

# **THE WEST LOTHIAN COUNCIL INTERNAL AUDIT UNIT**

## **Support Services**

## **Payroll**



**FS36494**



**CUSTOMER SERVICE EXCELLENCE**

**5 June 2009**

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## **1.0 EXECUTIVE SUMMARY**

- 1.1 A review of the procedures and controls in place within HR Pay & Reward has been undertaken. Overall it is concluded that the level of control requires improvement.
- 1.2 The remit, scope and objectives of this audit are set out in section two of this report.
- 1.3 HR Pay & Reward is based at Lammermuir House, and is part of HR Shared Services, which is a unit of Support Services.
- 1.4 HR Pay & Reward has two processing teams and a control team. The processing teams input and check permanent changes such as new starts, leavers and other contractual changes, and also timesheets and other variations to pay. After the payroll is run the control team undertake a sample check between the processed changes and source documentation.
- 1.5 In January 2009 a total of 9,609 employee pays were processed. Total employee costs for West Lothian Council for the year to 31 March 2008 were approximately £211 million.
- 1.6 In relation to areas of good practice, the control team undertakes a 100% check of all starters and leavers to reports generated from the payroll system.
- 1.7 The following areas were identified as critical weaknesses (the reference to the action plan in brackets):
  - it is noted that not all new starts are administered by the human resources recruitment team and that some posts are recruited without being advertised. A policy and procedure should be prepared to cover posts recruited without being advertised (1);
  - we checked a sample of 40 change forms and identified that on 15 occasions the forms were authorised by a member of staff not on the authorised signatory list. HR Pay and Reward should check that all new start forms and contractual change forms are authorised by a member of staff on the council's authorised signatory list (6);
  - during our audit we became aware of an overpayment in relation to a teacher of £3,152.46. As above, services should be advised that all contractual changes must be checked and authorised by a member of staff on the council's authorised signatory list (7);
  - we are aware of at least one other case where an overpayment arose as a result of a failure to properly notify HR Pay and Reward. HR Pay and Reward should write to all heads of service informing them that where an employee leaves and payslips continue to be sent to the Unit, that HR Pay and Reward must be informed immediately (11). It is imperative that services check all contractual changes to ensure accuracy and also notify HR Pay & Reward timeously of amendments.

- HR Pay & Reward have in the past forwarded reports of current standing data to services for verification of employees, grades, etc. We were advised that this has not been done on a regular basis since October 2007. Services should be required to regularly verify standing data, as a minimum on an annual basis (12).
- 1.8 The action plan in section three of this report details the findings and recommendations made, categorises their risk, and includes management comment. The implementation of the recommendations made within this report will help improve control.



**Kenneth Ribbons**  
**Internal Audit Manager**

Leonard Heath

## **2.0 REMIT, SCOPE AND OBJECTIVES**

- 2.1 In accordance with the annual audit plan for 2008/09 an audit has been undertaken of HR Pay and Reward within Support Services.
- 2.2 The objectives of the audit were to determine whether controls are in place which ensure that permanent changes to the payroll, e.g. new starts and leavers, are processed:
- timeously;
  - accurately.
- 2.3 The audit was restricted to a review of the key controls and testing was undertaken on a sample basis. Therefore, the weaknesses identified in the report are not necessarily all those which exist.
- 2.4 The draft report was discussed for factual accuracy with Lesley Durie, Manager HR Pay & Reward at Lammermuir House on 27 April 2009.
- 2.5 Responsibility for implementing the recommendations in this report rests with the Head of Support Services who therefore assumes any risk arising from not acting on any of these recommendations.
- 2.6 The assistance and co-operation of staff within HR Pay & Reward during the conduct of the audit is acknowledged and appreciated.

### 3.0 FINDINGS AND RECOMMENDATIONS

The audit findings and recommendations are detailed below, including management comment regarding the weaknesses identified. Appendix A defines the risk levels allocated to the audit recommendations made.

Ref.	Findings	Recommendation	Risk Level	Responsible Officer	Agreed	Client Response	Action Date
1	<p>It is noted that not all new starts are administered by the human resources recruitment team and that some posts are recruited without being advertised.</p> <p>The council's recruitment and selection policy details some exceptions to the requirement to advertise vacancies (sections 4 and 5).</p> <p>However it appears to be normal practice to recruit certain categories of staff without advertising who are not covered by the exceptions in the policy (e.g. cleaners, cooks, refuse collectors, etc).</p>	<p>A policy and procedure should be prepared to cover posts recruited without being advertised.</p> <p>This should detail the posts concerned, the requirements for authorisation, and provisions to avoid conflicts of interest.</p>	Critical	Fraser MacKenzie	Yes	It is acknowledged that there may be weaknesses in recruiting to unadvertised posts and it is proposed that a review is undertaken to determine the extent of the practice with a view to incorporating the necessary checks and balances within the Council's current Recruitment and Selection procedure.	31.03.10

