

Bolsover, Chesterfield and North East Derbyshire District Councils'

Internal Audit Consortium

Internal Audit Report

Authority:	Chesterfield Borough Council
Subject:	Payroll System
Date of Issue:	20th February 2017

Report Distribution:	Northern Site Director (Arvato Public Sector)/ Payroll and System Development Manager (Arvato)/ Customers, Commissioning + Change Manager CBC/ CBC Client Officer
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INTERNAL AUDIT REPORT PAYROLL SYSTEM

Introduction

An internal audit of the controls and procedures relating to the salaries and wages payroll system has recently been undertaken. There are approximately 689 monthly paid and 221 weekly paid employees within the Resource Link system. Payroll are currently in the process of migrating all weekly paid employees to monthly pay It's aimed to complete this by the start of 2017/18.

Scope and Objectives

The primary objectives of the review were to: -

- Confirm that all necessary key controls are operating effectively;
- Confirm the accuracy of payments to employees;
- Confirm that the levels of internal checks are adequate and operating;
- Confirm that previously agreed audit recommendations have been implemented.

The audit involved ensuring that: -

- starters / leavers are supported by official documentation signed by an authorised signatory
- all variations to pay / deductions are supported by appropriately authorised documentation;
- Payments to third parties in particular tax/NI and superannuation are paid within the eligible timescales, including the Real Time Information submission to HMRC
- Auto enrolment of new employees and declaration of currently opted out employees
- BAC's payments reconciled to net pay totals;
- weekly wage payments are supported by appropriately authorised documentation;
- accuracy of postings to the Agresso Financial Management System;
- System security.

The scope of the audit, did not include

- an in depth examination of unsocial hour payments
- bonus payments
- DCC year-end superannuation return and associated testing

Conclusion

The conclusion of the audit was that the reliability of the internal controls operating in the system reviewed was assessed as **Marginal** (A number of areas have been identified for improvement.). This has primarily been given based on the amount of inaccurate payments identified during audit testing

- 25% of new starters tested - initial pay calculation was incorrect
- 22% of sickness records examined had SSP paid incorrectly
- 13% of sickness records examined had OSP paid incorrectly
- 10% of overtime claims examined paid incorrectly
- 8% of pay changes and other payments tested paid incorrectly

- 44% of sickness records examined had sickness incorrectly recorded
- Evidence of third party deductions not being paid correctly nor being reconciled to Agresso

It is noted that the increase in the level of inaccuracies identified during the course of the audit can be attributed to the loss of key members of the payroll team at crucial times of the payroll calendar and with limited resilience available within Arvato to support the payroll team. Whilst the payroll team is now back at full complement, it would be prudent to ensure that there is sufficient support within the Arvato structure to prevent a reoccurrence should a similar situation arise.

Areas reviewed during the audit are detailed in the following report

Findings and Recommendations

Previous audit recommendations

1. The previous audit consisted of 2 recommendations, 1 of which has been adequately addressed.
2. As evidenced from the testing of employee sickness the issue of recording sickness on RL multi attendance has improved with only minor variances remaining.
3. In the previous audit it was agreed that a system of double checking manual sickness calculations would be introduced when the Service is adequately staffed. It was evidenced during testing of employee sickness that these checks are currently not being completed.
4. Discussion with the payroll manager revealed that 100% checks have been re-introduced on sickness and have been completed since November 2016.

Recommendations	
R1	As was recommended in the previous audit it is essential that internal checks on manual sickness calculations are completed to ensure an acceptable level of accuracy. (Priority: High)

Internal Check

5. The Payroll Manager reviews the payroll processing control checklist each pay cycle ensuring all processes including exception reports have been obtained/reviewed prior to the payroll being signed off.
6. The Checklist is modified to reflect changes to payroll processes/legislation and includes the appropriate processes for RTI and Auto enrolment.
7. The primary internal checks that were introduced with resource link are occurring:
 - **Monthly Employees:** Examination of the 'Pay run calculate exceptions' report, (This includes details of employees whose monthly net pay exceeds £2600 and when the employees monthly gross pay exceeds

