RSM.Tenon

Thurrock Council

Payroll including HR

Internal Audit Report 2011/12
8th July 2012

FINAL

Overall Opinion

Amber   Amber

Red   Green

CONTENTS

Debrief meeting	Various dates	Auditors	Chris Harris – Director
Draft report issued	26 March 2012		Gary Clifford - Client Manager
			Dina Lucchesi - Senior Auditor
Responses received	5 July 2012		
Final report issued	9 July 2012	Client sponsor	Head of HR, OD & Customer Strategy - Jackie Hinchliffe
		Distribution	Head of HR, OD & Customer Strategy - Jackie Hinchliffe
			Jacqui Harding – General Manager
			Business Relationship Manager - Lindsey Francklin
			Head of Corporate Finance - Sean Clark
			Corporate Director of Finance and Corporate Governance - Martin Hone
			HR Operations Manager – Jacqueline Cahalane
			Payroll Manager - Nick Boxall
			Payroll Manager - Gill Benson

i-RIS
viewing internal audit differently

This review has been performed using RSM Tenon's bespoke internal audit methodology, **i-RIS**.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

This report is prepared solely for the use of Board and senior management of Thurrock Council. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

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1 EXECUTIVE SUMMARY

1.1 INTRODUCTION

An audit of Payroll including HR was undertaken as part of the approved internal audit periodic plan for 2011/12.

The total number of live employees on the Payroll System as at November 2011 was 4401. This figure includes contractual and casual type employments as well as Councillors.

The Team, which currently consists of 10 full time members of staff, provides the Council's full payroll needs and is also responsible for the implementation of statutory changes, the collection and payment of all statutory and third party deductions and for making the necessary returns in accordance with legislation.

For 2010/11 the total employee costs processed by Payroll and including employers' national insurance contribution and pension contributions amounted to approximately £104 million.

The employment of 84 staff members was terminated during 2010-11 through redundancy or compromise agreements at a total cost of £1,714,504.17. The sum of £1,207,806.65 was directly paid to employees and £506,697.52 to Essex County Council to cover the costs of early retirements to the Pension Fund. These payments were outside of Payroll.

The Delphi Payroll System is being updated to an Oracle Version in 2012/13.

The audit was designed to assess the controls in place to manage the following objectives and risks:

Objective	There is independent documentary evidence to support commencement and termination of employment.
Risk	All payroll and personnel records may not be updated to record a new employee. The person commencing employment may not be bona fide. There may not be documentary evidence to support an employee leaving a post.

Objective	Pay and related costs are only incurred in respect of staff employed currently in authorised posts and all payments are supported by adequate documentation.
Risk	Unauthorised payments could be made. Payments may not be calculated correctly.

Objective	Checks and reconciliations are undertaken to ensure the validity of the system and data.
Risk	Reconciliations may not be carried out on a regular basis and exception reports might not be reviewed.

1.2 CONCLUSION
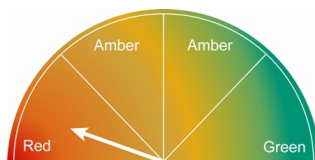
Taking account of the issues identified, the Council cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective.

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Action needs to be taken to ensure this risk is managed.

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review. The key findings from this review are as follows:

Effectiveness

- The review identified a number of issues around the payment of redundancy, compromise agreements and additional hours etc. which show these areas to be ineffective and have resulted in the Council incurring additional costs that might have been avoided.

Design of control framework

- A member of teaching staff who went through a formal capability process, was not reported to the General Teaching Council but was instead, offered a compromise agreement.

- There is adequate separation of duties.

- All new employees are required to provide sufficient identification documentation.

- Sufficient checks are carried out when an employee leaves the organisation.

- Pension Returns are correctly completed and payments to Essex County Council are authorised.

- Reconciliations are carried out and Exception Reports are reviewed.

- All users with access to the Delphi System are currently employed in a capacity that warrants continuous use.

- Global database changes are agreed by the Head of HR.

Application of and compliance with control framework

- Evidence of qualifications was not always obtained, even though the job required that the post holder was qualified.

- Some leaver forms were submitted late by the relevant department.

- Incremental rises were paid to staff on probation.

- Claims for additional hours were submitted that were arithmetically incorrect, lunch breaks had not been deducted and incorrect overtime rates were applied.

- Issues with Pay in Lieu (PILON) of Notice, Redundancy Payments and Compromise Agreements resulted in additional costs having to be met by the Council.

1.3   SCOPE OF THE REVIEW

To evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion.. Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively. When planning the audit, the following limitations were agreed:

Limitations to the scope of the audit:

- The scope of the audit will be limited to reviewing processes in place. Conclusions will be based upon sample testing of transactions relevant to the current financial year to date. Our work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

The approach taken for this audit was a Risk-Based Audit.

