



INTERNAL AUDIT

FINAL REPORT

Title: Payroll

Report Distribution

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EXECUTIVE SUMMARY

Introduction

An audit of Payroll was undertaken as part of the approved internal audit periodic plan for 2010/11.

Gedling Borough Council's employees are paid via BACS on a monthly basis, with salaries amounting to £738,615 for the month of December 2010. The payroll team based at Gedling is responsible for the processing of Gedling Borough Council's payroll and as part of a shared services initiative, has been responsible for the processing of Rushcliffe Borough Council's payroll for a number of years.

The Council uses the Aurora system provided by Northgate for the day-to-day processing of payroll data. Access to the system has been restricted to key personnel according to their job role. A separate system, My View, has been implemented which allows employees to view their payslips online and also to make changes to their personal data. All changes related to salary are made by payroll staff and are independently reviewed for accuracy. All changes made to payroll data, including the processing of new starters and leavers, are undertaken by one member of staff and checked and countersigned by a second member of staff thereby decreasing the risk of errors occurring.

The Human Resources Departments at both Gedling Borough Council and Rushcliffe Borough Council are responsible for the recruitment of employees thereby ensuring segregation between recruiting employees and arranging for their salary payments.

Principal Findings

	High	Medium	Low
Number of recommendations	0	1	2

The detailed findings and associated recommendations are provided in the second part of this report. We have made no high risk recommendations and one medium risk recommendations in the report.

Assurance Statement

Internal Audit can provide **substantial assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed.

Areas of good practice include:

- Check sheets are used to ensure all changes made to employee data, including adding new starters and leavers, are checked by a second member of staff.
- The My View system allows staff to access and view their payslip, along with other key payroll information, on an ongoing basis.

INTRODUCTION

Objective & Scope

The purpose of the review was to ensure that employees are paid all monies due to them each month in a timely manner and that the authority is correctly recording and accounting for its payroll costs. The review included Gedling's responsibilities for payroll provision to Rushcliffe Borough Council (a separate audit report has been prepared to report specific findings in relation to Rushcliffe Borough Council).

The key areas associated with the system objectives are:

- Procedural documentation and training;
- Starters;
- Leavers;
- Amendments;
- Deductions;
- Additional payments and expenses;
- Checking and payment authorisation;
- Statutory documentation; and
- Reconciliations.

The control areas included within the scope of the review are:

- Procedural documentation and training;
- Financial regulations;
- Policies and procedures;
- Access to the payroll system;
- Authorised signatories list;
- Training;
- Authorisation of Leavers;
- Authorisation of Starters;
- Identification and recovery of outstanding monies;
- Amendments;
- Authorisation of Deductions;
- Additional payments and expenses;
- Appropriateness of payments and payments authorisation;
- Exception reports;
- Proposed payroll reports;
- Statutory documentation;
- Payslips;
- Tax codes; and
- P11Ds / P60s.

Confidential

The following limitations to the scope of the audit were agreed when planning the audit:

- The review will only consider staff paid through the payroll system;
- We will not consider the appropriateness of payments made to staff, only that these are the correct amounts due to them;
- The audit will not include any recalculation of PAYE deductions;
- We will not test the accuracy of National Insurance or pension deductions or those amounts paid over to relevant third parties;
- We will not comment on the organisation's recruitment process;
- We will not substantively re-perform reconciliations;
- Testing will be completed on a sample basis from transactions within the current year; and
- Our work does not provide assurance that material errors, loss or fraud does not exist.

This audit report is presented on an exception basis. The detailed findings include only those areas where controls should be enhanced to improve their effectiveness and mitigate the risks that affect the authority's objectives for the system reviewed. Controls and risks identified in the scope that are not mentioned in the detailed findings were considered to be adequate and operating effectively.

Acknowledgement

A number of staff gave their time and co-operation during the course of this review. We would like to record our thanks and appreciation to all the individuals concerned.

