



Internal Audit Report

Final

**Corporate Services
Review of Payroll**

February 2011

1 INTRODUCTION

As part of our 3 year audit plan Payroll is to be covered in our 2010-2011 plan. The specific objectives of the audit will assess and report on the effectiveness of the Roads Costing System.

The Roads Costing System is a feeder system into payroll and will be reviewed for completeness, quality and accuracy of information. Controls will be discussed with staff in Development & Infrastructure, Strategic Finance staff and staff within Payroll.

2 AUDIT SCOPE AND OBJECTIVES

The broad objectives of the review were:

- Input controls will be reviewed:-
 - passwords
 - authorisation
 - batch controls
 - sequence checks
 - procedures for rejected data
- Output controls will be reviewed:-
 - quality & accuracy
 - completeness
 - reconciliation with input
 - treatment of errors
- Tests will be carried out to evaluate these areas, and identify any problems.
- Computer reports produced will be reviewed to evaluate their usefulness.
- Checks will be made to ensure all relevant authorised documentation is filed in the appropriate manner, and is available for inspection.
- Any problem areas will be highlighted, and brought to the attention of management and if required the Head of Service or Executive Director.

3 RISK ASSESSMENT

As part of the audit process and in conjunction with our Systems Based Auditing, ICQ approach, the risk register was reviewed to identify any areas that needed to be included within the audit.

- SR13 – Failure to comply with new legislation, regulation or statutory responsibility.
- SR 16 – Failure to have a robust internal control process and system.

4 CORPORATE GOVERNANCE

There are no Corporate Governance issues to be reported as a result of this audit.

5 MAIN FINDINGS

- Development and Infrastructure back office staff have not been querying why overtime and timecards are being authorised by area supervisors who don't have the correct authorisation. The back office staff have a procedure in place for the labour allocation database that ensures the payments are checked for accuracy.
- Development and Infrastructure finance team have a robust documented procedure for dealing with weekly payroll for labour and fleet costs. The finance team also use a total weekly payroll checklist for labour and vehicle with 17 checks, which are completed and signed off each week.
- The Auditor found that not all roads workers had signed opt - out forms which allows the employee to work more than 60 hours per week. This practice is a breach of the Roads Transport Working Time Regulations.

6 RECOMMENDATIONS

2 recommendations were identified as a result of the audit, both of which are of a high priority. The recommendations are shown in the action plan attached at Appendix 2 and has been compiled with the co-operation and agreement of the Supervisor/Manager.

Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as fundamental, material or minor. The definitions of each classification are set out below:-

High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

7 AUDIT OPINION

Based on the findings we can conclude that adequate procedures are in place for the processing of labour through the roads costing system. Additional controls are needed to ensure that only personnel with the correct authority can authorise overtime and timecards. Also the council need to ensure that we are complying with the working time regulations.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale.

Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

8 ACKNOWLEDGEMENTS

Thanks are due to;

- Development and Infrastructure Operational Staff
- Development and Infrastructure Finance Staff
- Customer Services Payroll Staff
- HR Staff

for their co-operation and assistance during the Audit and the preparation of the report and action plan.

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

This report is private and confidential for the Council's information only and is solely for the use in the provision of an internal audit service to the council. In any circumstances where anyone other than the Council accesses this report it is on the strict understanding that the council will accept no liability for any act or omission by any party in consequence of their consideration of this report or any part thereof. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 2 ACTION PLAN

| No. | FINDINGS | PRIORITY | RECOMMENDATION | RESPONSIBLE OFFICER | IMPLEMENTATION DATE |
|-----|--|----------|---|----------------------------------|---------------------|
| 1 | <p>The auditor checked to ensure that the area supervisors had the correct authorisation to authorise timesheets and overtime. From the checks that were carried out it was found that individuals were authorising timesheet and overtime that they didn't have the authorisation for.</p> | High | <p>Development and Infrastructure should ensure that all persons who are approving timesheets and overtime have the appropriate authorisation to do so.</p> | Head of Roads & Amenity Services | 31 March 2011 |
| 2 | <p>The Auditor checked a small sample of 24 employees who have large amounts of working hours to see if they have signed the opt out form which is needed as part of the working time regulations, so that employees can work more than 60 hours a week. The results showed that only 7 out of the 24 employees sampled had the opt - out form signed and available to</p> | High | <p>HR should perform an internal review to ensure that all roads personnel who may contravene the working time regulations have signed the opt - out form and a record of this should be kept in their personnel file for review.</p> | Head of Improvement and HR | 30 September 2011 |

| No. | FINDINGS | PRIORITY | RECOMMENDATION | RESPONSIBLE OFFICER | IMPLEMENTATION DATE |
|------------|--|-----------------|-----------------------|----------------------------|----------------------------|
| | review on their file. This practice would constitute a breach of the Roads Transport Working Time Regulations and should be rectified. | | | | |