East Lothian Council

REPORT TO: Audit and Governance Committee

MEETING DATE: 22 March 2016

BY: Depute Chief Executive – Resources & People Services

SUBJECT: Internal Audit Report – Payroll

1 PURPOSE

1.1 To inform the Audit and Governance Committee of the recently issued audit report on Payroll.

2 RECOMMENDATION

2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan.

3 BACKGROUND

3.1 A review of Payroll was undertaken as part of the audit plan for 2015/16.

3.2 The main objective of the audit was to ensure that the internal controls in place for the administration of the Payroll process were operating effectively.

3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

4.1 None

5 EQUALITIES IMPACT ASSESSMENT

5.1 This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

6   RESOURCE IMPLICATIONS

6.1   Financial - None

6.2   Personnel - None

6.3   Other - None

7   BACKGROUND PAPERS

7.1   None

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DATE	10 March 2016

EAST LOTHIAN COUNCIL – INTERNAL AUDIT
PAYROLL

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of the internal controls surrounding the administration of Payroll was undertaken as part of the Audit Plan for 2015/16. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- Guidance is available on the Council's intranet to assist Managers responsible for the administration of starters, changes in circumstances and leavers.
- Key documentary evidence is held for all new starts, leavers and change of contracts.
- The process history screen on EDRMS (Electronic Document and Records Management System) provides a clear audit trail of all tasks undertaken by both Human Resources (HR) and Payroll staff.
- Adequate separation of duties exists for the setting up of new starts – HR staff are responsible for entering new start details on the CHRIS payroll system, while new employee salary grades and point placings are input by Payroll staff.

1.3 Areas with Scope for Improvement

- In one case, the final pay for an employee leaving the Council had not been correctly calculated. *Risk – over or under payments may occur.*
- In some instances, change of contract forms had not been authorised by service areas prior to the effective date of change. *Risk – over or under payments may occur.*
- In a number of cases, the calculation of the annual leave entitlement on the Leavers Form was found to be incorrect. *Risk – over or under payments may occur.*
- In some cases, the Employee Appointment Form had not been submitted by service areas to HR timeously – in two cases the employee had commenced work with the Council prior to pre-employment checks being undertaken. *Risk – failure to comply with legislation and Council procedures.*
- In a number of cases, the Notification of Start Date Form had not been completed by the relevant Manager to confirm that the employee had commenced employment with the Council. *Risk – inappropriate payroll payments may be made.*

1.4 Summary

Our review of Payroll identified some areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

Mala Garden
Internal Audit Manager   **March 2016**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.2	Management should ensure that the Employee Appointment Form is provided to Human Resources prior to employees commencing work with the Council, to enable appropriate pre-employment checks to be undertaken.	Medium	Service Managers	Reminders to be issued by HR to Managers.		June 2016
	Management should ensure that the Notification of Start Date Form is fully completed by Service Managers and submitted to Human Resources.		Service Manager – HR and Payroll	Following a recent review it has been agreed that the form will be withdrawn and will no longer form part of the procedures – service areas will be informed of the change as part of the reminder.		June 2016
3.2.5	Management should ensure that the data form for new starts accurately records the employee's key data.	Medium	Service Manager – HR and Payroll	Agreed		April 2016
3.3.1	Management should ensure that all Change of Contract Forms are authorised by the Manager or an appropriate officer prior to the effective date of change.	Medium	Service Managers	Reminders to be issued by HR to Managers.		June 2016

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.4	Management should ensure that a senior member of Payroll staff reviews the manual pay calculations for higher duties prior to being input to the CHRIS payroll system.	Medium	Payroll Manager	Agreed		April 2016
3.4.1	Management should ensure that the letter of resignation or retirement submitted by the employee to the Service Manager or responsible officer is forwarded to Human Resources.	Medium	Service Managers	Reminders to be issued by HR to Managers.		June 2016
3.4.2	Management should ensure that the annual leave entitlement is correctly calculated on the Leavers Form prior to being submitted to Human Resources. Consideration should be given to providing appropriate training to staff responsible for completing Leavers Forms.	Medium	Service Managers Service Manager – HR and Payroll	Reminders to be issued by HR to Managers. Agreed – reminders to be issued with regards to annual leave calculations.		June 2016 June 2016
3.4.5	Management should ensure that a senior member of Payroll staff reviews the final pay calculation where a number of adjustments are required.	Medium	Payroll Manager	Agreed		April 2016

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.6	**Consideration should be given to reviewing the current approach for dealing with backdated arrears for employees who have left the Council.**	**Medium**	**Payroll Manager**	**Agreed – to be reviewed.**		**August 2016**

Grading of Recommendations

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.