



# CLACKMANNANSHIRE COUNCIL

## INTERNAL AUDIT PAYROLL - ASSESSORS

### Issued To:-

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Annual Plan	2008-09
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Date Report Issued	November 2009
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## **- EXECUTIVE SUMMARY -**

### **1. INTRODUCTION**

- 1.1 This report details the recommendations arising from the Internal Audit review in relation to payroll processes at the Assessors. The system was audited as part of the Annual Internal Audit Plan for 2008-09, which was approved by Scrutiny Committee on 27 March 2008.
- 1.2 Responsibility for a sound internal control environment rest with management. The role of Internal Audit is to ensure that such controls exist and are being adhered to at all times. The audit work undertaken is designed so that material irregularity has a reasonable probability of being uncovered, however collusive fraud can override even sound control systems.
- 1.3 The matters raised in this report are only those which came to the attention of the Internal Audit Officer during the course of the Internal Audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made.

### **2. SCOPE AND OBJECTIVES**

- 2.1 The objective of the audit was to provide assurance that the controls exist and are in operation in relation to payroll process involving Assessors, as follows:
- There is a formal Payroll Policy, which has been approved by the Council, together with adequate procedural guidance and training for staff,
  - The core personnel and salary data is accurate and complete with changes to core data being duly authorised,
  - All claims and allowances are accurate, complete and processed on a timely basis,
  - Deductions are accurate, complete, processed and paid to third parties on a timely basis,
  - Payroll outputs are accurate and complete with payment being appropriately authorised,
  - Employer taxation administration requirements by HMRC are complied with,
  - Only authorised staff have access to the payroll system and data is held securely.
- 2.2 The scope of the audit did not include review of the whole Council payroll processes, only those involving the processing and payment of the Assessor's payroll. Treasury arrangements relating to payroll processes were out of the scope of this audit.
- 2.3 The seven control objectives were tested and the adequacy of the internal controls was established. These internal controls can only provide reasonable and not absolute assurance against misstatement or loss. A

definition of the assurance assessments is provided in Appendix A. The control objectives were assessed as follows:-

<b>Assurance</b>	<b>Control Objective</b>
Significant Assurance	4
Reasonable Assurance	2
Limited Assurance	1
No assurance	-

### **3. SYSTEM OVERVIEW AND AUDIT OPINION**

- 3.1 There are reasonable controls in place in relation to the payroll processes at the service level. There is segregation of duties and staff are aware of their duties and responsibilities regarding payroll processes. There is however some non compliance with security and retention of information in relation to Data Protection Act.
- 3.2 From the testing undertaken, the following good practices were identified.
- There is a formal policy, approved by the Council and procedural guidance for staff,
  - Staff, both in the payroll section and at the Assessors are aware of their duties and responsibilities,
  - Payments and changes to the main personnel data are adequately checked and authorised, with the necessary evidence agreed,
  - Monthly claims and allowances are checked and authorised, prior to passing to the Payroll section, for payment,
  - Payments to Assessor staff are accurate and processed on timely basis.
- 3.3 From the testing undertaken, the following areas for improvement were identified.
- Documents in the payroll section are not retained securely,
  - Officers in the services inputting payroll data have access authority to change core data.

### **4. RECOMMENDATIONS**

- 4.1 A summary of the recommendations raised from this audit are included in a Management Action Plan in Appendix B. Management comments, the date for implementation and Responsible Officer have been reflected within with Action Plan.
- 4.2 The Management Action Plan contains the following priority of recommendations. Definitions for the priority assessments are provided in Appendix B.

<b>Priority Assessments</b>	<b>Number</b>
Priority 1	-
Priority 2	8
Priority 3	2
Priority 4	-

## **5. HISTORY OF THE AUDIT REPORT**

5.1 The table below sets out the history of this report.

Issue of Draft Report	9 September 2009
Receipt of Management Comments	21 September - 26 October 2009
Issue of Final Report	16 November 2009

## **- DETAILED REPORT -**

### **6. OVERVIEW OF PAYROLL SYSTEM AT ASSESSORS**

- 6.1 The Assessors are based in Stirling and employ approximately sixty staff, with an additional approximately twenty temporary posts. The Assessor's Office receives some services from Clackmannanshire Council, including provision of payroll services.
- 6.2 The Assessors has adopted Clackmannanshire Council Policy and procedures, together with the Council payroll cycles. The Assessor's payroll is run four weekly with officers paid every fourth Thursday.
- 6.3 The Office Manager within the Assessor's Office oversees the completion of the payroll forms and forwards these to the Payroll section within the Council for processing. The Payments Manager oversees the Payroll section within the Council, which comprises of two Payroll Officers and four full time equivalent Payroll Assistants.
- 6.4 At 31 March 2009, the gross salaries cost for the Assessors was £1,529,591, compared to a budget of £1,563,890. Total payroll costs including employer costs was £1,909,716.
- 6.5 The Assessors four weekly net payroll totals £88,000.

