

Dacorum Borough Council - Internal Audit Draft Report

Payroll and Pensions Administration

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Key dates:

Date of fieldwork: November 2013

Date of draft report: December 2013

Receipt of responses:

Date of final report:

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

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1. Executive summary

1.1. Background

As part of the Internal Audit programme for 2013/14, we have undertaken an audit of the Council's systems of internal control in respect of Payroll and Pensions Administration.

1.2. Objectives and Scope

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of current controls over Payroll and Pensions Administration, and provide guidance on how to improve current the controls going forward.

In summary, the scope covered the following areas; Policies, Procedures and Legislation; Payroll Transactions and Records; Joiners; Leavers; Variations to Pay, Overtime and Deductions; Reconciliations; Payroll Data to AVDC; Management Information and Performance Indicators; Payment of Fees and Pensions Administration. Further detail on the scope of the audit is provided in Section 2 of the report.

1.3. Summary assessment

Our audit of DBC's internal controls operating over Payroll and Pensions Administration found that there is a sound system of internal control designed to achieve the system objectives. However, there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below.

Evaluation Assessment	Testing Assessment
Full	Substantial

Management should be aware that our internal audit work was performed according to UK Public Sector Internal Audit Standards (PSIAS) which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Similarly, the assurance gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Similarly, the assessment gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board. The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A, whilst further analysis of the control environment over Payroll and Pensions Administration is shown in Section 3.

1.4. Key findings

We have raised two priority two recommendations where we believe there is scope for improvement within the control environment. These are set out below:

- Expenses should be paid for the correct value and have receipts retained;
- Regular performance reports, value for money assessments and benchmarking exercises

should be prepared by AVDC; and

Full details of the audit findings and recommendations are shown in Section 4 of the report.

1.5. Management Response

We will include a summary of the management responses in our final report.

We would like to take this opportunity to thank all staff involved for their time and co-operation during the course of this visit.

2. Scope of assignment

2.1 Objective

The overall objective of this audit was to provide assurance over the adequacy of the systems of control in respect of Payroll and Pensions Administration, with regards the areas set out in section 2.3, are adequate and are being consistently applied.

2.2 Approach and methodology

The following procedures were adopted to identify and assess risks and controls and thus enable us to recommend control improvements:

- discussions with key members of staff to ascertain the nature of the systems in operation;
- evaluation of the current systems of internal control through walk-through and other non-statistical sample testing;
- identification of control weaknesses and potential process improvement opportunities;
- discussion of our findings with management and further development of our recommendations; and
- preparation and agreement of a draft report with the process owner

2.3 Areas covered





















The audit was carried out to evaluate and test controls over the following areas:

- *Legislation, Policies and Procedures*
A contract is in place that sets out the key requirements of the service and both parties are aware of their responsibilities. All staff act consistently in compliance with legislative and management requirements and the administration of the Payroll function is conducted in an economic, efficient and effective manner.
- *Payroll Transactions and Records*
To confirm reliability, integrity, confidentiality and security of the payroll system and employee records is maintained through reliable operation of the system and its interface to the main accounting systems.
- *Joiners*
To confirm that joiners are completely, accurately, validly and timely added to the payroll system.
- *Leavers*
To confirm that leavers are completely, accurately, validly and timely removed from the payroll system and are paid in accordance with their last day of employment.
- *Variations to Pay, Overtime and Deductions*
To confirm that variations, adjustments and deductions are completely, accurately, validly processed in a timely manner.
- *Reconciliations*
Reconciliations of the Payroll system with all related feeder systems are carried out in order to detect errors in a timely manner.

- *Payroll data provided to AVDC*
To confirm that up to date employee data is provided to AVDC on a regular basis in a secure manner.
- *Management Information and Performance Indicators*
To confirm that management information is provided by AVDC to DBC, in accordance with the contract and which enable DBC to effectively monitor the delivery of the service. To confirm that performance indicators have been identified to monitor AVDC's performance. To confirm that the PI's are regularly monitored and reported and any corrective action identified is followed up.
- *Payments of fees*
To confirm that management fees are in line with agreed fee structure within the contract, are appropriately authorised and that any changes to management fees are reviewed and authorised appropriately.
- *Pensions Administration*
To confirm that employees are auto-enrolled into the Council's pension scheme and that those employees wishing to opt out complete the required documentation.

3. Assessment of Control Environment

The following table sets out in summary the control objectives we have covered as part of this audit, our assessment of risk based on the adequacy of controls in place, the effectiveness of the controls tested and any resultant recommendations.

