto One Oracle where the system should automatically calculate the final pay amount for the employee. The Payroll Officer is also required to set on One Oracle a final process date which should be no more than three months after the employee's termination date. Although leavers should not be paid a salary after their leave date, there are circumstances in which some monies may have to be paid to, or recovered from, leavers after they have ceased their employment (e.g. if an employee has been under- or overpaid in respect of their final salary calculation). No further payments can be made to the leaver after the set Final Process date. It is understood that the Payroll Officer is required to make a judgement on the length of the final process date to be set on One Oracle based on the circumstances of the leaver, for example, redundancy payments, adjustments to be made. Once the leaver has been processed on One Oracle, HMRC are required to be promptly notified of the leaver via Real Time Information (RTI).

For a sample of 20 leavers who left the employment of the Council (15 for the Council and five for BHP as was) between July 2016 and July 2017 the following exceptions were noted:

- Whilst leavers forms were found for all of the sample, in 3/20 (15%) of cases the forms were submitted to the Payroll Team after the employee's termination date. For two of these exceptions, it is acknowledged that the terminations were as a result of employees being dismissed and therefore it would have been difficult for leavers forms to be submitted prior to the employee's termination date.
- Whilst we confirmed that in a 20/20 (100%) cases that no payments were made to any of the former employees after the Final Process date, it is in our view that three months is excessive for One Oracle to be left open for payments to be made to a leaver.
- Whilst HMRC was promptly notified of the leaver for all the sample, in 1/20 (5%) of case, the leaving date on the RTI data submitted to HMRC was incorrect to that recorded on One Oracle. The MIT were unable to explain the anomaly.

Findings (13 of 15 continued)

Leavers

Operating Effectiveness

13

Finding rating

Rating

Low

Risk

The failure to promptly submit leavers' forms to the Payroll Team may result in payments continuing to be made to employees who have left the organisation resulting in debts which may be difficult to recover and thus in possible financial loss to the Council.

A failure to reduce the Final Process date from three months may result in invalid or inappropriate payments being made to employees leading to overpayment which may be difficult to recover.

Where notification of a leaver to HMRC contains an incorrect leaving date, this may result in incorrect tax and NI deductions for the ex-employee.

Recommendations

Management should:

1. Remind departmental managers to submit leavers' forms promptly to the Payroll Team (ideally as soon as the employee hands in their letter of resignation where relevant).
2. Review the current arrangements in respect of the Final Process date to determine whether it is appropriate for this to be determined by individual officers and whether a maximum period of 3 months following the employee's leaving date is really necessary.
3. Request that the Management Information Team investigate the reasons for the anomaly identified with regards to incorrect leaving date on the RTI submitted to HMRC and submit an adjustment to HMRC as appropriate.

Findings (13 of 15 continued)

Leavers

Operating Effectiveness

13

Finding rating

Rating

Low

Management response

1 and 3 - Accepted.

2 - Not accepted.

Management will do the following:

1. Remind departmental managers to submit leavers' forms promptly to the Payroll Team (ideally as soon as the employee hands in their letter of resignation where relevant). In addition, effective immediately, each case of an overpayment caused by late notification to payroll of an employee leaving will be reported directly to the Chief Finance Officer and the relevant Strategic Director, so that corrective action may be taken as required.
2. The three month final process date is considered appropriate to allow for such amendments as may arise from time to time, and as no exceptions were identified in the audit sample no changes to this are proposed at the current time.
3. The MI team will investigate the reasons for the anomaly with regards to the incorrect leaving date on the RTI.

Target date: 31 January 2018.

Responsible officer: Payroll, Pensions, Recruitment and MI Manager (1 and 3).

Findings (14 of 15)

Gross to Net Ratio Reports

Operating Effectiveness

14

Finding rating

Rating

Low

Finding and root cause

The Payroll Team run a Gross to Net Ratio Report on a monthly basis which shows the total deductions which have been processed for that month. These reports are reviewed by a payroll officer and individual line item checked is annotated with a tick. We reviewed a sample of reports for a three month period (May to July 2017) and confirmed that whilst the report had been run for both the Council and BHP, not all items had been ticked to confirm that they had been checked and neither were the reports signed off as evidence of the reports having been reviewed.

