



**Internal Audit Review on the Payroll system.
Human Resources Final report 2012/13**

Assurance Level	Partial
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Distribution:

Samia Hussain - Corporate Head (Business Support)

Jacquie Hodgson – Senior Human Resources Officer

1. Background

- 1.1 The Human Resources section is responsible for the administration of employee details and to advise on employee/line manager issues. The Human Resources section is within the Business Support Directorate. Two reports have been produced for this audit to clearly record the roles and responsibilities of Payroll and Human Resources (HR). This also will help to clearly report the responsibility of the issues raised during this review.

In 2012/13 the average number of permanent and casual employees, paid each month was 293. The average gross pay for 2012/13 was £522,674.03.

- 1.2 The Payroll audit is a fundamental review, which is audited on an annual basis. For the 2011/12 audit, the Payroll audit was awarded a **Good** level of assurance in respect of the key controls tested and 6 recommendations were made.

- 1.3 The Payroll section acts upon notifications received from Human Resources (HR), Line Management and employees. Notifications could be received to request deductions from an employee's salary, such as union membership, or to temporarily increase an employee's salary for additional duties.

- 1.4 This audit reviewed the key controls of the payroll system. Changes to employee data and payments are automatically calculated by Trent or can be manually input by Payroll. Audit testing and observation was undertaken to ensure that the controls were operating as intended. The following areas was reviewed:

- New starters
- Leavers
- Monthly BACS
- Monthly Errors and Warnings
- Travel and Subsistence
- Car loans
- Honoraria
- Maternity
- Sickness
- Mileage and lump sum payments
- Auto enrolment
- Real time Information (RTI)

- 1.5 Internal Audit also utilised the IDEA (Interactive Data Extraction and Analysis) software to conduct a variety of tests to provide full assurance that the data and controls within the Payroll system are accurate. A series of tests was performed on 100% of Payroll data to ensure that there are no duplicate records/claims, to confirm the accuracy of calculations and to highlight unusual trends in data.

- 1.6 This review has been conducted by Tom McIntosh (Internal Auditor). Internal Audit

wishes to thank all staff for their full co-operation during their interviews, which has allowed this report to be produced.

2. Internal Audit Opinion

2.1 Based on the interviews conducted, testing undertaken and observations made, it is our opinion that there are 2 fundamental issues that Human Resources (HR) need to address in order to improve internal controls and processes:

- i. An honoraria policy should be created to clearly define the procedure and eligibility requirements for payments.
- ii. Disclosure and Baring Service (DBS) checks (formally CRB) should be completed for posts that fall within the DBS requirements.

There is no policy to award honoraria payments. Honoraria payments are made to staff who acts up when an employee leaves or moves, payments are also made to employees that carry out duties that are not part of their job description.

The introduction of a policy will ensure that these payments are consistently and fairly applied to employees. This will also help Management to be able to determine if an honorarium should, or should not be applied. Honoraria payments should be only be granted, as a interim solution until a new appointment is made, or when a new structure has been agreed.

Without this policy, there is a risk that honoraria payments are awarded on a long term basis and also inconsistently applied. A clear policy should be introduced so staff and Management are aware of the process.

As part of this review, testing was undertaken to ensure that new starters had been correctly set up and evidence/checks was completed before the employment started.

Testing identified one new starter that carried out duties before a Disclosure and Baring Service (DBS) check was undertaken. DBS checks should be undertaken for employees that work with vulnerable groups including children. The DBS website states that when an application is received, it takes approximately 2 weeks to complete.

It is fundamentally important that this check is completed prior to employment starting, as the Council is put at risk as it is 'against the law to employee someone that is on a barring list'

The Councils' reputation could be affected if these checks are not completed for all employees that require DBS checks (for example, leisure staff, Housing Officers etc.)

Jobs that involve caring for, supervising or being in sole charge of children or adults require an enhanced DBS check (previously called an enhanced CRB check).

This includes checking whether someone is included in the 2 DBS 'barred lists' (previously called ISA barred lists) of individuals who are unsuitable for working with:

- children
- adults

It's against the law for employers to employ someone or allow them to volunteer for this kind of work if they know they're on one of the barred lists.