DETAILED FINDINGS

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 1 - Authorised Signatories List Level of Risk - Low</p>			
<p>It was confirmed that the authorised signatories list is reviewed on an annual basis and updated throughout the year when necessary. The signatories list is available for all members of the Payroll Team to access and is kept in a secure filing cabinet.</p> <p>As part of our audit testing, we identified three instances where the documentation, including one leaver form, one new starter form and one mileage claim form, had been authorised by staff who were not present on the authorised signatories list.</p>	<p>If the signatories list is not maintained up-to-date, there is a risk that forms and claims may be authorised by staff members who have no delegated authority to do so.</p>	<p>The authorised signatories list should be reviewed and updated to ensure that all members of staff authorised to sign payroll data are included on the list.</p> <p>Action: Alan Doig – Senior Assistant Accountant</p>	<p>Management Comment: Recommendation agreed.</p> <p>Planned Corrective Action: Payroll will continue to send the lists out each year and ensure that only authorised officers sign payroll documentation.</p> <p>Timescale: Immediate</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 2 - Amendments to Payroll Standing Data Level of Risk - Low</p>			
<p>It was confirmed with the Senior Assistant Accountant that currently the payroll system is not capable of producing a meaningful audit report that accurately shows all changes made to employee payroll standing data.</p> <p>As an alternative control, each time a member of the Payroll Team makes a change, the paperwork is passed to another member of the Team to carry out an independent check.</p>	<p>Without a system report, there remains a risk that not all changes are independently reviewed and unauthorised changes may not be identified.</p>	<p>The system capabilities should be further investigated to ascertain whether a suitable audit report can be produced.</p> <p>Staff should then ensure that the report is produced and independently reviewed against supporting evidence prior to processing the payroll each month.</p> <p>Action: Alan Doig – Senior Assistant Accountant</p>	<p>Management Comment: Currently all changes made to the system are checked from the prime documents, resulting in 100% of amendments being independently checked.</p> <p>Planned Corrective Action: Senior Assistant Accountant will investigate the system to see if such a report can be produced. This report can then be used to ensure unauthorised changes have not been made.</p> <p>Timescale: 31st May 2010</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 3 - Segregation of Duties Level of Risk - Medium</p>			
<p>Currently one member of the Payroll Team at GBC is responsible for processing the payroll for Gedling Borough Council and another member of the Payroll Team is responsible for processing the payroll for Rushcliffe Borough Council.</p> <p>Proposed payroll reports are checked and signed by both these members of staff. However these individuals prepare the payroll, process amendments and also check and sign off the payments reports. There is therefore a lack of segregation of duties.</p>	<p>There is a risk of fraud or error and of this not being identified.</p>	<p>The proposed payroll reports should be reviewed and countersigned by a senior member of staff who is not involved in the day-to-day processing of payroll information, prior to submission of the payments.</p> <p>Action: Alan Doig – Senior Assistant Accountant</p>	<p>Management Comment: Recommendation agreed.</p> <p>Planned Corrective Action: Senior Assistant Accountant could sign the BACs submission report prior to making the payments.</p> <p>Timescale: Immediate</p>

ANNEX A**Risk & Assurance – Standard Definitions**Audit Recommendations

Audit recommendations are categorised, depending upon the level of associated risk, as follows:

Level	Category	Definition
1	High	Action is essential to manage exposure to fundamental risks.
2	Medium	Action is necessary to manage exposure to significant risks.
3	Low	Action is desirable and should result in enhanced control or better value for money.

Assurance Statement

Each report will provide an opinion on the level of assurance that is provided with respect the risk emanating from the controls reviewed. The categories of assurance are as follows:

Category	Definition
No	The majority of the significant risks relating to the area reviewed are not effectively managed.
Limited	There are a number of significant risks relating to the area reviewed that are not effectively managed.
Substantial	The risks relating to the objectives of the areas reviewed are reasonably managed and are not cause for major concern.

What Happens Now?

The final report is distributed to those involved with discharging the recommended action, the Head of Corporate Services, Audit Commission and, where applicable, the relevant Heads of Service.

A synopsis of the audit report is provided to the authority's Audit Committee. Internal Audit will carry out a follow-up exercise approximately six months after the issue of the final audit report. The on-going progress in implementing each recommendation is reported by Internal Audit to each meeting of the Audit Committee.

Any Questions?

If you have any questions about the audit report or any aspect of the audit process please contact the auditor responsible for the review or Vince Rimmington, Manager Audit & Risk Services on telephone number 0115 9013850 or via e-mail to vince.rimmington@gedling.gov.uk