1.4   RECOMMENDATIONS SUMMARY

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The following tables highlight the number and categories of recommendations made. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

Recommendations made during this audit:

Our recommendations address the design and application of the control framework as follows:

	Priority		
	High	**Medium**	**Low**
Design of control framework	1	0	0
Application of control framework	4	2	0
Total	**5**	**2**	**0**

The recommendations address the risks within the scope of the audit as set out below:

	Priority		
Risk	**High**	**Medium**	**Low**
All payroll and personnel records may not be updated to record a new employee.	0	0	0
The person commencing employment may not be bona fide.	0	1	0
There may not be documentary evidence to support an employee leaving a post.	0	1	0
Unauthorised payments could be made.	1	0	0
Payments may not be calculated correctly.	3	0	0
Reconciliations may not be carried out on a regular basis and exception reports might not be reviewed.	1	0	0
Total	**5**	**2**	**0**

Recommendations implemented since the previous audit in this area:

Date of previous audit: 7 October 2011			
Assurance:	**Fundamental**	**Significant**	**Merits Attention**
Number of recommendations made during previous audit	0	2	3
Number of recommendations implemented	0	2	3
Recommendations not yet fully implemented:	**0**	**0**	**0**

1.5   ADDITIONAL FEEDBACK

We have also made the following suggestion that Thurrock Council may wish to consider:

Suggestions Made During the Audit
Management should consider reviewing the Additional Hours Policy with a view to restricting overtime to those posts below a certain band or, only pay above this where Time Off In Lieu (TOIL) would create further operational difficulty. In these circumstances, a business case should be submitted to a Director or Head of Service to sign off, providing the reason and the timescale to cover the overtime situation. This should reduce the amount of overtime being paid to senior staff on Band 7 and above.

2   ACTION PLAN

The priority of the recommendations made is as follows:

Priority	Description
High	
Medium	Recommendations are prioritised to reflect our assessment of risk associated with the control weaknesses.
Low	
Suggestion	These are not formal recommendations that impact our overall opinion, but used to highlight a suggestion or idea that management may want to consider.

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
1.1	Managers should be chased to return a signed Pre-Interview Requirement Form and reminded that they must obtain evidence of qualifications, especially if these are an essential requirement of the post. This reduces the risk of someone being appointed to a post based on a false statement of their educational achievements.	Medium	Y	Recruitment currently chase managers for evidence of qualifications relevant to the role and also follow up with the employee if information from the manager is not forthcoming. Furthermore in addition to this the new oracle system will have qualifications under the self-serve facility and therefore employees can update their own qualifications and should be able to attach scanned copies of certificates to their electronic HR file. Escalations to manager, HOS and then HRSM will be taken if pre-interview forms is not returned to recruitment by the	Immediate September 2012 May 2012	Gill Smeeton

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
				recruiting manager and also if evidence of qualifications is not received.		
				Conditional offer letters have been updated to include a request for new employee to bring in evidence of qualifications if they have not already done so.	Completed April 2012	
2.1	Departments should be reminded that leavers' forms must be submitted in advance of the leaver's termination date as overpayments can be difficult to recover.	Medium	Y	The current process is that once HRO are advised that an employee is leaving, a HRO will then send the manager a leavers form which needs to be completed and returned for processing.	Completed April 2012	Jacqueline Cahalane
				The leaver's process and the completion of leaver's forms by managers is a going concern as HR are reliant on managers informing them that an employee is leaving.		
				The ideal solution would be that leavers are processed by managers as part of managers self-serve in oracle. However this is not currently part of the oracle solution.		
				Payroll will produce a summary of the overpayment value i.e. the cost to the Council due to late notification of leavers. The	June 2012	Nick Boxall

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
				summary will be broken down to show impact across the Council. The Senior HR Advisors will produce this at the DMT meetings in order for cascade to managers. Further to this and in order to try to ensure managers are retuning leaver's forms in time a standard email will be produced to accompany the leavers form advising the managers of the dates the form must be submitted by and the implications if the form is submitted late and the risk of overpayment.	May 2012	Jacqueline Cahalane
3.2	HR should ensure that staff on probation do not receive a progression increment in April. Actioning increments when they are not due places additional pressure on staffing budgets. It could also cause problems if the services of the employee were terminated after their probation period as the awarding of an increment suggests an adequate level of performance has been achieved.	High	Y	This year 2012/13 the incremental progression process in Delphi excludes employees with less than 6 months service unless this is overridden through authorisation by the manager on their incremental list or HR. It also excludes employees with grade and scale point changes	Complete April 2012	Gill Smeeton

