

Final Internal Audit Report

Payroll

November 2016

Distribution: Executive Director Resources (Final only)
 Director of Customer and Transformation
 Head of HR and Finance Service Centre
 Assistant Director of Finance

Assurance Level	Recommendations Made	
Satisfactory Assurance	Priority 1	0
	Priority 2	2
	Priority 3	1

Confidentiality and Disclosure Clause

This report has been prepared on the basis of the limitations set out in Appendix 3.

This report and the work connected therewith are subject to the Terms and Conditions of the Contract dated 1st April 2008 between the London Borough of Croydon and Mazars Public Sector Internal Audit Ltd. The content of the report is confidential and has been prepared for the sole use of the London Borough of Croydon 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, we accept no responsibility or liability to any third party who purports to use or rely, for any reason whatsoever on this report, its contents or conclusions.

Contents

Page

Executive Summary

1. Introduction.....	3
2. Key Issues.....	3

Detailed Report

3. Actions and Key Findings/Rationale	4
5. Priority 3 Recommendation	6

Appendices

1. Audit Terms Of Reference
2. Definitions Of Audit Opinions And Recommendations
3. Statement Of Responsibility

1. Introduction

- 1.1 The Council's Payroll function has been provided by Liberata UK Limited since April 2007. Liberata uses the Oracle ERP (One Oracle) software platform.
- 1.2 The audit is being undertaken as part of the agreed Internal Audit plan for 2016/2017.

2. Key Issues

Priority 2 Recommendations
An instance was identified where, to correct the omission of an employee record from the system migration from iTrent to Oracle, an employee payroll account had been created. However, neither HR nor the Council had been made aware of this correction; there was a lack of audit trail to explain the new employee record and the pension contributions had been omitted, (Rec 1.)
A regular report to detect missing national insurance numbers was not being run, (Rec 2.)

The priority 3 recommendation is detailed under item 4 below.

3. Actions and Key Findings/Rationale

Control Area 3: Employee Starters, Leavers and Amendments

Priority	Recommendation 1	Detailed Finding/Rational
2	<p>Confirm with Payroll that the four identified staff erroneously omitted from the migration to Oracle:</p> <ul style="list-style-type: none"> - have now been correctly added to Oracle; - that the pension contributions have been corrected; and - that an appropriate audit trail exists. <p>The approval of specialist employees on Payroll be approved by the Head of HR and Finance Service Centre with reports being checked every 6 months to detect exemptions.</p> <p>For any future system migrations, the data should be properly reconciled to ensure that staff are not erroneously omitted.</p>	<p>All new employees are only set up on payroll upon receipt of an appropriately completed new starter form from the HR Recruitment team or of TUPE notification from the central HR team.</p> <p>Examination of the documentation relating to a sample of 15 new employees identified an instance () where there was no starters form from HR Recruitment to confirm appointment of this employee and it was confirmed that the employee was not a TUPE transfer.</p> <p>Further discussions established that this employee had been employed within the team for approximately 10 years and that their pay records had been erroneously omitted when migrating from iTrent in 2014 to the Oracle payroll system. It was explained that this member of staff was part employed by a school and part employed by the Council and that payment had continued via her school employee record during the intermediate period. The new employee record had been set up to correct this error. However:</p> <ul style="list-style-type: none"> - There was no evidence that HR or the Council had been made aware of this correction; - There was no audit trail to explain why the new employee record had been set up or a reference to the previous employee record; - The pension contributions (employer and employee) since 2014 had been omitted. <p>It was also highlighted that there were a further three instances where the staff payroll records had erroneously not been migrated.</p> <p>It is acknowledged that a new control was put in place during October 2016, whereby any specialist employees would be approved by the Head of HR and Finance Service Centre before being set up on Payroll. All other new starters would only be set up upon receipt of a new starter form from the HR Recruitment team or of TUPE notification from central HR. It is planned that reports be run every 6 months to detect any exceptions.</p> <p>Where new starters are set up by Payroll without independent instruction/ approval,</p>