- £5750, Detail of employees who are not yet 65 but whose NI Category is 'C', employees of sick pay or employees suspended from payroll)
- **Weekly Employees:** Cross checking is completed between the details on pay advice to timesheets to ensure agreement in addition to examination of the 'Pay run calculate exceptions' (with details of employees who whose weekly net pay exceeds £625 and when the employees weekly gross pay exceeds £1150, Detail of employees who are not yet 65 but whose NI Category is 'C', employees of sick pay or employees suspended from payroll),

8. Examination of the 'Pay run calculate exceptions' reports revealed that the following reports sampled had been reviewed with comments being recorded or with tick to confirm that the message was reviewed and the payment was correct

Monthly Reports Examined	Weekly Reports Examined
Period 5 – August 2016	Week 27 – 06/10/2016
Period 6 – September 2016	Week 28 – 13/10/2016
Period 7 – October	Week 29 – 20/10/2016
	Week 30 – 27/10/2016

9. The net pay comparison reports (monthly and weekly) are being examined and signed off by the Payroll Manager or Senior Payroll Assistant. The examination is currently restricted to the highest 5 negative and positive variances. This should be reviewed when all weekly employees have been transferred to monthly due to the increase in variable payments from previous weekly employees

This report compares the net pay from the current period and the previous period,
See R2

10. The report to identify basic pay changes/basic hourly rate changes (Pay elements 1000 & 1001) that would not be identified on the exception reports is obtained and examined. The Payroll manager is signing this report to confirm completion. This report is not being completed for weekly paid employees due to the relevant codes no longer being utilised.

11. It was evidenced that nil pay reports are being obtained and examined. The relevant section is contacted when an employee has had nil pay for 6 months to confirm retention on the payroll system.

12. Payroll exception reports received from BACS detailing employees whose net pay exceeds the predetermined parameters (See para. 8) are being obtained and examined

13. The car mileage calculated report is obtained for each monthly cycle and examined in comparison to the car mileage claims

14. BACS submission documents are obtained and confirmed to the pay run summary analysis

15. All reports are filed with the relevant pay cycle documentation

16. A review on the BACS limits is currently being completed in line with the Weekly to monthly pay changes, this is due to advances being issued when the employee switches from weekly to monthly pay cycles
17. Supplemental runs are kept to a minimum, with the Payroll Manager in conjunction with the Personnel & Financial Services Manager's approval being sought prior to the run occurring. No supplemental runs have occurred since the last audit.
18. A control sheet is maintained and completed for each payment run. This includes all of the required tasks related to the payment runs including obtaining relevant reports and complete RTI submissions. Examination of the control sheets identifies that these are being completed.
19. An electronic record of incorrect payments has been established, and it was confirmed is being periodically reviewed by the Personnel & Financial Services Manager.
20. A review of records of over and underpayments demonstrated that this is not a comprehensive list of incorrect payments as four instances that audit are aware of were not recorded, these were brought to the Payroll Manager's attention at the time of the audit.

Recommendations	
R2	A review of the net pay differences process should be undertaken following the migration of weekly paid employees to monthly pay. (Priority: Low)
R3	In order to ensure accuracy of KPI's reported so that lessons can be learnt/training provided, it is essential that the payroll under and overs record is fully updated as appropriate (Priority: High)

Parameters

21. Details of all parameter amendments are being retained with one member of staff inputting the relevant details another confirming the accuracy of the detail/input.
22. A review of the screenshots of the updated parameters was attempted however due to the size and resolution of the screenshots held as record the parameters were not legible, after a conversation with the payroll manager it was confirmed that these were double checked on the resource link system at the time of checking and signed to confirmed this. Since these were completed the ICT Department has provided a "snipping tool" to allow clear screenshots to be taken in future
23. As part of the audit a manual calculation of net pay was undertaken for a sample of employees with no issues arising.

