



**To:** Jan Corr, Exchequer Manager  
Mark Simpson, Finance Projects Manager

**For Information:** Clare Fletcher, Head of Finance

**Date Final Report Issued: 28<sup>th</sup> May 2008**

### **1. Introduction**

An audit of Payroll has been carried out as part of the 2007-08 Audit Plan. Detailed testing has been carried out on the systems of control and the management of risk within this area.

### **2. Findings and Recommendations**

The detailed findings and recommendations are set out in the report attached as Appendix A to this memo. The Management Action Plan as completed by the officers responsible is attached as Appendix B.

### **3. Conclusions**

There continues to be effective controls in the operation of the payroll system. We have made four recommendations for improvement and to minimise the residual risks to achieving service objectives. These areas relate to third party service provision, establishment lists, Inland Revenue deductions and audit logs.

Therefore, based on our audit findings, Internal Audit has assigned **substantial assurance**<sup>1</sup> to the systems and procedures which underpin the Payroll system.

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<sup>1</sup> See Appendix C for definition of Assurance Levels

## Payroll 2007 - 08

### 1. AREAS COVERED DURING THE AUDIT

1.1 The key areas of **possible** risk identified at the planning stage of the audit were as follows:

- a) No Service plan / Objectives / Policy are in place and there are insufficient experienced and qualified staff to operate the service;
- b) Procedures do not comply with Financial Regulations and Inland Revenue requirements;
- c) Insufficient separation of duties between preparation of payroll and actual payment;
- d) Payments are made to fictitious employees;
- e) Incorrect and / or unauthorised payments are made to employees;
- f) Incorrect deductions are made and / or are not credited to the intended recipient;
- g) Exception/error reports are not provided, or are not reviewed;
- h) Insufficient funds are available in the bank account to cover the Payroll on the due date;
- i) The payroll system is not regularly reconciled to the main accounting system;
- j) There are discrepancies between the Payroll and Human Resources records of current employees;
- k) Payroll-related records are not kept in accordance with the Data Protection Act 1998;
- l) Payroll systems and arrangements fail with no contingency plan.

1.2 The methodology stated in the terms of reference document were used to establish and test the controls that management have in place for mitigating or reducing the above risks to an acceptable level.

### 2. OVERALL AUDIT OPINION

Based on the audit findings, Internal Audit has assigned **substantial assurance**<sup>2</sup> to the systems and procedures which underpin the Payroll system.

### 3. BACKGROUND

3.1 This table shows details of payrolls paid in March 2008, March 2007 figures are in brackets:

Company - Payroll	No. of Employees Paid	Month / Week	Net Pay – March 2008	Net Pay – (March 2007)
SBC - Monthly	556 (563)	12 (12)	785,782.23	(840,799.87)
SBC – Weekly	105 (153)	48 (52)	22,348.70	(27,457.05)
SHL Monthly	175 (175)	12 (12)	270,447.26	(237,550.89)
SHL Weekly	57 (64)	48 (52)	16,334.58	(18,095.94)

<sup>2</sup> See Appendix C for definition of Assurance Levels

- 3.2 For Stevenage Borough Council [SBC] the overall number of monthly paid employees has reduced by seven and the monthly net pay has reduced by £55,018. Whilst the overall number of SBC weekly paid has reduced by 48 and the net pay has reduced by £5,108.
- 3.3 For Stevenage Homes Limited [SHL] the overall number of number of monthly paid employees remains the same but the monthly net pay has increased by £32,896. Whilst the overall number of weekly paid has reduced by seven and the net pay has reduced by £1,761.

### **Systems**

- 3.4 The payroll system being used is provided by Wealden and is known as Antares. The integration of SBC Payroll and Human Resources [HR] went live in January 2008, after the data cleansing and sufficient testing had taken place. A post-implementation review of Antares is programmed in the audit plan for 2008-09.

## **4. PREVIOUS RECOMMENDATIONS 2006-07**

- 4.1 The previous audit made 23 recommendations. We reviewed these recommendations and identified that 18 had been implemented and one was withdrawn as no longer applicable. The remaining four recommendations are incorporated in the following current recommendations.

## **5. CURRENT RECOMMENDATIONS**

### **Third party payroll service provision**

- 5.1 Exchequer Payroll services act as an agency for Stevenage Homes Limited [SHL] under a Service Level Agreement [SLA]. The SLA was last reviewed in June 2007 and expired on 30th September 2007. There is an ongoing process to review all the SLAs between SHL and SBC. This exercise is expected to be completed by September 2008. A recommendation has therefore not been raised.
- 5.2 Exchequer also provide a 'free' payroll service to two other third parties, namely World Forum Ethnic Minorities [seven employees] and the Stevenage Furniture scheme [three employees]. These are long standing 'historical' agreements for SBC Payroll to act as their agency for which there are no formal letters of agreement in place – as previously recommended. These are services provided at the request of Members originally and have continued to be given free of charge.
- 5.3 There are some risks evident due to the relatively informal and minimal processes in providing the service. We identified that authority for setting up new starters / change comes via e-mail or fax. There is a risk that a person could be set up without the correct authorisation, as no lists of authorising signatories have been provided. The Organisations are invoiced for totals paid and detail individual amounts are provided on spreadsheets. The Furniture scheme is invoiced monthly. The World Forum is invoiced quarterly by local arrangement to help their operating procedures. This does however increase the risk of a loss to SBC if payment was found to have been made incorrectly, it may not be realised for at least three months.