* The above is taken from the DBS website (section barred lists)

3. Internal Audit Findings – New starters

- 3.1 A recruitment process is undertaken to appoint a new member of staff. When a candidate has been selected and has agreed to take the post Human Resources and Payroll will begin to set the employee up on Craven District Council systems.
- 3.2 Audit testing was undertaken to ensure that evidence was obtained from the new starter prior to commencing work and also to confirm that payroll payments and deductions were correctly set up on Trent. To set up a new employee, the personal file should consist of:
- Valid contract or letter of employment
 - Identification (Passport/birth certificate/NINO)
 - Qualifications (essential to the post)
 - P45 (or other tax notification)
 - PEN 11 (Local Government Pension scheme application)
 - New starter checklist (completed by the Service Manager, this also records the employee bank account details)
 - Notifications of any additions or deductions to salary (Union subs, gym membership etc.)

A sample of 5 new starters was selected out of 45 new employees in 2012/13 (11% of new starters). The personal file of each employee selected was obtained from HR to confirm that the documents above were in place.

- 3.3 The following issue were identified following testing:
- One employee was a casual worker at Craven Pool as a Swimming Teacher. A copy of a completed Disclosure and Baring Service (DBS) form was on file, but in discussion with HR staff, it had not been sent to DBS to carry out the checks. Further investigation found that the employee only worked for the Council for 4.5 hours since joining in September 2012. However, it appears the employee has carried out work before pre-employment checks have been undertaken. There is a risk that the Council is not completing key pre-employment checks before an employee starts.

Recommendation

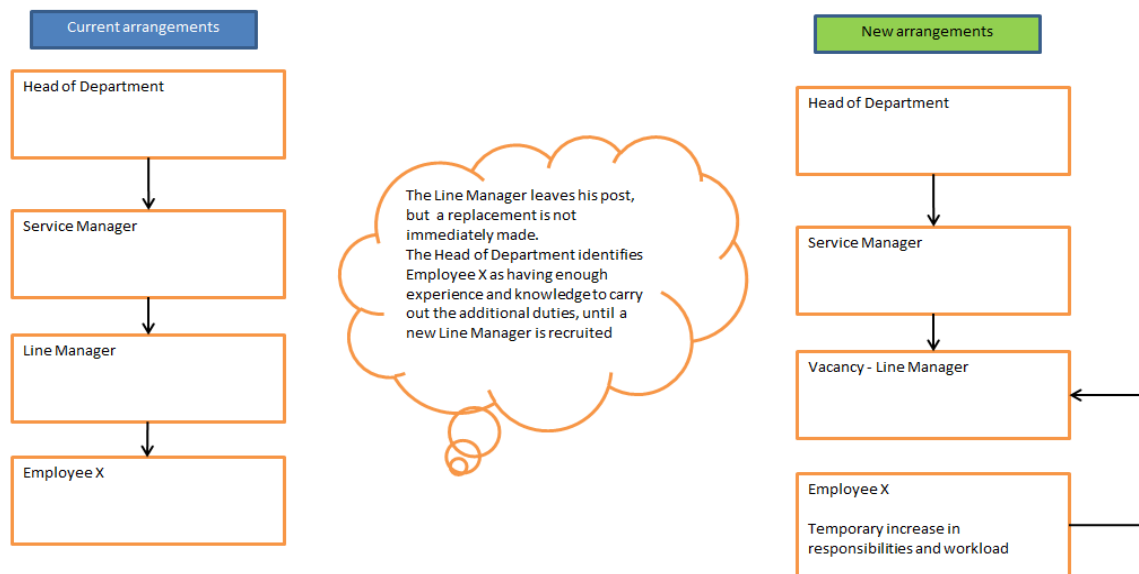
- Disclosure and Baring Service (DBS) checks must be undertaken for all posts that fall within the DBS eligibility requirements.

Target date: August 2013.