### **7. RISK MANAGEMENT**

- 7.1 In planning for the audit, an independent risk assessment of the system was completed prior to the commencement of testing. This risk assessment identified the following risks in relation to the payroll process arrangements.

<b>System Risks</b>
1. Staff are unaware and unfamiliar with policies and procedures and there is inconsistency of treatment.
2. Non authorised payments/deductions are being made.
3. Unauthorised changes are made into the payroll system.
4. Payments are not made within the required time scale.

<b>8. CONTROL OBJECTIVE 1</b> There is a formal Payroll Policy, which has been approved by Council, together with adequate procedural guidance and training for staff.	<b>ASSURANCE ASSESSMENT</b> <b>Significant</b>
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8.1 The following was noted from a review of the arrangements :-

- 8.1.1 The Assessor has formal Financial Regulations approved by the Valuation Joint Board, which include Salary, Wage and Pensions in Section 11. The Council also has Financial Regulations which were formally approved by Council in April 2008 and incorporate the financial controls in relation to payroll arrangements.
- 8.1.2 In addition to the Financial Regulations, there are detailed documented procedures and standard payroll forms. The forms include overtime, travel and subsistence, new starters and leavers. Copies of these forms are held at the Assessors office. The procedures include guidance on starters, deductions, variations to pay, leavers and transfers, payments, returns, checks and reconciliations.
- 8.1.3 Staff working within the payroll section have received training on office procedures and financial regulations.

<b>9. RECOMMENDATIONS</b>  There are no recommendations arising in relation to this Control Objective.
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<b>10. CONTROL OBJECTIVE 2</b> Core personnel and salary data is accurate and complete with changes to core data being duly authorised.	<b>ASSURANCE ASSESSMENT</b> <b>Significant</b>
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10.1 The following was noted from a review of the arrangements :-

- 10.1.1 The Office Manager is responsible for co-ordinating the recruitment process of new employees, together with staff members leaving. This includes ensuring the necessary forms are completed, checked, authorised and passed to the Payroll section at the Council.
- 10.1.2 Before an appointment of a new employee is made, documentary proof is required confirming identity of a person and their address. This includes passport, British citizenship card or driving licence. In addition, Starters forms are used for every new employee. A copy of the authorised New Start Form is sent to Payroll and data entered into the system. A copy of the Confirmation of Acceptance Form and letter is attached to the Form stating if the employee has opted to join the superannuation scheme.
- 10.1.3 Where changes to personal details or salary occur, the Change Form is completed and signed by the Office Manager and forward to the Payroll section.
- 10.1.4 Before an employee leaves the Assessor's office, the Office Manager ensures that IT access is removed and ID cards and keys are returned into the office.
- 10.1.5 There have been no instances of overpayment, however there are procedures should this occur. The recovery of debt would be initiated by Office Manager, who would inform payroll to start proceedings. If the overpayment was still not recovered, it would be passed to the debtors section.

10.2 The following was noted from testing undertaken and discussions with staff:

- 10.2.1 For each employee leaving the Assessors, there is a Leavers' Form completed. However, it was noted that while the Assessor's Office retains a copy of these forms in accordance with the Board's Retention Policy, very few are retained within the Payroll section, particularly in relation to temporary canvassers. These records should be retained by the Payroll section for a period of two years in accordance with the Council's Retention Policy. (Recommendation 11.1)
- 10.2.2 It was confirmed that references are taken before appointment of new employees. However, there are no references taken for temporary canvassers. Consideration should be given to taking



up references for temporary canvassers, as they are still working on behalf of a public body. (Recommendation 11.2)

<b>11. RECOMMENDATIONS</b>
11.1 Leavers Forms should be retained by the payroll section for a period of two years, in accordance with the Council's Retention Policy.
11.2 Consideration should be given to taking up references for temporary canvassers.

