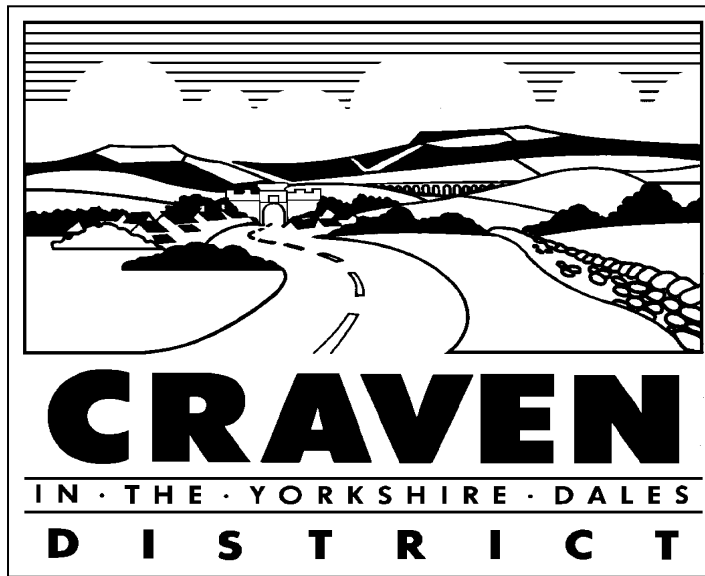


Agenda Item 5aiii



Internal Audit Report

Payroll

Report ref: C5/10

Report Issued

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1 Background

1.1 This audit has been undertaken as part of the annual audit plan for 2014/15.

The Payroll audit is a fundamental review, which is audited on an annual basis. For the 2013/14 audit, the Payroll audit was awarded a **significant** level of assurance in respect of the key controls tested and 2 recommendations were made. A follow up of the recommendations found that the 2 recommendations have been fully implemented and the improvements have been embedded into the payroll processes and procedure.

There have been no changes to policies or procedures since the Payroll service was last audited. The National Joint Council for Local Government Services agreed in November 2014, a new pay award was implemented. This pay award was different to previous years because the award was applied in 3 parts:

- The pay award covered 2 years (2014 to 2016)
- A 'non-consolidated' payment, which is a one off payment and is not 'back pay' to be applied in December 2014 pay.
- A 2.2% increase of salaries from January 2015. There will be no further increase until 2016, at the earliest

The Payroll system (iTrent) was supported by Richmond Council and Hambleton Council since Payroll was brought back in-house. Since the last audit, a change in support means that the Payroll and Exchequer Officer will only be supported by Richmond Council. This will not affect the day to day payroll duties. Technical support and upgrades are still provided by MidlandHR, iTrent system providers.

Below is a table showing information on the key payments made to staff in 2013/14 and 2014/15 (both up to February) for information.

Pay element	April 13 to Feb-14	April 14 to Feb-15	Difference	% +/-
Overtime @ 1 - non pensionable	£168,462.62	£153,578.56	-£14,884.06	-9.69
Salary	£4,252,694.68	£4,182,240.91	-£70,453.77	-1.68
SSP	£20,939.58	£26,289.65	£5,350.07	20.35
SMP	£34,902.55	£12,388.08	-£22,514.47	-181.74
Lump sum	£24,110.31	£21,178.60	-£2,931.71	-13.84
Mileage - Casual	£18,897.52	£11,566.52	-£7,331.00	-63.38
Mileage - Essential	£23,337.89	£21,058.17	-£2,279.72	-10.83
Out of pocket expenses	£3,672.37	£2,124.46	-£1,547.91	-72.86
Public transport subs	£5,171.44	£5,373.75	£202.31	3.76
Net Pay	£3,789,062.86	£3,729,429.37	-£59,633.49	-1.60
Gross Pay	£5,020,637.46	£4,861,068.32	-£159,569.14	-3.28
Total	£13,361,889.28	£13,026,296.39	-£335,592.89	

There were 202.1 FTE employees in post for 2014/15.

- 1.2 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes
- 1.3 As part of this review Internal Audit undertook a walkthrough of the system which has identified the following Key Control Objectives (KCO's):
 - To confirm that the Payroll key controls are operating effectively and efficiently
 - To perform a quality check on system data using the IDEA software to provide assurance that data quality and information is in the correct format and to identify potential duplicate records or unusual trends of Payroll data.

2 Audit Scope

2.1 The following testing was undertaken:

KCO	Test	Sample size
To confirm that the Payroll key controls are operating effectively and efficiently	Identify the payroll system key controls to ensure they are accurate, effective and efficient	<ul style="list-style-type: none"> • 1 x new starter input • 1 x leaver input • 1 x pay award update • 11 x monthly pay run accuracy • 1 x error/warning and 10% variance report checks • 1 x employee subsistence claim • 11 x Real Time Information (RTI) submissions • 1 x auto enrolment • 1 x maternity calculation and entitlement • 1 x sickness absence procedure • Payroll system procedure notes are up to date
To perform a quality check on system data using the IDEA software to provide assurance that data quality and information is in the correct format and to identify potential duplicate records or unusual trends of Payroll data.	Conduct a series of tests using IDEA on Payroll data.	<p>All mileage claims input onto Trent in April 2014 to February 2015.</p> <p>All overtime claims input onto Trent in April 2014 to February 2015.</p>

3 Audit Opinion

3.1 A summary of Internal Audit's opinion levels and their definitions is provided below:

Level	Definition
Significant Level of Assurance	The system of internal control is designed to support the Council's corporate and service objectives and controls are consistently applied in all the areas reviewed.
Good Level of Assurance	There is generally a sound system of control designed to support the Council's corporate and service objectives. However, some improvements to the design or application of controls is required.
Partial Level of Assurance	Weaknesses are identified in the design or inconsistent application of controls which put the achievement of some of the Council's corporate and service objectives at risk in the areas reviewed.
No Level of Assurance	There are weaknesses in control, or consistent non-compliance which places corporate and service objectives at risk in the areas reviewed.

3.2 This audit has been given a **Significant** Level of Assurance.

As with previous audit reviews; effective controls are in place to ensure that the pay run is accurate and agreed by a senior officer before employees are paid. Comprehensive reconciliations are completed before each pay run to ensure that payments and deductions are accurately applied to employee records.

Improvements have been made, following recommendations reported in the 2013/14 audit, to formally record the accuracy of input on iTrent, by another officer. An officer, who did not input the changes on employee records on iTrent confirms the accuracy of input. This check ensures that any incorrect information is promptly updated and actioned on the employee's record.

4 Detailed Findings & Action Plan

The audit findings are detailed in this section on an exception basis only for the attention of management, therefore KCO's with adequate controls based on the samples examined are not included.

Recommendations are prioritised as follows; Priority 1 – These recommendations relate to significant gaps in the Internal Control Framework, Priority 2 – These recommendations relate to minor gaps in the Internal Control Framework or significant issues of non-compliance with key controls, Priority 3 - These issues relate to minor issues of non-compliance with controls.

Ref	Findings	Risk	Recommendations and Management Response	Officer Responsible and Implementation Date
1	No recommendations have been made for this audit			

The agreed actions will be subject to a follow up review to establish whether they have been implemented.

Any queries or requests for further information regarding this report should be directed to **Tom McIntosh, Internal Auditor** by email at tom.mcintosh@harrogate.gov.uk by telephone on (01423) 556 115.

Internal Audit would like to thank the officers involved for their assistance during this audit.