Ref.	Findings	Recommendation	Risk Level	Responsible Officer	Agreed	Client Response	Action Date
2	We checked a random sample of fifteen new start forms, fifteen leavers forms and ten personal change forms. On 13 occasions there was no evidence of the "payroll received stamp" recording the date of receipt of the form.	All payroll amendment forms should be date stamped as received.	Significant	Lesley Durie	Yes	Team members have been reminded of the need to ensure all forms are date stamped as received.	Immediate
3	A number of forms were initialled and dated somewhere on the form, however the purpose of this was unclear - it is assumed in this relates to the input of the form. This was mainly an issue in relation to forms which were not date stamped as the stamp has a space for input initials and date.	Where a form is evidenced for initial and date, the purpose of this should be clear.	Routine	Lesley Durie	Yes	Team members have been reminded of the need to ensure all forms are appropriately evidenced.	Immediate

Ref.	Findings	Recommendation	Risk Level	Responsible Officer	Agreed	Client Response	Action Date
4	We were advised that staff are periodically reminded to evidence the forms for receipt, input and checking but there is no formal mechanism in place for this.	Consideration should be given to include, as part of the control check on the Chris21 audit report, a visual inspection of the processed forms. Any forms which have not been stamped or properly evidenced should be reported to the processing teams.	Significant	Lesley Durie	Yes	This has been included in the control check process	Immediate
5	<p>There are procedures in place within HR Pay &amp; Reward which can be accessed by staff. These are primarily instructions for processing changes on the payroll system. The procedures do not cover other issues, e.g. evidencing forms for input and checking.</p> <p>It was noted that the procedures are kept in a lever arch file.</p>	<p>The procedures should be updated and should include the requirement to date stamp the forms, check authorised signatories and clearly evidence forms for input and checking.</p> <p>The procedures should be available electronically on the council's intranet.</p>	Significant	Lesley Durie	Yes	<p>Procedures will be updated and held in electronic format on the EDRMS</p> <p>As discussed and agreed, resource restrictions preclude the checking of all forms against the authorised signatory list. On development of the electronic list in a suitable user format, the level of resource required to include this check in the current checking procedures will be determined.</p>	31.10.09



Ref.	Findings	Recommendation	Risk Level	Responsible Officer	Agreed	Client Response	Action Date
6	<p>We checked a sample of 15 new starts, 15 leavers and 10 contractual change forms. On 15 occasions the forms were authorised by a member of staff not on the authorised signatory list.</p> <p>It is noted that for new starts appointed via the council's recruitment process, the new start form is completed by a member of staff in human resources.</p> <p>It is noted that section C3 of the council's financial regulations requires the Head of Support Services to be advised of the officers authorised to action variations to pay.</p>	<p>HR Pay and Reward should check that all new start forms and contractual change forms are authorised by a member of staff on the council's authorised signatory list.</p> <p>It is accepted that it is appropriate to process leavers regardless of authorisation to minimise the risk of overpayments.</p>	Critical	Lesley Durie	Yes	<p>As discussed and agreed, resource restrictions preclude the checking of all forms against the authorised signatory list. On development of the electronic list in a suitable user format, the level of resource required to include this check in the current checking procedures will be determined.</p> <p>Development of an electronic version of the authorised signatory list will include revised procedures for notifying the Head of Support Services which will be based on specific delegation to occupants through the post they hold.</p>	31.03.10

Ref.	Findings	Recommendation	Risk Level	Responsible Officer	Agreed	Client Response	Action Date
7	<p>During our audit we became aware of an overpayment in relation to a teacher of £3,152.46.</p> <p>The teacher left on 27 June 2008 but salaries continued to be paid into her bank account until September 2008. This arose because a termination form sent to the school was returned by the school with an incorrect date (27 June 2009 instead of 27 June 2008).</p> <p>HR Pay and Reward were informed of the error by the school BSM on 30 September 2008 and by Finance Services on 10 October 2008.</p> <p>The teacher was written to on 10 December 2008 and at the time of the audit had repaid £1,214.86. In the interim on 10 November 2008 she started as a teacher at another school.</p>	Services should be advised that all contractual changes must be checked and authorised by a member of staff on the council's authorised signatory list.	<b>Critical</b>	Lesley Durie	Yes	The ongoing business improvement activity will determine the extent of this problem across all service areas and appropriate action will be taken in relation to revision of process and any necessary training. Included in this will be regular reminders on process, timescales and authorisation procedures.	30.09.09