<b>12. CONTROL OBJECTIVE 3</b> All claims and allowances are accurate, complete and processed on a timely basis.	<b>ASSURANCE ASSESSMENT</b> <b>Reasonable</b>
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12.1 The following was noted from a review of the arrangements:

- 12.1.1 Overtime is claimed through the Overtime Claim Form which is completed by the employee and authorised by the relevant Authorised Signatory. Once authorised, the Form is passed to the Officer Manager.
- 12.1.2 If an individual is absent due to sickness, on their return to work, they must complete the Sickness Absence Certification Form. If their absence exceeds five working days, they require a Doctor's Certificate. These are forwarded to the Officer Manager.
- 12.1.3 Temporary canvassers are entitled to receive a 20% bonus payment, if over 50% of their Canvassing Forms are returned completed. These bonus payments are authorised by the relevant Authorised Signatory and forwarded to the Office Manager.
- 12.1.4 Travel costs, including mileage and expenses are claimed through the Travel and Subsistence Form. This is completed by the employee, with receipts attached and the form authorised by the relevant Authorised Signatory. Authorised forms are passed to the Office Manager.
- 12.1.5 All Assessor forms are forwarded at the same time to the Payroll section by post, by the Office Manager.
- 12.1.6 Forms received by the Payroll section are processed by the Payroll Assistants. For any abnormal payments, there is a deviance report run, which includes any variances above 30% in comparison to the last payment for a particular person. This report is checked by the Payroll Assistant and the variance investigated.

12.2 The following was noted from testing undertaken and discussions with staff:

- 12.2.1 On completion of the payroll input by the Payroll Assistants, a Payroll Deviance Report is run which identifies any variations greater than 30% from the previous month net pay. Any such variances are investigated by the Payroll Assistants. There is however, no independent checking of payroll data input by the Payroll Assistant. Independent checks should be undertaken for data input to the payroll system, including monthly claims, starters, leavers and changes to salary. Where it is considered not practical to undertake independent checks on all data input, checks on a sample basis should be undertaken.

(Recommendation 13.1 )

<b>13. RECOMMENDATION</b>
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13.1 Independent checks should be undertaken for data input to the payroll system.
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<b>14. CONTROL OBJECTIVE 4</b> Deductions are accurate, complete processed and paid to third parties on a timely basis.	<b>ASSURANCE ASSESSMENT</b> <b>Significant</b>
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14.1 The following was noted from a review of the arrangements :

- 14.1.1 There are different deductions which occur in the payroll, including both statutory and non statutory deductions.
- 14.1.2 Statutory deductions include National Insurance Contributions and Income Tax. These are calculated automatically by the Payroll system and the rates reviewed annually prior to the start of each financial year.
- 14.1.3 Non statutory deductions include lottery, pension, union, charities and Council Tax. They are authorised by the employee through the relevant form and passed to the Payroll section.
- 14.1.4 All payments to third parties, including HMRC, Falkirk Council, Stirling Council, Strathcarron and Wateraid have specific payment deadlines. These payment deadlines are monitored within the Payroll section and all payments remitted on a timely basis.
- 14.1.5 All deductions have a separate general ledger or suspense code, which are reconciled against payments, by the Payroll Officer.

<b>15. RECOMMENDATIONS</b>  There are no recommendations arising in relation to this Control Objective.
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<b>16. CONTROL OBJECTIVE 5</b> Payroll outputs are accurate and complete with payment being appropriately authorised.	<b>ASSURANCE ASSESSMENT</b> <b>Reasonable</b>
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16.1 The following was noted from a review of the arrangements :

- 16.1.1 As part of the four weekly process, different reports are generated within the Payroll section, including individual net pay, cumulative net pay to date, Employer's PAYE and NIC, Employer's Pension Contributions and Deviance Report. These are reviewed and retained.
- 16.1.2 On completion of the payroll process, the payroll data is exported into Strategix, the financial general ledger.
- 16.1.3 Monitoring of payroll budgets together with establishment report is prepared by the finance team and reports including all variances are sent to Assessor's Office Manager. The Office Manager meets with the Principal Accountant on a regular basis, to discuss any issues regarding budget.
- 16.1.4 Payroll payments are made via BACS, directly into employee bank accounts. BACS limit is set up at the level appropriate to the net pay for assessors. At the time of the audit, this was £100,000. The BACS file is created from the payroll system and exported through the BACSTEL-IT. The print is taken off the summary from the bank system and checked against the payroll report for that particular pay. A copy of the BACSTEL-IT print is passed to Creditors section, where the Treasury Officer arranges for the required sum to be transferred to the main bank account. The amounts paid via BACS are reconciled against the bank statement by Creditors.
- 16.1.5 The Council is covered by fidelity guarantee insurance.
- 16.1.6 The reconciliation of the payroll system against the main general ledger is undertaken at year end. The System Accountant sends a copy of a spreadsheet with all payroll entries into the main ledger system. The Payments Manager reconciles this against payroll system and signs off the reconciliation.
- 16.1.7 There is a formal Retention Policy included in the Clackmannanshire Council Financial Regulations.