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
				within the last 6 months which were identified and checked against the Manager and HR approval then manually uplifted.		
				The 4 individuals identified in the test results of the 2011/12 progression will be investigated by Gill Smeeton to establish why they were processed while on probation and actions will be put in place to ensure this does not happen again.		
				The auditor sent GS six names of staff who were listed as on probation, these have been investigated and the findings are below:		
				1) First employee was checked and according to the tracker, the probation list and Delphi, was not awarded an increment. GS to query this with Audit		
				2) Two employees started in Oct 2010, so should not have been paid an increment.		
				However it came to light ahead of this years (11/12) audit that the probation report had historically been set up to run from Nov to Apr rather than from Oct to Mar.		
				I queried this before starting the		

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
				audit this year and could not see a reason why it would have been set up in this way. The report was amended to run from Oct to Mar and so I believe this issue has already been rectified. 3) Three employees are Schools staff and are not connected to posts, so are not picked up in the main Incremental and Annual Audit. The Schools send their instruction for uplift and who to omit to Payroll who then manually enter the information on to the Payroll system based on the Schools instruction. To help resolve this issue Payroll will enhance the current guidance for Schools, to emphasis the importance of highlighting staff on probation.	September 2012 April 2013	Nick Boxall
4.1	Directors and Heads of Service should ensure that their Managers do not sign any additional hours claim forms without checking. As this is part of their basic management role, this should be linked to their Performance Review process and failure to comply should be seen as a failure to achieve the required standard. Wherever possible previous claims relating to those highlighted during the	High	Y	All additional hours claim forms are currently approved by HOS and above only with the exception of casual employees hours. Through the ERP project, development is underway to provide a self service solution for claiming additional hours that should reduce the input the	September 2012 for self service submission. 30 June 2012 for overpayment recovery.	Gill Benson Nick Boxall

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
	audit should be reviewed and the overpayments recovered.			checking by payroll. The process will include more guidance available to authorising managers and HOS through tip text messages and links to current policies. HR would recommend that as part of the ERP process, training for managers should be robust and thorough in how and when to approve claims. Payroll would require a list of employees and errors occurred to assess where possible recovery of overpayments. HOS of the departments where the overpayments occurred would be contacted with the information and they would need to decide where recovery was appropriate.		
4.4	More care should be exercised in preparing business cases and identifying the cost implications of redundancy and compromise agreements. The Council's Recruitment Policy requires that any member of staff involved in the selection of staff should satisfy themselves that they are appropriately trained and can comply with the requirements of the Policy. The recruitment licence should need to be renewed by attending a recruitment	High	Y	The Recruitment Team send L&D the names of managers on each recruiting panel and L&D check to see if they have undertaken R&S training. If no one on the panel has attended the panel chair and Senior HR Advisor are emailed to advise the panel are not appropriately trained and action needs to be taken.	Completed February 2012	Gill Smeeton

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
	update every three years. The reason why Pay in Lieu of Notice is granted should be clearly documented and it should only be agreed in exceptional circumstances. The Council should consider recovering the overpayment of Pay in Lieu of Notice from the former senior member of staff.			In respect of the business case more detail could be added to the business case to justify the PILON and I believe the payment is an exception as PILON is not contractual. In the case where an overpayment of £19k has been identified the figure was £11K. The Head of Service for Finance has commenced the recovery process. The process has been changed to ensure that the leaver form and business case are checked together to see if there are any changes to the agreed payment noted on the business case. A note to remind payroll of this has also been included on the business case next to the PILON amount.	Completed February 2012 Completed April 2012 Completed April 2012	Nick Boxall
4.8	The Head of Learning & Universal Outcomes should ensure that future cases of professional incompetence are referred to the General Teaching Council. Although some schools have a different HR provider, the Head of Learning and Universal Outcomes should pick up	High	Y	The council will on a termly basis remind HR providers to community schools that any potential Capability and or Compromise Agreement issues will be flagged up at the termly HR provider/LA liaison meetings. School HR providers	On-going	Carmel Littleton

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
	these issues when they are referred to the Authority for formal authorisation. HR advice should be sought if required.			will be asked to contact the LA named contact to give early notice. The LA named officer will liaise with HR for Thurrock council and maintain a log of cases. They will be escalated to the General Teaching council or successor body when appropriate. The head of Learning and Universal Outcomes will monitor this on a regular basis.		
5.1	Annual Audit/Increment lists should be checked and approved by a Senior member of HR prior to passing them to Payroll for payment. This should minimise the risk that increments are awarded to staff who are not meeting their agreed targets.	High	Y	The form is returned to HR and logged on a tracker then passed to the relevant HRA to check the form and contact managers in relation to any queries. Once complete the form is then passed back and each individual increment is updated on the tracker.

As a precaution an additional QA check of every entry has been introduced this year (2012). The outcome of this was that GS manually checked every increment given on the forms against the entries put onto the tracker and can confirm that no mistakes were found. | Completed April 2012 | Gill Smeeton |