

Final Internal Audit Report

Overtime Payments

May 2021

Distribution: Interim Executive Director Resources and Council Monitoring Officer

Director of Human Resources

Head of HR and Finance Service Centre

Assurance Level	Identified Issues	
Limited Assurance	Priority 1	0
	Priority 2	5
	Priority 3	0

Confidentiality and Disclosure Clause

This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of London Borough of Croydon and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, re-interpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, re-interpretation, amendment and/or modification by any third party is entirely at their own risk.

Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

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2. Definitions for Audit Opinions and Identified Issues
3. Statement of Responsibility

1. Introduction

- 1.1. Members of Council staff claim payment for overtime by completing the 'Claim For Payment Overtime Form' available for both full time and part time employees. The form is required to be reviewed and authorised by the employee's approval manager before being processed. The submission deadlines for claims are detailed in the payroll calendar in the Staff Handbook, module 5, Chapter 5. Overtime payments are made a month in arrears.
- 1.2. The total of overtime payments from 1 April to 31 August 2020 for the Council was £421,286. These payments were higher during the initial Covid-19 lockdown period, being £118,887 and £120,013 in May and June 2020, compared to £59,436; £57,467 and £64,480 in in April, July and August 2020.
- 1.3. It should be noted that £97,145 of the overtime payments related to the 'On-Street Parking Enforcement' service, with the overtime payments for this Service in August 2020 being more than half of the total Council overtime for that month. (Overtime for this Service was drastically reduced during the Covid-19 lockdown period.) Due to the significant value of the On-Street Parking Enforcement overtime payments relative to the total overtime payments, these were subject to a separate audit.
- 1.4. The fieldwork for this review was completed during the government measures put in place in response to COVID-19. While our review and testing was performed remotely, we have been able to obtain all relevant documents required to complete the review.
- 1.5. The audit was undertaken as part of the agreed Internal Audit Plan for 2020/21 based on a risk assessment. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1.

2. Key Issues

Priority 2 Issues

Although the Staff Handbook detailed the rules and guidance on overtime (or additional hours), this was incomplete and not all in one location. **(Issue 1)**

Testing of a sample of 20 overtime claim forms identified a staff member on flexible retirement being paid overtime which is specifically forbidden in the Staff Handbook. **(Issue 2)**

Payroll staff were not able to confirm whether staff working on average more than 48 hours a week had formally agreed to work beyond the 48 hours week and were not able to provide a record of the hours worked for each employee for each reference period in line with the requirements of the Working Time Directive 1998. **(Issue 3)**

Where overtime claim forms were submitted without a cost centre, the cost code of the unit that the staff were employed against would be charged instead of the forms being sent back to be properly completed. **(Issue 4)**

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Sample testing identified some instances where overtime claims, which had not been appropriately approved, had been processed. **(Issue 5.)**

There were no Priority 3 issues.

3. Actions and Key Findings/Rationale

Audit Area: Governance and Leadership

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 1				
2	A review of the location of the rules, procedures and guidance related to overtime will be undertaken and ensure there are clear links for navigation.	<p>In order to help achievement of desired objectives and help ensure consistency of approach, appropriate rules, procedures and guidance should be in place.</p> <p>The Councils' Staff Handbook details the rules and guidance on overtime (or additional hours), however, rather than being in one chapter this is spread across a number of different chapters, as follows:</p> <ul style="list-style-type: none"> • Module 3: Chapter 7 'Flexible Retirement Policy', which details that staff on flexible retirement may not claim overtime; • Module 15: Chapter 2 'Working Time Directive', which includes the rules relating to when additional hours may be worked; and • Module 21: Chapter 1c 'EBCR collective agreement', which details the grade of staff that can claim overtime and rates for different types of overtime. <p>Furthermore, the rules on overtime are incomplete. For instance, the Council pays overtime worked on public holidays at 200% of the normal rate, but this was not detailed in the staff handbook.</p>				
	<table border="1"> <thead> <tr> <th>Responsible Officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>HR Policy and Equalities Manager</td> <td>July 2021</td> </tr> </tbody> </table>	Responsible Officer	Deadline	HR Policy and Equalities Manager	July 2021	Where the rules, procedures and guidance on overtime are not easily located or complete, there is an increased risk that staff will not properly comply with these.
Responsible Officer	Deadline					
HR Policy and Equalities Manager	July 2021					