16.2 The following was noted from testing undertaken and discussions with staff:

- 16.2.1 It was noted that the Payroll Officer authorises the payment of the Assessor payroll by BACS, however there is no independent agreement to the payroll reports, to ensure accuracy. The BACS

payment should be independently agreed to the Payroll Reports, before payment is made via the bank account. (Recommendation 17.1)

- 16.2.2 It was confirmed during testing that an annual reconciliation is undertaken between the General Ledger and Payroll system. In addition, the payroll suspense account in the General Ledger is reviewed on an periodic basis by the Payroll Officer. To ensure the accuracy and completeness of the information reflected in the General Ledger, payroll reconciliations should be undertaken monthly. This would identify differences on a timely basis and reduce the time and staff resources involved at the year end reconciliation. (Recommendation 17.2)

<b>17. RECOMMENDATIONS</b>
17.1 The BACS payment should be independently agreed to the Payroll Reports, before payment is made via the bank account.
17.2 The payroll reconciliation to the General ledger should be undertaken monthly.

<b>18.</b>	<b>CONTROL OBJECTIVE 6</b> Employer taxation administration requirements by HMRC are complied with.	<b>ASSURANCE ASSESSMENT</b> <b>Significant</b>
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18.1 The following was noted from a review of the arrangements :

- 18.1.1 Officers within the Payroll Section are aware of the monthly and year end taxation requirements. Monthly deadlines for remittance of PAYE, NIC and Employers Contributions are met.
- 18.1.2 Year end forms, including P35 and P60 are generated in advance of the deadline and the P35 is submitted within the required timescale.
- 18.1.3 P60 forms are issued to officers promptly with the first payroll run in the new tax year.
- 18.1.4 HMRC guidelines regarding contributions and payments, including statutory maternity payments and statutory sick pay are kept within payroll procedures and followed by staff.

<b>19.</b>	<b>RECOMMENDATIONS</b>
-	There are no recommendations arising in relation to this Control Objective.

<b>20. CONTROL OBJECTIVE 7</b> Only authorised staff have access to the payroll system and data is held securely.	<b>ASSURANCE ASSESSMENT Limited</b>
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20.1 The following was noted from a review of the arrangements :

- 20.1.1 The Council operates the Delphi Millenium Payroll system. In addition to the Payroll Officers and Assistants, officers within Education, Finance, HR and Internal Audit have "View" access, while officers in Housing, Kelliebank, and Revenues have "Inquiry" access.
- 20.1.2 Access to the Payroll system is password protected and closely monitored and updated by Payments Manager. Access is only granted by the Payments Manager as administrator.
- 20.1.3 Clackmannanshire Council is currently registered with Information Commissioner's Data Protection Register.

20.2 The following was noted from testing undertaken and discussions with staff:

- 20.2.1 As noted in paragraph 21.1.1, access to the payroll system is permitted at two different levels; Input and Inquiry. It was confirmed however that Inquiry access allows officers to view all information in the payroll system for the whole organisation. In addition "Input" access allows officers to input or amend data for any individual on the payroll system. To ensure adequate controls are in operation, the "Input" and "Inquiry" access should be restricted to only the relevant services. In addition, independent checks should be undertaken on the data input and altered by Kelliebank, Housing and Revenues. (Recommendations 21.1 and 21.2).
- 20.2.2 It was noted from testing, that individuals data kept on the payroll system exceeded the six year time limit indicated in the Council's Financial Regulations. The data should be reviewed and records and information in excess of six years should be removed. (Recommendation 21.3).
- 20.2.3 Documented payroll records are stored on desks or filed in the trays although they can contain sensitive personal data. The storage arrangements relating to payroll data should be reviewed to ensure adequate security is in place and complies with the Data Protection Act. In addition, a Clear Desk Policy should be introduced and enforced. (Recommendations 21.4 and 21.5).

<b>21. RECOMMENDATIONS</b>	
21.1	The "Input" and "Inquiry" access should be restricted to only the relevant services.



21.2	Independent checks should be undertaken on the data input and altered by Kelliebank, Housing and Revenues.
21.3	The payroll data should be reviewed and records and information in excess of six years should be removed.
21.4	The storage arrangements relating to payroll data should be reviewed to ensure adequate security is in place and complies with the Data Protection Act.
21.5	A Clear Desk Policy should be introduced and enforced.

## Assurance Assessments

Assurance	Definitions
Significant Assurance	There are sound controls operating within the system and these are complied with consistently. Risks are being controlled or mitigated. Good practice is in operation.
Reasonable Assurance	There are controls operating within the system. Some improvements could be made to further enhance the control environment. Significant risks are being adequately controlled/mitigated.
Limited Assurance	There are only minimal controls operating and the control environment requires to be improved. Risks are not being controlled/mitigated adequately.
No Assurance	There are no controls operating within the system or no reliance can be placed on the controls and a control environment must be established.