Responsible Officer: Samia Hussain Corporate Head (Business Support)

4. Internal Audit Findings – Honoraria

- 4.1 Honoraria payments are for employees that carry out additional work/duties. Honoraria payments can be awarded to employees that have taken on additional duties, that is not within their current job description. For example, when staff leave or go on maternity, there may be sufficient skills, knowledge and capacity within the section to cover the post holders' duties until an appointment is made. Payments can also be made if an employee is seconded to complete/manage a project is completed or to cover duties undertaken by an employee who is on maternity leave.



- 4.2 An application must be completed for all Honoraria requests, detailing the reasons for the increase in payment and the duration the extra payment will be made. A standard calculation is applied ($\text{New salary} - \text{original salary} = (\text{the difference in pay}) \times \% \text{ of work to be carried out} = \text{total yearly payment} \div 12 = \text{monthly payment}$) to ensure that the employee is correctly paid, for the period that they are carrying out additional work/acting up duties.
- 4.3 Audit testing was undertaken to confirm that honoraria payments are correctly applied and an application exists for all payments. Information held by HR and Payroll was compared and examined to ensure employees pay has been correctly calculated and that the honoraria payments are valid. Audit testing was undertaken of 9 employees in receipt honoraria payments in 2012/13. This is a 100% sample check. For 2012/13, the value of honoraria payments was approximately £15k, which is around £1,650 per employee.
- 4.4 Applications for honoraria payments are made using the 'Approval for acting up or honorarium payment' form. The reason and details for the payment is recorded on this form, including the period of the payment (start date and end date). This is signed by the Head of Service to agree the reason for the payment. Subsequent approval is received from finance, to confirm adequate budget is in place, Human Resources approval is

required to review the job description and employee specification and to consider if there are any equality issues. Finally Director approval is required to approve the payment.

- 4.5 Audit testing was undertaken to confirm that there was an up to date and approved application. This test wanted to ensure that there was a clear audit trail in place for honoraria payments are awarded.

Audit testing found that 2 out of 9 honoraria payments did not have an up to date honoraria application. The honoraria payment was made on a 'change of circumstances' form, which following further review, did not have a valid reason for why an honoraria payment would be made. The only details recorded on the form was 'honoraria to continue'.

In respect of financial approval, 3 applications were approved by a temporary officer. It is important that such approval and checks should be undertaken by a Senior Officer within the Finance team; however, the financial approval section is only a check to confirm that there is enough budget to cover the costs of the additional payment to be made. This check should be completed by a permanent member of the team, where possible.

- 4.6 Following this review on honoraria payments, testing did not identify a policy or procedure in place, to clearly show how honoraria payments should be awarded. A clear and concise policy would enable future payments to be clearly and fairly awarded. This will also ensure that a consistent approach is applied across all services. Also within the policy, it should be made clear that honoraria payments should not be seen as a long term solution/payment. Honoraria payments, as defined by HMRC "A true "honoraria" is generally a payment received by an office holder. It may only be a token payment rather than a commercial fee, but it is clearly a payment which results from holding the office." Honoraria is a temporary payment and as such, if the employee is carry out duties over and above their original job description, Management should consider if the post is re-graded, re-evaluated or to create a new post.

Recommendations

- Honoraria applications and extensions should only be made using the 'Approval for acting up or honorarium payment' form
- For the two officers identified during testing (section 4.5), a 'Approval for acting up or honorarium payment' form should be completed and authorised.
- An honoraria policy should be introduced and communicated to Management.

Target date: August 2013.

Responsible Officer: Samia Hussain Corporate Head (Business Support)

5. Internal Audit Findings – Other audited areas.

- 5.1 As part of this audit review, testing was undertaken on the other key controls for the Payroll system. A walkthrough of each key control was undertaken, to confirm that the controls operated as intended. Below is a brief explanation of the testing undertaken, where there is a link to the Human Resources (HR) section:
- 5.2 A review was undertaken of Council Leavers. There is a process in place to close down employee records, when they inform the Council that they are leaving. A resignation letter is received from the employee, or a termination notification from Management, informing HR/Payroll of their last working day. Checks are then undertaken to confirm that the outstanding leave figure (as this may need to be paid or recovered) and are there any outstanding loans or professional fees that need to be repaid.