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Overtime Claims

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 2				
2	<p>There is nothing within the LGPS regulations which prevents an employee from claiming overtime on flexible retirement. It is a local policy decision.</p> <p>A review of the Staff Handbook, Module 3: Chapter 7 'Flexible Retirement Policy' paragraph 4.3 will be undertaken to ensure the wording in the policy reflects current policy framework and best practice, benchmarking with London councils.</p>	<p>The Staff Handbook, Module 3: Chapter 7 'Flexible Retirement Policy' paragraph 4.3 details that, '<i>Reduction of an employee's contractual hours through flexible retirement is contractually permanent. Employees will not be permitted to increase their contractual hours or be paid for additional hours above their newly reduced contracted hours for the duration of their employment with the Council.</i>'</p> <p>Examination of the HR records for a sample of 20 overtime claims identified an instance where an employee who was on flexible retirement had been paid for overtime worked. This overtime claim should not have been authorised or processed.</p> <p>Discussion was held with the respective Head of Service at the time of our fieldwork to highlight this and with a view to ensuring no further payments were made to the individual on flexible retirement.</p> <p>The payment of overtime to the staff member on flexible retirement is a breach of the staff handbook.</p>				
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Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 3
2	<p>As set out in Module 15: Chapter 2 'Working Time Directive' the onus is on employees to record hours of work through monitoring arrangements agreed locally and to discuss with their line manager if they are working more than 48 hours per week on average, over a 17 week period. There is no requirement for records to be held centrally by payroll and therefore, no further action is proposed.</p> <p>Audit comment: It is accepted that the onus is for these to be agreed locally, but as highlighted in the in the rationale, there is risk that these will not be readily available. Furthermore, Payroll should not be processing overtime for employees working more than 48 hours a week, unless assurance is obtained that this has been properly agreed. It is noted, however, that management has decided to accept the risk identified.</p>	<p>The Working Time Regulations 1998 regulation 4 (1) details that, '<i>Subject to regulation 5, a worker's working time, including overtime, in any reference period which is applicable in his case shall not exceed an average of 48 hours for each seven days.</i>' Regulation 5 (1) further details that, '<i>The limit specified in regulation 4(1) shall not apply in relation to a worker who has agreed with his employer in writing that it should not apply in his case, provided that the employer complies with the requirements of paragraph (4).</i>' The requirements of paragraph 4 include that up-to-date records are maintained of the staff that have agreed to opt out and the conditions, if any, of these as well the number of hours worked by each such employee for each reference period. These records must be made available for inspection should it be required.</p> <p>Analysis of the overtime paid between 1 January and 31 August 2020 identified 11 staff who had on average worked more than 48 hours a week for the period (each staff member was on a standard 36-hour contract and had been paid overtime for an average of 12 or more hours per week.) Although the number of overtime hours paid was being monitored and reported monthly, this record did not highlight that these staff had worked beyond a 48 hours week. Furthermore, Payroll staff were not able to confirm whether these staff had formally agreed to work beyond the 48 hours week and were not able to provide a record of the hours worked for each employee for each reference period.</p> <p>It should be noted that follow up by Internal Audit with the relevant Service confirmed that each staff member had formally opted out of the 48 hour restriction (with this record being maintained locally) and that a local weekly record of overtime was being maintained, which would enable a record of the overtime per employee for each reference period to be fairly easily compiled.</p> <p>Where appropriate records of staff working more than 48 hours a week are not held centrally, there is a risk that these will not be readily available for inspection should these be required.</p>
Responsible Officer	Deadline	

Overtime Payments 2020-21

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 4				
2	<p>Within the payroll system the costing of overtime defaults to the cost centre where the staff are employed against, there is no requirement for payroll to look up that cost centre. This reduces the reliance on the manual entry of the cost centre and lowers the risk of error.</p> <p>Payroll only need to know the cost centre if the overtime is to be costed to a different cost centre.</p> <p>The overtime claim form will be amended to make it clear when a cost centre needs to be provided. The updated overtime claim form will be published on the staff intranet.</p>	<p>In order for overtime worked to be claimed, staff are required to submit an appropriately completed and authorised overtime claim form to the Payroll Service, where this is processed.</p> <p>Testing of a sample of 20 overtime claims found that 14 of these had not been fully completed and did not include a cost centre for the overtime to be allocated to / charged against. It was explained by the Payroll Manager that where overtime claim forms are submitted without a cost centre that the Payroll staff would look up and charge the cost code of the unit that the staff are employed against instead of being sent back to be properly completed.</p> <p>While it is accepted that the cost code of the unit that the staff are employed against will generally be the correct cost code to use, there are instances where overtime should be charged against other cost codes, for instance (but not limited to) where staff perform additional duties during elections or emergencies.</p> <p>There is a risk that incorrect cost codes have been charged.</p>				
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Responsible Officer	Deadline					
Head of HR & Finance Service Centre	May 2021					