Ref.	Findings	Recommendation	Risk Level	Responsible Officer	Agreed	Client Response	Action Date
8	As above.	HR Pay and Reward's procedures for dealing with overpayments should include a timescale for writing to the individual and for reaching agreement on recovery once the overpayment has been identified.	Significant	Lesley Durie	Yes	<p>Internal work processes advise members of the input team to notify employees of the overpayment as soon as possible within the processing cycle.</p> <p>In negotiations to agree a repayment figure/timescale it is normal practice to seek to recover over the same period that the overpayment was made. As recovery/deduction of salary has to be made on the basis of agreement this is often not achievable.</p> <p>In support of this, the Council's Policy on Dealing with Salary Over/Underpayments, which was agreed with the Trade Unions, states that where incidences of overpayment are identified, the employee affected and other relevant parties will be notified as soon as possible and arrangements will be made to timeously recover any monies owed to the council</p>	30.09.09

Ref.	Findings	Recommendation	Risk Level	Responsible Officer	Agreed	Client Response	Action Date
9	As above.	HR Pay and Reward's procedures should be amended to emphasise the importance of agreeing recovery from salary where the person is a current employee.	Significant	Lesley Durie	Yes	As it is normal practice to seek recovery from salary where the person is a current employee, internal procedures will be amended to include this statement.	Immediate
10	As above.	<p>HR Pay and Reward should copy any correspondence to the relevant head of service.</p> <p>This will enable the head of service to consider whether it is appropriate for such individuals to be re-employed within their service.</p>	Significant	Lesley Durie	In part	The quarterly Service Reports, which form the basis of a discussion between Business Partners and Heads of Service, include numbers, levels and reasons for over/underpayments.	Immediate

Ref.	Findings	Recommendation	Risk Level	Responsible Officer	Agreed	Client Response	Action Date
11	We are aware of at least one other case where an overpayment arose as a result of a failure to properly notify HR Pay and Reward. Where a termination is not processed timeously, payslips are generated and sent to the Unit. It would appear that this control was not effective in these cases.	HR Pay and Reward should write to all heads of service informing them that where an employee leaves and payslips continue to be sent to the Unit, that HR Pay and Reward must be informed immediately.	Critical	Lesley Durie	Yes	The ongoing business improvement activity will determine the extent of this type of problem across all service areas and appropriate action will be taken in relation to revision of process and any necessary training. Included in this will be regular reminders on process, timescales and authorisation procedures.	30.09.09
12	HR Pay & Reward have in the past forwarded reports of current standing data to services for verification of employees, grades, etc. We were advised that this has not been done on a regular basis since October 2007.	<p>Services should be required to regularly verify standing data, as a minimum on an annual basis.</p> <p>It is imperative that a response is obtained from each service and responses should therefore be monitored.</p> <p>Any variances should be followed up and actioned without delay.</p>	Critical	Lesley Durie	Yes	<p>Budget holders are provided with monthly drill down reports via Financial Management.</p> <p>A request will be made to Financial Management to determine if a process for acknowledging review of employee data could be incorporated into their current budget checking procedures.</p>	31.10.09

Ref.	Findings	Recommendation	Risk Level	Responsible Officer	Agreed	Client Response	Action Date
13	In relation to posts which are advertised and which are therefore administered by recruitment, there is no reconciliation between the number of new start forms submitted by human resources and the number of forms processed.	Human resources recruitment should consider submitting a control sheet with the new start forms to HR Pay and Reward. After processing the new start forms, Pay and Reward staff should evidence the control sheet and return it to recruitment.	Significant	Lesley Durie	Yes	This recommendation will be considered in accordance with the ongoing business improvement activity.	Ongoing

## APPENDIX A

### CONCLUSION MATRIX

As part of the audit a conclusion is arrived at for each control objective. The conclusion flows from the level of importance attached to the recommendations for each control objective. Definitions of the conclusions are as follows: -

<b>EFFECTIVE</b>	Major strengths. Only minor recommendations. A good example of effective internal control.
<b>GOOD</b>	Important strengths with some areas for improvement.
<b>REQUIRES IMPROVEMENT</b>	Control environment could be improved.
<b>POOR</b>	Some important weaknesses. Changes must be made.
<b>UNSOUND</b>	Major weaknesses. Fundamental improvements are required.

### AUDIT RECOMMENDATIONS – RISK LEVELS

Each audit recommendation has a level of risk attached to it. Definitions of these risk levels are as follows: -

<b>ROUTINE RISK</b>	A minor weakness in control has been identified. Such weaknesses do not severely compromise control but a system can be improved by the implementation of the audit recommendation.
<b>SIGNIFICANT RISK</b>	An important weakness in control has been identified which could result in a system failing to operate effectively.
<b>CRITICAL RISK</b>	A serious weakness in control has been identified which leaves the system at risk of misuse or abuse. The weakness and implementation of the audit recommendation should be addressed immediately.