Sickness

24. The resource link system is not being used to calculate sick pay consequently payroll staff are manually calculating and inputting sickness from BT3 forms into RL, with details being recorded on green sick cards
25. During the audit it was identified that the monitoring sheets introduced to ensure all departments BT3 sickness returns were submitted is currently not being completed.
26. Since the previous audit the recording of sickness absence on RL has improved with the majority of sickness absences being input correctly by the relevant departments
27. Examination of 15 monthly sickness absences identified multiple errors with sickness calculations and payments:
- 8 (53%) Recording errors on sick cards
 - 4 (26%) instances of SSP not being calculated correctly
 - 2 (13%) instances of OSP not being calculated correctly
 - 1 (6%) Sick card that currently cannot be found

The Payroll Department has been made aware and undertook appropriate action in respect of the above anomalies during the course of the audit. **See R1**

28. During the testing of sickness samples it was evidenced that a sick card was identified as incorrect within the 2014/15 audit and included on a query at the time however had still not been corrected. This has been corrected during this audit.
29. Examination of 12 Weekly sickness absences identified the following:
- 4 (33%) Recording errors on sick cards
 - 2 (16%) instances where SSP was paid incorrectly

The Payroll Department has been made aware and undertook appropriate action in respect of the above anomalies during the course of the audit. **See R1**

30. Due to the continued level of errors is it essential that the process of checking sickness calculations is resumed. **See R1**

Recommendations	
R4	The BT3 monitoring exercise should be resumed and should be comprehensively checked to ensure all BT3s are returned adequately (Priority: Medium)

Deductions

31. It was confirmed that National insurance and Tax Deductions for the periods 6 and 7 and for the weeks 27 to 30 had been paid promptly to the Inland Revenue inclusive of prompt and timely RTI Submissions.
32. Superannuation deductions in respect of periods 6 and 7 and for the weeks 27 to 30 were confirmed as being paid accurately and promptly

33. For a sample of 5 other third party deductions (Ashgate hospice, Westfield Health, Unison, AVC Prudential, GMB) the following was identified:
- 1 late payment was made to AVC-Prudential, this also included an overpayment
 - 1 payment for Ashgate Hospice in October monthly deductions was not paid at the time of the audit.

The payroll department have been made aware and are undertaking appropriate action to correct these anomalies within the next payment dates.

It was confirmed by the payroll manager that the periodic reconciliations between the deductions monitoring spreadsheets and Agresso are not being completed.

Recommendations	
R5	A regular reconciliation of payments should be completed to ensure all deductions are being paid correctly and in a timely matter. (Priority: High)

Posting to Agresso

34. For each pay cycle an interface occurs with the Agresso financial management system. Accountancy in liaison with the payroll manager ensures both systems reconcile.
35. It was confirmed that there is a nil balance on the payroll suspense accounts (3077/3076)
36. It was confirmed that Accountancy are reviewing the balances on the debtors salaries and wages advance codes (annually)
37. Examination of costing for 20 weekly paid and 20 monthly paid employee revealed that all employees were costed to the relevant departments

Audit Testing

38. A sample of 16 new starters was selected from a total of 75 new starters this year (20% sample), examination of these revealed the following:
- 4 (25%) New starters were not paid correctly in their initial pay due to incorrect calculations
 - 1 of these would have continued to receive £2,525 overpayment per annum.
 - 1 New starter was paid below their standard hourly wage
 - 3 (19%) New starters forms were incorrectly completed

The Payroll Department has been made aware and undertook appropriate action in respect of the above anomalies during the course of the audit. In July 2016 a checklist was created by the payroll manager for all employees to complete for new starters with the aim to reducing payment errors.

39. Examination of 12 Leavers forms revealed no issues

40. Examination of 20 overtime claims revealed the following:

- 2 (10%) overtime claims were not paid correctly
 - 1 (5%) instance where the overtime was calculated incorrectly
 - 1 (5%) instance where the employees overtime was not paid in the payment run

The Payroll Department has been made aware and undertook appropriate action in respect of the above anomalies during the course of the audit

41. Examination of 79 weekly timesheets evidenced the following:

- 1 (1%) timesheet was not signed by the employee
- 1 (1%) employee was paid for 4 hours were they have only worked 3 hours, this was due to the department miscalculation.
- 1 (1%) employee was paid below their standard hourly wage due to a pay rate correction on the timesheet

The Payroll Department has been made aware and undertook appropriate action in respect of the above anomalies during the course of the audit

42. Testing completed on 18 pay changes and 18 other payments identified the following:

- Overall 3 (8%) instance of incorrect payments were identified
 - 1 (6%) change of post was not correctly updated resulting in underpayment
 - 1 (6%) extension was not correctly updated resulting in underpayment
 - In addition to these due to ambiguity within the HR letter 1 employee was paid incorrectly. The employee queried the pay with payroll department however the correct amount should have been clarified with the HR department.

