

RSM Tenon

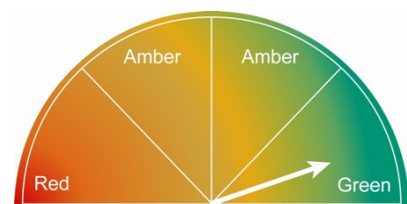
Thurrock Council

Payroll (including HR)

Internal Audit Report 2012/13
19 February 2013

FINAL

Overall Opinion



CONTENTS

Section	Page
Executive Summary	1
Action Plan	4
Findings and Recommendations	5

Debrief meeting	10 January 2013	Auditors	Chris Harris – Partner
Draft report issued	10 January 2013		Gary Clifford - Client Manager
Responses received	19 February 2013		Dina Lucchesi - Senior Auditor
Final report issued	20 February 2013	Client sponsor	Jackie Hinchliffe - Head of HR, OD & Customer Strategy -
		Distribution	Jackie Hinchliffe - Head of HR, OD & Customer Strategy Lindsey Francklin - Business Relationship Manager Sean Clark - Head of Corporate Finance Martin Hone – Corporate Director of Finance and Governance Jacqueline Cahalane - Head of HRO Sharon Ansell – Payroll Manager



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.

© 2010 RSM Tenon Limited RSM Tenon Limited is a member of RSM Tenon Group

RSM Tenon Limited is an independent member firm of RSM International an affiliation of independent accounting and consulting firms. RSM International is the name given to a network of independent accounting and consulting firms each of which practices in its own right. RSM International does not exist in any jurisdiction as a separate legal entity. RSM Tenon Limited (No 4066924) is registered in England and Wales. Registered Office 66 Chiltern Street, London W1U 4GB. England

1 EXECUTIVE SUMMARY

1.1 INTRODUCTION

An audit of Payroll (including HR) was undertaken as part of the approved internal audit periodic plan for 2012/13. It was also requested by the Standards & Audit Committee that Internal Audit re-perform the tests carried out in the previous Payroll (including HR) which received a red assurance opinion.

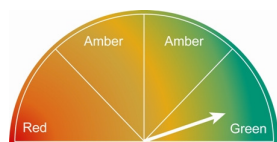
The total number of live employees on the Payroll System as at November 2012 was 4186. This is a reduction of 215 since November 2011. This figure includes contractual and casual type employments as well as Members. Between November 2011 and September 2012, 26 employees received redundancy/compromise payments at a total cost of £1,032,183. The sum of £636,497 was directly paid to employees and £395,686 to Essex County Council to cover the costs of the early retirement financial strain on the Pension Fund. These payments are made outside of Payroll, through the creditors system. For 2011/12 the total employee costs processed by Payroll and including employers' national insurance contribution and pension contributions amounted to approximately £108 million.

The upgrade of the HR and Payroll system is underway and will go live in January 2013. The system modernises the current paper based systems and will allow staff to manage their payslip, expenses, additional hours, personal details, annual leave etc. online.

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.
Risks	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.
Risks	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 can take substantial assurance that the controls upon which it relies to manage these risks are suitably designed, consistently applied and effective.

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review. It was noted that the progress since the last review has been good. The key findings from this review were as follows:

Design of control framework

- All new employees were required to provide sufficient identification documentation.
- Educational qualifications were checked when they were an essential requirement of the job specification.

- Temporary insurance numbers were only used short term.
- Sufficient checks were carried out when an employee leaves the organisation.
- Acting up allowance was paid as per policy.
- There were properly signed off business cases for all redundancy and compromise agreements.
- The Net Pay Report was reconciled on a monthly basis and reviewed by the Business Development Manager.
- All users with access to the Delphi System were currently employed in a capacity that warranted continuous use.
- The circumstances under which Pay In Lieu of Notice (PILON) will be allowed were not included in the Termination of Employment Policy (20 February 2012).

Application of and compliance with control framework

- Managers do not perform sufficient checks when authorising additional hours' claims.
- As a result of an error in the setting up of the probation report to run from November 2011 to April 2012, instead of October 2011 to March 2012, one employee still received an incremental rise. However, this was rectified by the Payroll Manager and this problem will no longer occur.
- In some cases, Pay in Lieu (PILON) of Notice was awarded when the employee could have been working off their notice.