Approval and Payments to Staff

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 5																				
2	<p>The responsibility lies with the authorising officer. The declaration on the overtime claim form will be amended to make it clear that authorisation needs to be provided by a Tier 1 -4 officer. The updated overtime claim form will be published on the staff intranet.</p> <p>Any claims without a signed declaration will be returned to the sender.</p>	<p>The Council's Scheme of Financial Delegation details that overtime claims can only be approved by authorised personnel with 4th tier authorisation and above. The staff members and their tier levels are recorded in the 'Authorised Signatory Listing'.</p> <p>Testing of a sample of 20 overtime claims identified three instances where these claims were not appropriately authorised, as follows:</p> <ul style="list-style-type: none"> One where the authorising signature was of a 5th tier staff member who, whilst a Manager due to the structure of that section was not 4th tier and as such, therefore did not have the required authority to approve overtime claims: <table border="1"> <thead> <tr> <th>Division</th> <th>Service</th> <th>Amount</th> <th>Date Paid</th> </tr> </thead> <tbody> <tr> <td>Early Help and Children's Social Care</td> <td>0-25 CWD and Transition Service</td> <td>£494.99</td> <td>23 April 2020</td> </tr> </tbody> </table> Two where the overtime claims were signed by staff members whom both would be of the right grade for 4th tier authorisation however were not on the 'Authorising Signatory Listing': <table border="1"> <thead> <tr> <th>Division</th> <th>Service</th> <th>Amount</th> <th>Date Paid</th> </tr> </thead> <tbody> <tr> <td>Early Help and Children's Social Care</td> <td>Social Work with Children Looked After and Care Leavers</td> <td>£433.38</td> <td>23 April 2020</td> </tr> <tr> <td>Finance Investment and Risk</td> <td>Payments, Revenues, Benefits and Debt</td> <td>£88.68</td> <td>23 April 2020</td> </tr> </tbody> </table> 	Division	Service	Amount	Date Paid	Early Help and Children's Social Care	0-25 CWD and Transition Service	£494.99	23 April 2020	Division	Service	Amount	Date Paid	Early Help and Children's Social Care	Social Work with Children Looked After and Care Leavers	£433.38	23 April 2020	Finance Investment and Risk	Payments, Revenues, Benefits and Debt	£88.68	23 April 2020
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Responsible Officer	Deadline	Where overtime claims are processed that are not appropriately authorised, there is a risk that invalid claims are paid resulting in financial loss. There is also a breach of the Council’s Scheme of Financial Delegation.
Head of HR & Finance Service Centre	May 2021	

AUDIT TERMS OF REFERENCE

Overtime Payments

1. INTRODUCTION

- 1.1 Members of staff claim payment for overtime by completing the 'Claim For Payment Overtime Form' available for both full time and part time employees. The form is reviewed and authorised by the employees Approval Manager before being processed.
- 1.2 The submission deadlines for claims are detailed in the payroll calendar in the Staff Handbook, module 5, Chapter 5.
- 1.3 This audit is being undertaken as part of the agreed Internal Audit Plan for 2020/21.

2. OBJECTIVES AND METHOD

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.
- 2.2 The audit will for each controls / process being considered:
- Walkthrough the processes to consider the key controls;
 - Conduct sample testing of the identified key controls, and
 - Report on these accordingly.

3. SCOPE





- 3.1 This audit included the following areas (and issues raised):

Control Areas/Risks	Issues Raised		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislative, Organisational and Management Requirements	0	1	0
Overtime Claims	0	3	0
Approval and Payments to Staff	0	1	0
Budget Monitoring and Management Reporting	0	0	0
Total	0	5	0

Definitions for Audit Opinions and Issues Raised

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are constantly applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance of the controls which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse and reputational damage.

Priorities assigned to issues raised are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area.

Statement of Responsibility

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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