The Payroll Department has been made aware and undertook appropriate action in respect of the above anomalies during the course of the audit

43. Examination of the 10 car expenses identified 2 (20%) minor calculation errors had occurred within the relevant department and that payroll had made the correct requested payments however it was evidenced that some expense forms had not been signed by an authorised signatory

- 1 expense claim authorised by B. Franklin (not an authorised signatory)

Consequently the Internal Audit Manager is to send an email to all service managers to clarify the importance of checking car expense claims to confirm accuracy prior to submission to Payroll.

44. It was identified that errors which have resulted in over/under payments identified during the audit were being incorporated within the overs/unders record which is used to calculate the departments KPIs

45. Where overpayments are made to employees it is the informal policy within the council that all overpayments are to be repaid

Recommendations	
R6	It should be ensured that overrides to employees pay rate should be noted to confirm that contact has been made with the relevant officer. (Priority: Medium)
R7	Consideration should be given to HR, Payroll and CBC convening to formalise the overpayments policy (Priority: Low)
R8	It should be ensured that all requests for payments are signed an by authorised signatory (Priority: Medium)
R9	A system of management checks should be implemented to highlight any potential training requirements within the payroll section (Priority: Medium)

System Security/Enhancements/Documentation

46. It is noted that the responsibility for controlling access levels to the Resource Link system is held within the HR department
47. Examination of the current user list confirmed that a review has been undertaken by the payroll manager.
48. It was evidenced that 3 users from Sefton council have remote access to the Resource Link system; this is to ensure the payroll service can function in case of emergencies with the chesterfield employees.
49. A minimum set of requirements is set for user passwords for access to Resource Link, This is adequately secure in comparison to the council's password policy, this includes forcing a password change every 30 days.
50. A Payroll Manual has been produced and is held on the local network. This is kept as a live document which gets updated on a regular basis when changes occur within the system.

Key Performance Indicators

51. The following KPI's were examined and results confirmed as accurate to supporting records:
- **HR1** – Payroll payments made on time, when all relevant paperwork as data has been submitted to payroll by the agreed deadlines
 - **HR2** – Expenses calculated and paid on time , when all relevant paperwork and data has been submitted to payroll by the agreed deadlines
 - **HR5** – Statutory deductions, payments and returns made on time
52. Where incorrect payments are failing to be recorded on the over/under payments monitoring spreadsheet the KPIs being reported based on this data would therefore be reported incorrect. **See R3**

Auto Enrolment

53. Chesterfield Borough Council implemented automatic enrolment for the LGPS on 1st October 2013.

54. It is required that every 3 years a re-enrolment process is completed, this includes reassessing eligible job holders. The Cyclical Auto Re-enrolment Date (CARD) for CBC is 1st November 2016.
55. The council has taken the decision not to reassess eligible employees who have opted out within the last year.
56. Testing of eligible job holders was conducted and it was confirmed that all opt out documentation was renewed or was originally submitted within the last year.
57. It was identified that the Payroll Manager completed the re-declaration to the pension's regulator to confirm that the re-enrolment has been completed on 16th December 2016.

Acknowledgement

58. The assistance of Payroll staff during the audit is gratefully acknowledged

Internal Audit Report – Implementation Schedule

Report Title: Payroll System	Report Date: 20 th February 2017
	Response Due By Date: 13 th March 2017

Recommendations	Priority (High, Medium , Low)	Agreed	To be Implemented By:		Disagr eed	Further Discussion Required	Comments
			Officer	Date			
R1 As was recommended in the previous audit it is essential that internal checks on manual sickness calculations are completed to ensure an acceptable level of accuracy.	High	Yes	KG	Jan17			Training commenced with new payroll team Oct16 onwards; mthly checklist also amended to accommodate current sickness process to assist payroll team. It should be noted responsibility also lies with CBC to accurately input sickness to RsLink and to record on BT3 returns for Payroll to process in line with agreed Payroll Timetable. Monthly Payroll Processing Checklist developed to