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 calendar year to date. We did not review the appropriateness of the redundancy packages or compromise agreements as these are set out in the business cases and approved by senior management and where applicable, the Leader of the Council. 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

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	0	0	1
Application of control framework	0	0	1
Total	0	0	2

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

Risk	Priority		
	High	Medium	Low
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	0	0
There may not be documentary evidence to support an employee leaving a post.	0	0	0
Unauthorised payments could be made.	0	0	0
Payments may not be calculated correctly.	0	0	2
Reconciliations may not be carried out on a regular basis and exception reports might not be reviewed.	0	0	0
Total	0	0	2

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	5	2	0
Number of recommendations implemented	5	2	0
Recommendations not yet fully implemented:	0	0	0

1.5 ACKNOWLEDGEMENTS

We would like to thank the following people for assisting us with this review

Name	Position
Denise Marvell	Human Resources Assistant
Christine Siddons	HR System Administrator
Laura Witts	HR Payroll Advisor
Lindsey Green	HR Payroll Advisor

2 ACTION PLAN

The priority of the recommendations made is as follows:

Priority	Description
High	Recommendations are prioritised to reflect our assessment of risk associated with the control weaknesses.
Medium	
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
5.1	Managers must ensure that they do not sign any claims without ensuring their accuracy. Once the new on-line approval of additional hours' claims is implemented, there will be an even greater need for managers to scrutinise and challenge claims before authorising. All policies relating to the on-line systems need to be updated to reflect the new automated approval process and managers and employees responsibilities.	Low	Y	Agreed. Will be done as part of the general policy updates following the implementation of Oracle.	30 April 2013	Lindsey Francklin - Business Relationship Manager
5.2	Pay in Lieu of Notice should only be agreed in exceptional circumstances and details of what constitutes exceptional circumstances should be stated in the "Guidance on the preparation of a business case for early termination of employment". This will ensure PILON is applied consistently and fairly according to business needs rather than employee request.	Low	Y	Agreed. Will be done as part of the general policy updates following the implementation of Oracle.	30 April 2013	Lindsey Francklin - Business Relationship Manager

3 FINDINGS AND RECOMMENDATIONS

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all audit testing undertaken.

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
Risk 5: Payments may not be calculated correctly.					
5.1	Additional Hours' claims are correctly added up and claims are in line with the "Additional Hours and Irregular Working Policy"	Yes	<p>Testing was carried out on a sample of 20 additional hours' claims. All claims were found to be signed by the employee and authorised by the Manager and/or Head of Service.</p> <p>One claim was found to be incorrect as 2 hours were claimed at time and a half when it should have been at single time. However, Payroll now performs more checks on claims and four of the timesheets in the sample had already been corrected after they had been signed off by a manager. It was noted that when self-service is introduced, Payroll will no longer check paper copies of claims as these will be authorised by Managers on line. Therefore, there will be even more of a need for managers to ensure the additional hours were agreed prior to them being carried out and the claim accurately reflects the hours worked.</p>	Managers must ensure that they do not sign any claims without ensuring their accuracy. Once the new on-line approval of additional hours' claims is implemented, there will be an even greater need for managers to scrutinise and challenge claims before authorising. All policies relating to the on-line systems need to be updated to reflect the new automated approval process and managers and employees responsibilities.	Low
5.2	Redundancy and Compromise Payments outside of Payroll were made as per Council's Policy	No	<p>Following on from last year's testing, a further 26 employees were identified who had received redundancy/ compromise payments. The total cost of these payments was £1,032,183, which was made up of the following:</p> <ul style="list-style-type: none"> • Redundancy payments to 16 staff - £305,945; • Compromise Agreements paid to 8 staff - £305,289; 	Pay in Lieu of Notice should only be agreed in exceptional circumstances and details of what constitutes exceptional circumstances should be stated in the "Guidance on the preparation of a business case for early termination of employment".	Low

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
			<ul style="list-style-type: none"> • Only Pay In Lieu of Notice paid to 2 staff - £2,218; • Pay In Lieu of Notice paid to 5 staff who also received redundancy - £12,889; and • Pay in Lieu of Notice paid to 2 staff who also received compromise agreements - £10156. • A further £395,686 to Essex County Council to cover the costs of the early retirement financial strain on the Pension Fund. <p>A sample of 15 of the 26 redundancy and compromise payments were reviewed. The majority of these payments appear to have arisen as a result of restructures of various departments. The following was found:</p> <ul style="list-style-type: none"> • All payments were appropriately authorised. • Formally signed off business cases were found for all employees sampled. • 9 out of the 26 employees (35%) received Pay In Lieu of Notice (PILON). It was noted that the awarding of “pay in lieu of notice only in exceptional circumstances” no longer appears in the latest Termination of Employment Policy (20 February 2012). 	This will ensure PILON is applied consistently and fairly according to business needs rather than employee request.	