Risk

The failure to evidence that all items had been checked on the Gross to Net Ratio Reports and failure to have them signed off may result in the Payroll Team being unable to demonstrate that the reports have been reviewed and that appropriate checks have been undertaken to ensure that deductions are correct.

Recommendations

Management will ensure that Payroll Officers are required to evidence that all items have been checked on the Gross to Net Ratio Reports and that the reports are signed off as evidence of the review.

Management response

Accepted.

Payroll officers will be reminded of the need to evidence checks.

Target date: 31 January 2018.

Responsible officer: Principal Payroll Officer.

Findings (15 of 15)

Automation of Forms

Control Design and Operating Effectiveness

15

Finding rating

Rating

Advisory

Finding and root cause

Our review indicated that manual forms are being used for some requests sent to the Payroll Team, for example, overtime claim forms, acting up/honoraria payments, application for season ticket loans. These requests are required to be approved by the relevant line manager and/or HR Director prior to being sent to the Payroll Team for processing. Management should give consideration to automating the process on One Oracle.

Risk

N/A – advisory

Recommendations

N/A - advisory

Prior year open findings

Retention of Documentation and Audit Trails

1

Original Recommendation

Management should ensure that all relevant supporting documentation in relation to payroll transactions are properly retained. It is suggested that in future the relevant documentation be retained for audit purposes prior to being passed on for scanning. Documentary evidence could not be located as follows:

- Copies of starter forms;
- Copies of leavers forms;
- Supporting documentation in relation to voluntary deductions;
- Supporting documentation in relation to variations and amendments to pay;
- Supporting documentation in relation to overtime payments.

Status update

Partly Implemented

Action plan

See Finding 4.

Prior year open findings

Procedures

2

Original Recommendation

Management should develop formally documented procedures for the use of staff within the Payroll Team. Once implemented, they should be circulated to all relevant staff within the Team.

Status update

Partly Implemented.

Action plan

See Finding 5.

Prior year open findings

Update One Oracle of Sickness Absence Dates

3

Original Recommendation

Management should ensure that all Council and BHP Managers are reminded of the need to ensure that One Oracle is promptly updated with sickness absence dates for their staff.

Status update

Partly Implemented.

Action plan

See Finding 6.

Prior year open findings

Reconciliation of BACS tape to BACS run

4

Original Recommendation

Management should ensure that the Payroll Team documents the reconciliation of the BACS tape to the BACS run report.

Status update

Not tested as part of the audit.

Action plan

N/A

Prior year open findings

Gross to Net Ratio Reports

5

Original Recommendation

Management should ensure that Payroll Officers are required to sign off the Gross to Net Ratio Reports as evidence of the reports having been reviewed.

Status update

Not Implemented.

Action plan

See Finding 14.

Appendix A: Basis of our classifications

Individual finding ratings

Critical

A finding that could have a:

- **Critical** impact on operational performance; or
- **Critical** monetary or financial statement impact; or
- **Critical** breach in laws and regulations that could result in material fines or consequences; or
- **Critical** impact on the reputation or brand of the organisation which could threaten its future viability.

High

A finding that could have a:

- **Significant** impact on operational performance; or
- **Significant** monetary or financial statement impact; or
- **Significant** breach in laws and regulations resulting in significant fines and consequences; or
- **Significant** impact on the reputation or brand of the organisation.

Medium

A finding that could have a:

- **Moderate** impact on operational; or
- **Moderate** monetary or financial statement impact; or
- **Moderate** breach in laws and regulations resulting in fines and consequences; or
- **Moderate** impact on the reputation or brand of the organisation.

Appendix A: Basis of our classifications

Individual finding ratings

Low

A finding that could have a:

- **Minor** impact on the organisation's operational performance; or
- **Minor** monetary or financial statement impact; or
- **Minor** breach in laws and regulations with limited consequences; or
- **Minor** impact on the reputation of the organisation.

Advisory

A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Appendix B: Assurance Ratings

Definition of Assurance Rating	Level	Definition
	Substantial	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
	Reasonable	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.
	Limited	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
	None	Control processes are generally weak leaving the processes / systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes / systems open to error or abuse.

Appendix B: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken this review subject to the limitations outlined below:

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment 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

Our assessment of controls is for the period specified only. 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 changes; 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 endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we 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.