Recommendations	Priority (High, Medium , Low)	Agreed	To be Implemented By:		Disagreed	Further Discussion Required	Comments
			Officer	Date			
							incorporate 5 step process for payroll team Jul16.
R2	A review of the net pay differences process should be undertaken following the migration of weekly paid employees to monthly pay.	Low	Yes	KG	Mar17		Amendment to mthly net pay report actioned by Payroll provider 24.02.17. BACs limit review performed by KG 28.02.17; agreed by client 28.02.17 & with Accounts to instruct Lloyds to amend 28.02.17. Complete.
R3	In order to ensure accuracy of KPI's reported, it is essential that the payroll under and overs record is fully updated as appropriate	High	Yes	KG	Jan17		3 in question were missed in error May16 (at height of staff shortages within Payroll & result of inaccurate information to Payroll dept). Existing process once payroll notified of over/underpayment is payroll dept

Recommendations		Priority (High, Medium , Low)	Agreed	To be Implemented By:		Disagreed	Further Discussion Required	Comments
				Officer	Date			
								will manually calculate difference, & write to individual concerned; if no response after 2 wks reminder letter sent; after further 2 wks 3 rd & final letter sent. If left, debt then sent to Revenues to recover; if still employed Manager asked to discuss direct with individual.
R4	The BT3 monitoring exercise should be resumed and should be comprehensively checked to ensure all BT3s are returned adequately	Medium	Yes	KG	Jan17			Omission now corrected to verify return received from relevant CBC dept in line with deadlines. Ownership should also lie with CBC to ensure cut off dates achieved.
R5	A regular reconciliation of payments should be completed to ensure all deductions are being paid correctly and	High	Yes	MR	Awaiting training from			Training from Accounts dept requested on

Recommendations		Priority (High, Medium , Low)	Agreed	To be Implemented By:		Disagreed	Further Discussion Required	Comments
				Officer	Date			
	in a timely matter.				Accounts			several occasions since 26.07.16; overview provided to Snr by Internal Audit Feb17; latest update 28.02.17 training to occur hopefully before financial year end. On-going.
R6	It should be ensured that overrides to employees pay rate should be noted to confirm that contact has been made with the relevant officer.	Medium	Yes	KG	Jan17			Example occurred Oct16; payroll team now aware written confirmation required in addition to any verbal confirmation from CBC. It is noted some of these errors should have been addressed by CBC Admin / Manager before authorisation to payroll. Complete.
R7	Consideration should be given to HR, Payroll and CBC convening to formalise the overpayments policy	Low	?				Not sure what further is	Payroll dept already has recovery for

Recommendations		Priority (High, Medium , Low)	Agreed	To be Implemented By:		Disagreed	Further Discussion Required	Comments
				Officer	Date			
							required from Payroll?	overpayments process in place. HR have incorporated a recovery paragraph within Contracts within last year. HR to draft overpayments policy for approval by CBC.
R8	It should be ensured that all requests for payments are signed an by authorised signatory	Medium	Yes	KG	Jan17			It is noted that CBC must also update their authorised signatories list which is dated. Payroll endeavour to check a signature accompanies payments, however have restricted resource to verify a sole signature is correct to a paper copy only held in Admin Office. It

Recommendations		Priority (High, Medium , Low)	Agreed	To be Implemented By:		Disagreed	Further Discussion Required	Comments
				Officer	Date			
								should also be responsibility of CBC to ensure employee signs documentation prior to authorising payments for payroll. Complete. CBC to provide complete list of electronic signatures for checking purposes.
R9	A system of management checks should be implemented to highlight any potential training requirements within the payroll section	Medium	Yes	KG	Jan17			Training of new payroll team commenced Aug16 onwards, with regular mthly team meetings to review processes & reach stability with backups within the payroll team again, after key staff loses from Aug 2015 onwards. Payroll Manager

Recommendations	Priority (High, Medium , Low)	Agreed	To be Implemented By:		Disagr eed	Further Discussion Required	Comments
			Officer	Date			
							constantly reviewing training needs of relatively new developing payroll team; and responsible for signing off payroll before transmission.

Please tick the appropriate response (✓) and give comments for all recommendations not agreed.

Signed Head of Service:	<i>W. W. W. W.</i>	Date:	13.3.2017
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