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
<i>Policy, Procedures and Legislation</i>			
<i>Payroll Transactions and Records</i>			
<i>Joiners</i>			
<i>Leavers</i>			
<i>Variations to Pay, Overtime and Deductions</i>			Recommendation 1
<i>Reconciliations</i>			
<i>Payroll Data Provided to AVDC</i>			
<i>Management Information and Performance Indicators</i>			Recommendation 2
<i>Payment of Fees</i>			
<i>Pension Administration</i>			

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

4. Observations and Recommendations

Recommendation 1: Evidence and Payment of Expenses (Priority 2)

Recommendation

All staff and authorised signatories should be formally reminded that receipts are required for all expense claims, or an explanatory note provided where this is not possible.

Payroll staff should be formally reminded that verification checks should be carried out to confirm expenses paid reconcile to the expense forms and receipts submitted.

Observation

The Expenses Claim form states that "All relevant receipts must be attached". Furthermore, the form states that "A valid VAT receipt is required for ALL fuel purchases and other expenditure in which VAT is incurred covering the period of this claim. Where a receipt is missing or unavailable, please state the reason and ensure the authoriser is made aware".

Examination of a non-statistical sample of ten expense claims identified that in four instances a receipt had not been attached, namely for the following claims:

- Employee 109040 for £1.80 parking and £3.50 and £4.75 subsistence in October 2013; and
- Employee 104741 for £34.69 mileage in October 2013.

In all instances there was no explanation stated as to why a receipt was not available.

In one instance, the expenses paid exceeded the value of the claim submitted, namely for employee 103616 who was paid £8.23 instead of the claim for £5.25.

Where receipts are not retained and claims paid according to receipts provided, there is a risk of inappropriate and inaccurate payments which may result in financial loss to the Council.

Responsibility

Lead Client Officer (Payroll)

Management response / deadline

Employee 109040 did have a receipt for the £3.50, but not the others. The overpayment to employee 103616 will be discussed and recovered.

A reminder will be sent out to all staff to inform them receipts are needed for all expenses claims by 28 February 2014.

Recommendation 2: Regular performance reports and Value for Money and Benchmarking exercises should be prepared and reported on by AVDC (Priority 2)

Recommendation

Payroll should request performance reports, value for money exercises and benchmarking information from AVDC in accordance with service level agreement. Quarterly performance reports should include the information provided in the Lead Client Officer’s monthly error reports and should address the key performance indicators defined in the service level agreement.

Once these performance reports are received, quarterly meetings should be held to rectify any performance issues.

A similar recommendation was raised in 2012/13.

Observation

Regular performance reports, value for money exercises and benchmarking information should be requested from AVDC by DBC in order for DBC Payroll to conduct effective monitoring of contractor performance for the term of the contract.

Examination of the service level agreement identified that AVDC shall:

- “provide Dacorum with regular information regarding performance,” and then identifies 'Quarterly Performance Indicators' (Appendix D, page 26, paragraph D.3).
- “shall identify and report to Dacorum once every three months,’ ‘the emergence of new and evolving relevant technologies,’ ‘new or potential improvements to services,’ ‘new or potential improvements to the interfaces or integration of Services,’ and ‘changes in ways of working that would enable the Services to be delivered at lower costs and/or greater benefits to Dacorum' (page 6, paragraph 9.2).”
- “join the CIPFA comparison group when this Agreement is signed and make any performance comparison information immediately available to Dacorum and will notify when it is received' (page 6, paragraph 9.1).”

It was identified that no performance reports, value for money exercises or benchmarking information had been provided by AVDC.

Where performance, value for money and benchmarking is not regularly reported to DBC, there is a risk that poor performance trends may not be identified and resolved. In turn, sustained poor performance may threaten the quality of service provision. Where an assessment of value for money and benchmarking is not completed on a regular basis, there is a risk that the services provided to the Council may be inefficient and uneconomic. This may result in longstanding financial loss to the Authority.

Responsibility

Lead Client Officer (Payroll)

Management response / deadline

Agreed.





We will continue monitoring AVDC performance and liaise with them on the errors we identify.

AVDC have been asked to provide the relevant reports and Pi’s, however the implementation of the new payroll meant that there were higher priority issues that we needed them to resolve first. These are now largely corrected so we will discuss this issue with AVDC and resolve by 28 February 2014.

Appendix A – Reporting definitions

Audit assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

Level	Symbol	Evaluation Assessment	Testing Assessment
Full		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
Substantial		Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited		Weaknesses in the system of internal control design are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
Nil		Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objectives.

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
Priority 1	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
Priority 2	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
Priority 3	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
System Improvement Opportunity	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

Appendix B – Staff interviewed

The following personnel were consulted:

Glenda Braggins	-	Lead Client Officer (Payroll)
Anne Stunnell	-	HR Team Leader
Kim Howard	-	HR Lead Officer

We would like to thank the staff involved for their co-operation during the audit.

Appendix C - Statement of responsibility

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 internal audit 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 internal audit 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 internal audit 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. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit 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 audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Deloitte & Touche Public Sector Internal Audit Limited

London

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