- 5.4** **As previous, it is recommended that** the provision of payroll services to World Forum and the Furniture scheme be reviewed and consideration be given to continuing to provide the service free of charge.

#### **Establishment List**

- 5.5 The quarterly check for Establishment Review (Ghost Employee Check) - was stopped following a previous audit, as it was considered that the check could be incorporated with the Salary Monitor issued by Accountancy. We reviewed the new process and conclude that this check is best kept separate from the Salary Monitor and controlled by Exchequer as a specific control to mitigate the risk of Ghost / Invalid Employees. This is due to the Salary Monitor not being issued every month and that there is no return required to confirm that the information is correct.

- 5.6** **We recommend that** the re-introduction of producing quarterly 'Actuals' reports on all payrolls to enable establishment checks for ghost employees and payroll accuracy by the relevant managers. The reports should be emailed to the Heads of Service requesting confirmation that all listed employees are valid. The responses should be filed electronically for reference. Details of those that do not comply should be passed to the Financial Projects Manager for escalation.

#### **Overpayments to Staff**

- 5.7 In December 2007 the Financial Projects Manager [FPM] advised Internal Audit that there had been an issue with the Car Park Technician's salaries and that a substantial overpayment of salaries of approximately £24,000 in total had been paid to five members of staff. The error was due to an incorrect payroll code being used for a pay award made in July 2005. The FPM investigated and reported to the Strategic Director. The FPM and Strategic Director have had meetings with the relevant staff and their union representatives, which has resulted in proposals being made for repayment and individual personal repayment plans being agreed. As a result of the error being discovered, immediate steps were taken to correct the current payments and an action plan was created to prevent a reoccurrence. The FPM has informed Internal Audit that this action plan is to be fully implemented by June 2008. Internal Audit will review the action taken as part of the 2008-09 audit. A recommendation has therefore not been raised.

#### **Inland Revenue Deductions**

- 5.8 Payroll Officers complete checks to agree annual system changes to National Insurance and Inland Revenue parameters, but do not hold a record as evidence of checks made to confirm upgrades had been successfully completed.

- 5.9** **As previously recommended** evidence should be retained to support the validation checks undertaken by Exchequer Officers, following changes to National Insurance and Inland Revenue parameters by the system supplier.

#### **Audit Logs**

- 5.10 The payroll system reports an audit log that details all permanent changes to payroll. These are meant to be checked by an independent officer. There was no evidence of these checks being completed.

- 5.11** **As previously recommended,** the independent checks be completed and each audit log report should be evidenced for future reference.

**MANAGEMENT ACTION PLAN**  
**Stevenage Borough Council Payroll 2007 - 08**

Appendix/ Para	Recommendation	Significance L Low M Med H High	Agreed/ Not agreed	Officer Responsible	Officer Comments	Implement'n date
5.4	<b>As previous, it is recommended that</b> the provision of payroll services to World Forum and the Furniture scheme be reviewed and consideration be given to continuing to provide the service free of charge.	L	Agreed	Financial Projects Manager	The Finance Project Manager's current plan is in two phases. Phase one is to complete the corporate unit costing exercise planned to address the SHL proposal for reviewing the payroll SLA. This will hopefully give a sound basis for calculating a realistic cost for providing the service to World Forum and the furniture scheme. Phase two is through the Strategic Director of Resources and the Resources Portfolio Holder; establish the basis of an approach for reviewing the arrangement with each organisation involved.	September 2008.

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5.9	<b>As previously recommended</b> evidence should be retained to support the validation checks undertaken by Exchequer Officers, following changes to National Insurance and Inland Revenue parameters by the system supplier.	L		Exchequer Manager	Deputy Exchequer Manger intends to put evidence of checks in a book, signed and checked off.	Immediate
5.11	<b>As previously recommended,</b> the independent checks be completed and each audit log report should be evidenced for future reference.	L		Exchequer Manager		Immediate

**ASSURANCE, PRIORITY AND RISK DEFINITIONS****Assurance Levels**

<b>Assurance Level</b>	<b>General Definitions</b>
Full	<p><b>Evaluation opinion:</b> there is sound system of control designed to achieve the system objectives; and</p> <p><b>Testing opinion:</b> the controls are being consistently applied.</p> <p>Full Assurance will be attributed to a system where no recommendations are made or where in the auditor's judgement the recommendations relate to actions that are considered desirable and which should result in enhanced control or better value for money.</p>
Substantial	<p><b>Evaluation opinion:</b> basically a sound system but there are weaknesses which put some of the control objectives at risk, and/or;</p> <p><b>Testing opinion:</b> there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.</p> <p>Substantial Assurance will be attributed to a system where in the auditor's judgement the recommendations relate to actions that are considered necessary to avoid exposure to significant risks.</p>
Limited	<p><b>Evaluation opinion:</b> weakness in the system of controls are such as to put the system objectives at risk, and/or;</p> <p><b>Testing opinion:</b> the level of non-compliance puts the system objectives at risk.</p> <p>Limited Assurance will be attributed to a system where in the auditor's judgement the recommendations relate to actions that are considered imperative to ensure that the Council is not exposed to high risks.</p>
No	<p><b>Evaluation opinion:</b> control is generally weak leaving the system open to significant error or abuse, and/or;</p> <p><b>Testing opinion:</b> significant non-compliance with basic controls leaves the system open to error or abuse.</p> <p>No Assurance will be attributed to a system where in the auditor's judgement they can place no reliance of the controls and procedures in operation either because they do not exist or because they are weak leaving the system open to abuse or error.</p>