# MANAGEMENT ACTION PLAN

Ref	Recommendation	Priority	Comments	Officer	Target Date
Control Objective 2					
11.1	Leavers Forms should be retained for a period of two years, in accordance with the Council's Retention Policy.	3	Agreed. Leavers forms are retained in the Payroll section and this matter has been raised with officers to ensure they are held for Assessors staff.	Payments Manager	Immediately
11.2	Consideration should be given to taking up references for temporary canvassers.	3	Temporary Canvassers are sometimes employed for only a week or so and are continuously monitored. Many are reemployed the following year. Consideration will be given to asking for references for any potential canvassers not already known to us.	Depute ERO and Office Manager	January 2010
Control Objective 3					

1	There is a fundamental absence of control(s) which should be addressed immediately.
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2	There is an absence of control(s) which should be addressed at the earliest opportunity.
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3	There is a immaterial breakdown in control(s) which should be addressed as soon as practically possible.
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4	A matter for consideration which is a point of good practice or could improve the effectiveness of the arrangements.
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Ref	Recommendation	Priority	Comments	Officer	Target Date
13.1	Independent checks should be undertaken for data input to the payroll system	2	Agreed, the Deviance variances in the Assessors will be reduced to 15% of net pay and all changes will be reviewed and agreed. For the other payrolls, the deviance variance will be reduced to 20% of net pay and all changes will be reviewed and agreed.	Payments Manager	Immediately
Control Objective 5					
17.1	The BACS payment should be independently agreed to the Payroll Reports, before payment is made via the bank account.	2	Agreed. The Treasury Office will agree the Payroll Net Pay Report to the BACS Report going forward.	Payment Manager	Immediately.
17.2	The payroll reconciliation to the General ledger should be undertaken monthly.	2	To date any differences at the year end reconciliation have been immaterial, however monthly reconciliations are recognised as good practice. Monthly reconciliations will be introduced on a trial basis to assess the added value.	Payments Manager	Immediately
Control Objective 7					

1	There is a fundamental absence of control(s) which should be addressed immediately.
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2	There is an absence of control(s) which should be addressed at the earliest opportunity.
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3	There is a immaterial breakdown in control(s) which should be addressed as soon as practically possible.
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4	A matter for consideration which is a point of good practice or could improve the effectiveness of the arrangements.
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Ref	Recommendation	Priority	Comments	Officer	Target Date
21.1	The "Input" and "Inquiry" access should be restricted to only the relevant services.	2	It is not possible to restrict view or input access to predetermined screens, however an Audit Report can be printed which identifies any changes made by services outwith the Payroll section. This will be run for each individual who makes changes and all changes will be verified. Restriction access to payroll will be considered as part of the new HR/payroll system.	Payment Manager	Immediately
21.2	Independent checks should be undertaken on the data input and altered by Kelliebank Contracts, Housing and Revenues.	2	As agreed above, an Audit Report can be printed which identifies any changes made by services outwith the Payroll section. This will be run for each individual who makes changes and all changes will be verified.	Payment Manager	Immediately
21.3	The payroll data should be reviewed and records and information in excess of six years should be removed.	2	It is not possible to delete individuals and payroll information is archived for 2005-06 and earlier. Access is being reviewed. Retention of information will be considered within the new HR/Payroll system.	-	-

1	There is a fundamental absence of control(s) which should be addressed immediately.
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2	There is an absence of control(s) which should be addressed at the earliest opportunity.
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3	There is a immaterial breakdown in control(s) which should be addressed as soon as practically possible.
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4	A matter for consideration which is a point of good practice or could improve the effectiveness of the arrangements.
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Ref	Recommendation	Priority	Comments	Officer	Target Date
21.4	The storage arrangements relating to payroll data should be reviewed to ensure adequate security is in place and complies with the Data Protection Act.	2	Agreed, this will be investigated and addressed.	Head of Finance Payments Manager	March 2010
21.5	A Clear Desk Policy should be introduced and enforced.	2	Agreed this will be introduced.	Head of Finance Payments Manager	March 2010

1	There is a fundamental absence of control(s) which should be addressed immediately.
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2	There is an absence of control(s) which should be addressed at the earliest opportunity.
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3	There is a immaterial breakdown in control(s) which should be addressed as soon as practically possible.
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4	A matter for consideration which is a point of good practice or could improve the effectiveness of the arrangements.
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