A leavers form checklist is completed by the Line Manager and passed to HR to record and carry out their own checks before the employee leaves. Upon completion of all the checks, it is passed to Payroll to action on the Trent system. The final pay figure is calculated by Trent, when the leaving date is entered and the Payroll Officer will check the final pay figure for reasonableness and to ensure that any entries that need to be recovered are taken from their final salary.

Audit testing was undertaken to confirm that the above process had been followed. A sample of 5 (17%) leavers was selected to review out of 29 leavers in 2012/13.

100% (5 out of 5) the correct process was followed, to close down an employee's record. Testing also confirmed that all employees selected, were marked as a leaver on the Trent system, providing assurance that they have been correctly closed down and will not be included in any future pay runs.

- 5.3 Testing was undertaken to ensure that sickness was correctly recorded on Trent.

Sickness absence notifications are received by HR. HR will record the sickness reason on Trent before passing to Payroll to make the necessary entry on Trent for Payroll deductions and to record the Statutory Sick Pay (SSP) element to the employee record. The Payroll Officer completes a monthly record of sickness which is reconciled before each pay run. Sickness records and notifications are retained by HR within the employees personal file.

A walkthrough of one sickness absence was undertaken to confirm that the arrangements for recording sickness on Trent, was correctly applied.

Audit testing found that the case identified, was correctly actioned on the Trent system. The detail of the sickness and the dates the employee was not working, was

clearly recorded on Trent. This provides assurance that there is an adequate audit trail in place to record and monitor sickness at Craven District Council.

- 5.4 A review of Maternity was completed to confirm that that key controls existed to ensure that the employee was correctly notified of their maternity rights and that the maternity pay details were correctly applied, according to the wishes of the employee.

A walkthrough of one employee on maternity was reviewed. Testing consisted of the confirmation of key documents such as the MATB1, confirming the pregnancy and the due date; letter of intent from the employee confirming the details of the time they want to take as maternity (40 weeks or a year) and their expected return to work date. Evidence of details of the employees entitlements whilst on maternity and finally to confirm that the calculations for maternity payments have been completed and are accurate.

Audit testing found that the maternity process is well controlled. Controls are operating as expected and there is a clear trail to show each step of the maternity process. Payroll calculation of the different maternity pay options was accurate and these details were confirmed to Trent.

- 5.5 IDEA (Interactive Data Extraction and Analysis) was used to conduct the following tests:

Test details	Risk / reason for test	Results
Duplicate pay reference used	To ensure that the same pay reference is used for more than one employee	Nil results.
Duplicate NINO on Trent	To determine if the same NINO is used for more than one employee	Nil results.
NINO is in the correct format	To ensure that NINOs are in the correct format, as expected by HMRC	Nil results. NINO for all employees is in the correct format.
Duplicate post number used	To ensure that only post number is used for each post.	Nil results. There are no duplicate post numbers used on Trent.

It is hoped that in the 2013/14 Payroll audit, to be able to request more detailed reports so that more complex and targeted testing can be presented, to be able to provide further assurance that the Trent system is accurate and there are no fraudulent records or transactions.

6. Summary of Recommendations

Number	IA Recommendation	Responsible Officer	Priority	Manager comments and implementation date
1	Disclosure and Baring Service (DBS) checks must be undertaken for all posts that fall within the DBS eligibility requirements.	Samia Hussain Corporate Head (Business Support)	Priority 1	Agreed. There is no review process in place to identify or renew DBS checks. All posts will be reviewed to determine if a DBS check is required, as part of the PCIDSS requirements. August 2013
2	Honoraria applications and extensions should only be made using the Approval for acting up or honorarium payment' form	Samia Hussain Corporate Head (Business Support)	Priority 2	Agreed. Future honoraria requests and changes will only be accepted on the 'Approval for acting up or honoraria payment' form. Change of circumstances forms are only used for permanent changes. August 2013
3	An honoraria policy should be introduced and communicated to Management.	Samia Hussain Corporate Head (Business Support)	Priority 1	Agreed. A policy/guidance note will be produced to ensure that honoraria payments are clearly and fairly applied. August 2013
4	An up to date approval for acting up or honorarium payment form should be completed for all officers in receipt of payments	Samia Hussain Corporate Head (Business Support)	Priority 3	Agreed. A list of officers will be provided to HR and Line Managers will be contacted to complete the appropriate form

