



Internal Audit Report

Chief Executives – Improvement & HR

Review of Payroll

March 2013

1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of Payroll as part of the 2012/13 Internal Audit programme.

In 2012/13, responsibility for Payroll transferred from Customer Services to the Chief Executives Unit, Improvement & HR. The specific objective of the audit was to test the robustness of new processes in place in respect of HR and Payroll.

Payroll Costs for 2011/2012 were as follows:

	Salary	Ers NI	NI Recovery	NI	Pension
Pay01	20,936,478.72	1,122,969.55	63,024.90	1,059,944.65	2,190,689.56
Pay06	2,977,365.77	224,379.12	0.00	224,379.12	499,164.78
Pay07	50,859,109.28	3,396,095.82	236,678.86	3,159,416.96	7,422,670.53
Pay10	35,518,768.87	2,782,136.37	117,695.76	2,664,440.61	5,006,592.28
Pay11	1,554,000.89	98,465.35	13,056.53	85,408.82	169,033.82
Pay15	1,057,626.44	22,760.22	3,063.06	19,697.16	48,960.19
	112,903,349.97	7,646,806.43	433,519.11	7,213,287.32	15,337,111.16

A severe weather event in March 2013 in the Kintyre area resulted in ResourceLink server access issues at Witchburn Road in Campbeltown. As a result and in agreement with management the audit work for Payroll was curtailed. However, key control areas were reviewed.

2 AUDIT SCOPE AND OBJECTIVES

The broad objectives of the review were to ensure that:

- Human Resources and Payroll functions are adequately segregated;
- Access to the Payroll system is restricted to appropriate staff;
- Departments periodically undertake checks to confirm the validity of the employees listed on the Council Payroll;
- Only employees with valid contracts commence employment;
- Relevant documentation is completed, available for inspection and authorised prior to payment of salary.

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. The area identified was:

SR16 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

It was found that:

- Human Resource and Payroll functions are adequately segregated;
- Access to the Payroll system is restricted. ResourceLink users are given appropriate access rights to Payroll as required by their job description;
- Departments undertake periodic checks to confirm the validity of the employees listed on the payroll. Payroll reports are provided by Strategic Finance to Budget Holders as part of the budget monitoring process;
- There are examples of employees without a valid contract commencing employment;
- Examples were found where relevant authorised documentation had not been completed prior to commencement of employment.

6 RECOMMENDATIONS

Three recommendations were identified as a result of the Audit. One is of high priority and two of low 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 Head of Improvement & HR.

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 high, medium or low. 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 there adequate procedures in place to ensure segregation of duties are being maintained and that only authorised users can access the payroll modules within ResourceLink.

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 the HR and Payroll 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 use in the provision of an internal audit service to the Council. 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
2	Through audit enquiry and by reviewing recorded data it was found that a number of employees were in post without the knowledge or agreement of HR and without Payroll being advised. The audit established that this had occurred through departmental management allowing candidates to commence employment ahead of the HR processes being competed. Consequently, candidates were found to be in post without the issuance of a contract, or a contract being signed.	High	The current practice of allowing employees to commence in post without the knowledge of HR and Payroll must stop with immediate effect. An instruction should be issued to all Executive Directors that they must ensure that their management comply with HR guidelines for new employee commencement. A review should be undertaken to ensure compliance to HR guidelines in terms of recruitment.	Head of Improvement & HR	31 May 2013