

Final Internal Audit Report

Payroll

April 2018

Distribution: Executive Director Resources (Final only)
 Director of HR
 Head of Finance Service Centre
 Payroll Services Delivery Manager

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

Status of Our Reports

This report ("Report") was prepared by Mazars Public Sector Internal Audit Ltd 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 Public Sector Internal Audit Ltd. 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. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, 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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1. Introduction

- 1.1 The London Borough of Croydon currently outsources its payroll service to Liberata UK Limited (Liberata) and has done so since April 2007. Liberata currently uses Oracle to administer the payroll service on a monthly basis.
- 1.2 The information that Liberata currently uses in order to run the payroll is obtained from the London Borough of Croydon's Human Resources Division in addition to departmental managers. Liberata relies on the information sent through by LBC in order to update the information onto Oracle, it should be noted that Liberata uses the information provided by LBC to make changes to individuals' payroll accounts. Where discrepancies arise these are then discussed with HR/relevant departmental managers. However no new checks are undertaken.
- 1.3 Liberata routinely undertakes checks on the administration of the work undertaken, but not on the information being sent through from LBC.
- 1.4 The audit was undertaken as part of the agreed Internal Audit plan for 2017/2018.

2. Key Issues

Priority 2 Issues

Although Liberata UK Limited has a number of procedural flow charts that staff on the whole follow (especially with the information required in order to add, remove, make changes, deductions and complete the monthly payroll), there have been a number of issues identified where tasks were not always completed as per the procedural flow charts, as follows:

- For the sample of new joiners, not all the required checks were evidenced. **(Issue 1).**
- The payroll controllers for both undertaking tasks and reviewing tasks did not always sign the documentation on completion of their tasks for the sample of leavers tested or the sample of individuals with changes/variations **(Issue 2).**
- No secondary checks were undertaken for voluntary deductions. **(Issue 3).**

3. Actions and Key Findings/Rationale

Control Area 1: <u>Joiners</u>		Detailed Finding/Rational – Issue 1
Priority	Action Proposed by Management	
2	Changes reflected in the starters forms identified had been actioned correctly and despite the documents not being signed as input or checked there were no errors on the individual's payment. However the payroll team have been reminded of the importance of signing input when completed or checked.	<p>The new starters procedure note, dated December 2016, details a number of checks to be conducted for new joiner records to ensure that the right information is correctly input to the payroll system.</p> <p>Examination of the documentation for a sample of five new starters that were added to payroll in November 2017, identified the following issues:</p> <ul style="list-style-type: none"> • One instance where the screenshot of the bank account information being added to Oracle had not been attached as a hard copy to the documentation; • Four instances where the payroll controller, who was responsible for inputting the new starters information into Oracle, had not signed the paper documentation on doing so; • One instance where the payroll controller responsible for reviewing the input payroll information had not signed it on completion; and • One instance where the second payroll controller (reviewer) had put a note on the documentation regarding a differing of addresses, but there was no evidence of any follow up action based on the comment having been subsequently undertaken. <p>There is a risk that all necessary information is not obtained for all individuals added to the payroll system and that errors occur, in addition to an inconsistency with how officers deal with employees. This can lead to inefficiencies, errors in payments made and reputational damage to the Council.</p>
	Responsible officer	Deadline
	Payroll Manager	Completed

Control Area 2 & 3: Leavers and Variations & Changes					
Priority	Action Proposed by Management				
2	<p>Changes reflected in the leavers forms identified had been actioned correctly and despite the documents not being signed as input or checked there were no errors on the individual's payment. However the payroll team have been reminded of the importance of signing input when completed or checked.</p>				
	<p>Detailed Finding/Rational – Issue 2</p> <p>Staff who undertake work (payroll controller one) and who review work (payroll controller two) should sign the supporting documents, once they have completed their tasks to verify they are the responsible officers.</p> <p>Examination of the documentation for a sample of five leavers from a total of 25 leavers covering the month of November 2017 identified that:</p> <ul style="list-style-type: none"> • There were three instances where the supporting documents were not signed by the officer inputting the leaver's information into the system; and • There were two instances where the second payroll controller, who was responsible for checking the documentation and updated information on the Oracle system, had not signed the documents to support their check. <p>In addition, it was identified that, for two of the sample of five variations/changes selected from the November 2017 payroll run, the supporting documentation had not been signed by the officer responsible for checking the first Payroll Controller's work.</p> <p>Where checks or tasks are not appropriately evidenced as conducted, there is a risk that these have not occurred and of errors occurring.</p>				
	<table border="1"> <thead> <tr> <th>Responsible officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Payroll Manager</td> <td>Completed</td> </tr> </tbody> </table>	Responsible officer	Deadline	Payroll Manager	Completed
Responsible officer	Deadline				
Payroll Manager	Completed				

Control Area 4: Deductions

Priority	Action Proposed by Management	Detailed Finding/Rational – Issue 3
2	Voluntary deductions are generally processed from a spreadsheet received from a Council department. These should be checked in the same way as other checking and payroll staff have been instructed that these be included going forward.	The Croydon Council – Voluntary Deductions flowchart details the process for inputting and checking voluntary deductions into the payroll system. This process includes, 'Pass documentation for secondary checks'. Discussion with the Payroll Controller identified that no secondary checks are undertaken once information has been manually inputted by the first payroll controller for voluntary deductions. Where staff do not comply with the procedural flowcharts and where secondary checks are not conducted as required, there is a risk that inconsistencies occur and that mistakes are not identified in a timely manner.
Responsible officer	Payroll Manager	
Deadline	Completed	

TERMS OF REFERENCE

Payroll (including Data Analytics)

1. INTRODUCTION

- 1.1 The Council's Payroll function has been provided by Liberata UK Limited since April 2007. Liberata use the Oracle ERP (One Oracle) software platform.
- 1.2 This data analytics exercise is being undertaken to support the work of, and focus testing for, the annual Payroll audit, which is part of the Internal Audit plan for 2017/2018 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.
- 2.3 Data analytics will be used to:
 - To support the Payroll audit by detecting missing, erroneous or potentially fraudulent data from key Payroll processes (e.g. multiple staff using an identical National Insurance number may indicate staff that have fraudulently obtained employment at the Council and / or weaknesses in the Council's process to accurately record and verify the identity of new starters).
 - To focus the samples selected during the Payroll audit (e.g. by identifying staff that have received several gross salary adjustments in a single year, the auditor can include some of these adjustments (which are at a higher risk of error) in their sample when testing the accuracy and authorisation of salary adjustments).
- 2.4 The data analytics exercise will for each area included in the scope:
 - Provide a list of the data analytics tests to be performed;
 - Provide a list of the data fields required in order to perform these tests (note: if any of the data fields cannot be provided, this will likely restrict the number of tests that can be performed successfully);

- Perform the audit tests as described; and
- Produce an output file for each audit test (including all findings identified and a summary of the findings of each test).

3. SCOPE





3.1 The audit included the following areas:

Control Areas/Risks	Issues Identified		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Joiners	0	1	0
Leavers	0	1	0
Variations and Adjustments to Pay	0	0	0
Deductions	0	1	0
Payments	0	0	0
Total	0	3	0

DEFINITIONS FOR AUDIT OPINIONS AND RECOMMENDATIONS

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 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.

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