		there is a risk that these may be inappropriately or incorrectly set up.	
Management Response		Agreed/Disagreed	Responsible Officer
<p>Whilst the HR & Finance Service Centre had not been made aware of the cases that had not migrated to Oracle, the employing department in the Council was aware that these records were being set up on Oracle from 1st April 2016 and the reason why.</p> <p>The pension records for the other 3 cases will be checked by payroll to ensure these are correct.</p> <p>It is agreed that all requests to setup an employee on the payroll should come from the Council and procedures have already been put in place to ensure that is the case. A report of specialist engagements will be run and reviewed bi-annually.</p>		Agreed	Head of HR & Finance Service Centre
		Deadline	
		31 January 2017	
Detailed Finding/Rational			
Priority	Recommendation 2		
2	To investigate whether a report for missing NINOs can be implemented and run on a monthly basis.	<p>All employees working for the Council are required to provide their National Insurance number (NINO) to enable the correct national insurance deductions to be made. The national insurance number also provides some assurance that the employee has the right to work in the United Kingdom.</p> <p>It was established that the Oracle Payroll system does not have a standard report available to detail the employee records with missing NINOs.</p> <p>Where a report is not run (and reviewed) to detect missing NINO numbers, there is a risk that employees without NINOs remain on the system for an undue period of time, resulting in possible 'ghost' employees or employees without the right to work in the UK not being detected.</p>	
Management Response		Agreed/Disagreed	Responsible Officer
<p>All employees working for the Council are required to provide their National Insurance number (NINO) prior to starting employment with the Council.</p> <p>From a Payroll perspective the NINO is required to ensure that employee contributions are allocated to their NI record correctly by HMRC.</p>		Agreed - that there was no standard report	Head of HR & Finance Service Centre
		Deadline	
		Implemented	

The NINO has no relevance to the rate at which deductions are calculated - these would be made correctly whether the NINO was present on the payroll or not. A report has been run from Oracle which has confirmed there are no cases with a missing NINO. Whilst the risk of finding any cases with a missing NINO is extremely low this report will be run and checked by Payroll on a monthly basis.

4. Priority 3 Recommendation

Recommendation

Manual calculations of pay should always be checked (and be evidenced as such) by an independent employee.

Findings

Examination of ten maternity pay cases, established that in one instance ([REDACTED]) the MATB1 form was completed but not evidenced as checked by an independent employee.

Where manual calculations of pay are not checked by an independent employee, there may be an increased risk of erroneous payments being made.

Audit Terms of Reference

Payroll

1. INTRODUCTION

- 1.1 The Council's Payroll function has been provided by Liberata UK Limited since April 2007. Liberata uses the Oracle ERP (One Oracle) software platform.
- 1.2 The audit is being undertaken as part of the Internal Audit plan for 2016/2017 as agreed by the Councils General Purposes and Audit Committee.

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 that ensure payments are made to bona fide employees in accordance with contractual arrangements and that all amounts are accurately reflected in the accounts of the Council.
- 2.2 The audit will for each area included in the scope:
 - Document and evaluate the risks and controls for each process;
 - Walkthrough the processes to consider the key controls;
 - Undertake sufficient testing of controls operating, on a representative sample basis; and
 - Reach a conclusion on the effectiveness of the controls operating and report.

3. SCOPE





- 3.1 The audit included the following areas:

Control Areas/Risks	Recommendations Made		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Regulatory, Organisational and Management Requirements;	0	0	0
Payroll Transactions and Records;	0	0	0
Employee starters, leavers and amendments;	0	2	0
Variations and Adjustments to Pay;	0	0	1
Calculation and processing of deductions;	0	0	0
Payments including overpayment recovery;	0	0	0
Management Reporting and Monitoring;	0	0	0
Data and Information Security.	0	0	0
Total	0	2	1

DEFINITIONS FOR AUDIT OPINIONS AND RECOMENDATIONS

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 consistently 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 which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to recommendations are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that represent an exposure to risk and require timely action.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.

STATEMENT OF RESPONSIBILITY

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

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. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all 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. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited

London

November 2016

This document is confidential and prepared solely for your information. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

In this document references to Mazars are references to Mazars Public Sector Internal Audit Limited.

Registered office: Tower Bridge House, St Katharine's Way, London E1W 1DD, United Kingdom. Registered in England and Wales No 4585162.

Mazars Public Sector Internal Audit Limited is a subsidiary of Mazars LLP. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales to carry out company audit work.