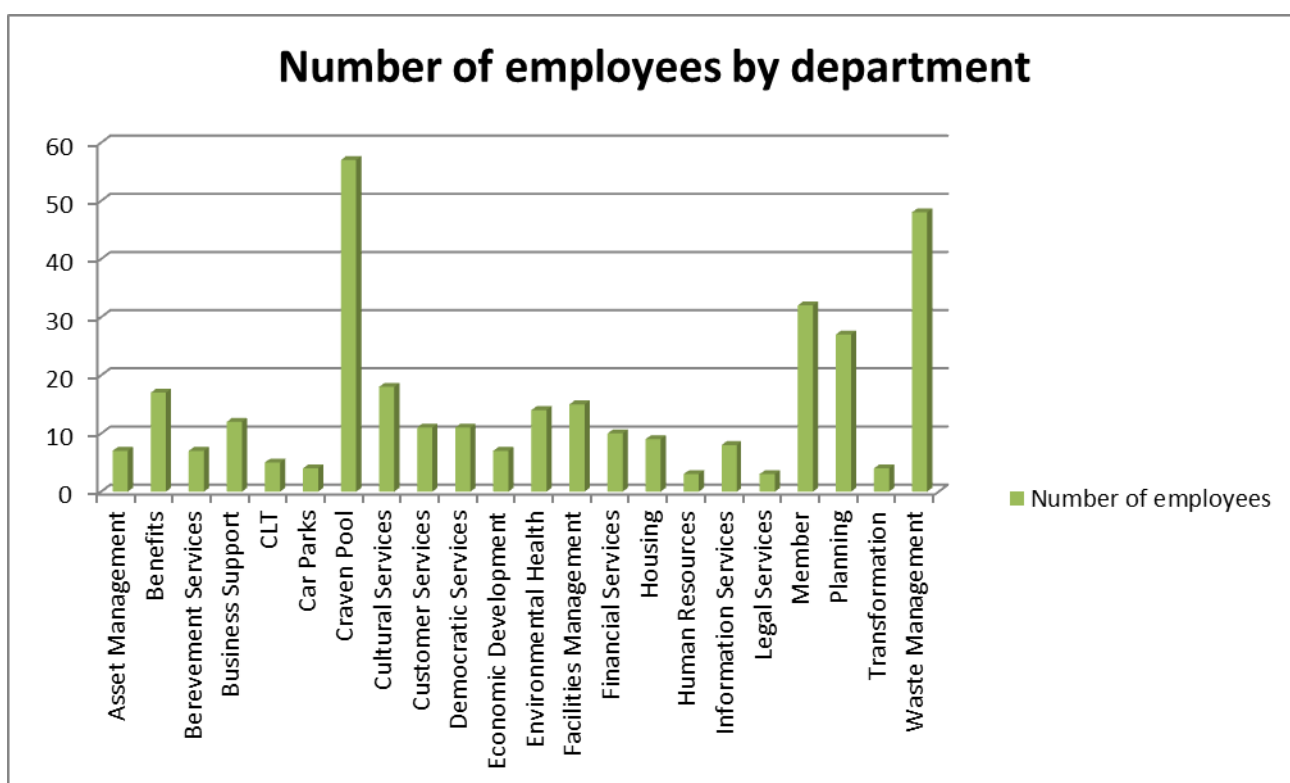
				August 2013
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7. Payroll profile

For information purposes.

Below is a selection of charts showing the composition of the Payroll system. Details are provided under each chart to explain what it is showing. The data was extracted from the Trent system, which was used to conduct the audit testing and IDEA review.

Craven District Council employs on average 293 members of staff. These employees are split over 22 departments. Below is a chart to show the number of employees in each department:



IDEA was used to determine the make-up of contracted employees and casual staff. Casual staff are set up on Trent with 0 (zero) hours. Contracted staff has their hours specified on Trent e.g. 37 hours (full time) or 22 hours (3 day week). Below is a chart showing the make-up of employee contracts:

