

Payroll

City of York Council

Internal Audit Report 2013/14

Business Unit: Customer & Business Support Services
Responsible Officer: Assistant Director, Customers and Employees
Service Manager: Head of Business HR
Date Issued: 16 July 2014
Status: Final
Reference: 10200/005.bf

	P3	P2	P1
Findings	1	1	0
Overall Audit Opinion	Substantial Assurance		

Summary and Overall Conclusions

Introduction

Payroll are responsible for processing salaries, calculating deductions, processing timesheets and ensuring that the service complies with all relevant statutory rules and regulations.

The council has approximately 7500 employees and approximate employee expenditure of £165m per annum. The payroll team is also responsible for processing the payrolls of 13 external bodies.

Objectives and Scope of the Audit

The purpose of the audit was to provide assurance to management that procedures and controls within the system will ensure that:

- payments are only made to genuine staff in respect of actual hours worked, or approved leave, and are accurate;
- adjustments to pay are calculated and implemented correctly;
- deductions made and payments and information sent to external bodies are valid and accurate;
- establishment control processes are in place and are robust;
- payroll transactions are correctly accounted for within the payroll system and general ledger;
- all payments are processed in accordance with the council's Financial Regulations and other relevant legislation and guidance;
- relevant, accurate and timely performance information is produced and appropriate action is taken where necessary.

The audit included review of procedures for provision of Real Time Information to HMRC.

Key Findings

It was found that there were significant backlogs in the scanning and indexing of payroll documentation, and as a result a high volume of documentation dating back a number of months was not easily accessible during the audit.

Additionally, further review of the deviance checking process is necessary in order to increase efficiency and more effectively target key areas of error.

Detailed testing was undertaken on overtime payments, in relation to employees on craft terms and conditions in particular. This identified that there are no issues with input or payment errors; payments made to employees match the amounts claimed and authorised. However, a number of issues with the level of overtime being claimed and the way in which this is allocated and approved were identified. A separate report,

summarising these findings and suggesting further work to be undertaken, will be issued to the Director of Customer and Business Support Services.

Overall Conclusions

It was found that the arrangements for managing risk were good with few weaknesses identified. An effective control environment is in operation, but there is scope for further improvement in the areas identified. Our overall opinion of the controls within the system at the time of the audit was that they provided Substantial Assurance

Area Reviewed: Scanning of payroll documentation

Severity
Probability



1 Issue/ Control Weakness Risk

Backlog in scanning of payroll documents
Loss of or damage to confidential records. Inefficiency in locating supporting documentation. Wider impact on other HR processes including attendance management.

Findings

For all areas tested during the audit, where source documents could be viewed electronically or the hard copies located, very few issues were identified with the input of payroll information. However, in almost all areas there were a significant number of documents which had not been scanned onto employee personal files, including almost all documentation processed since August 2013. This was the case across all types of documents and there appear to be significant delays (6+ months) between processing and scanning/indexing.

A large number of documents are retained in hard copy within the HR business centre, and long delays in scanning increase the risk of loss or damage to records, as well as reducing efficiency in the event source documents need to be referred to. This issue has been identified in other audit work undertaken this year and there are wider implications for other processes including attendance management (where fit notes and self certification forms have not been scanned to HR files) and investigations (where timesheets have not been available to view). Therefore the action agreed here will address not just the impact on the payroll system but on a number of other council systems and processes.

1.1 Management Response and Agreed Action

Every effort is being made to reduce the volume outstanding scanning and indexing, however at this time we have no dedicated resource available to focus on this task. In the short term we will review the current way of working with the aim to introduce a more effective process for scanning and indexing.

In the longer term we will be working with the Business Support Unit and ICT to look at introducing working from electronic documents that would be indexed directly onto personal files once processed on the system.

Priority	2
Responsible Officer	XXXXXXXXXXXXXX
Timescale	April 2015

Area Reviewed: Deviance checking

Severity
Probability



2	Issue/ Control Weakness	Risk
	Deviance checking is resource intensive and checks are not currently completed within the time available	Deviance checking is inefficient and places an unmanageable strain on resources.

Findings

Deviance checking was found to be a worthwhile process: in the first three months of 2014, checks identified and corrected 62 errors with a value of approximately £13,000. However, it was also found that the total number of cases identified for checking on the variance reports was unmanageable given the amount of time required and the current level of staffing resource available – an average of 47% of variance cases in the above months were not checked

Initial analysis of error rates and values suggested that setting threshold variance values for checking of deviance information may reduce the amount of resource required for checking of individual cases, without significantly increasing the risk of material errors in payment.

This area would benefit from more detailed analysis of deviance checks over a period of several months, allowing summary information to be produced which could inform decisions on a potential reduction in the amount of checking, or areas where more targeted checking for the most common errors could be undertaken.

2.1 Agreed Action

Internal audit will undertake further detailed analysis of deviance checking results. Following the detailed analysis, any changes to the current deviance process that are required to increase efficiency and target key areas of error will be agreed.

Priority	3
Responsible Officer	XXXXXXXXXXXXXX
Timescale	July 2014

Audit Opinions and Priorities for Actions

Audit Opinions	
<p>Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.</p> <p>Our overall audit opinion is based on 5 grades of opinion, as set out below.</p>	
Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Moderate assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions	
Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.