

# Dacorum Borough Council

## Final Internal Audit Report

### Payroll and Pension Administration

May 2017

This report has been prepared on the basis of the limitations set out on page 7.

CONFIDENTIAL

**Distribution List:**

Dave Skinner – Assistant Director (Finance and Resources)  
Richard Baker - Group Manager (Finance Services)  
Glenda Braggins – Lead Payroll Officer  
James Deane – Corporate Director (Finance and Operations) (Final Report Only)  
Sally Marshall – Chief Executive (Final Report only)

**Key Dates:**

Date of fieldwork: November 2016  
Date of draft report: January/March 2017  
Receipt of responses: March 2017  
Date of final report: May 2017

This report and the work connected therewith are subject to the Terms and Conditions of the Contract dated 1 April 2015 between Dacorum Borough Council and Mazars Public Sector Internal Audit Limited. This report is confidential and has been prepared for the sole use of Dacorum Borough Council. This report 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

|   |   |
|---|---|
| 1. Executive Summary .....                | 1 |
| 2. Scope of Assignment .....              | 3 |
| 3. Assessment of Control Environment..... | 4 |
| Appendix A - Reporting Definitions .....  | 5 |
| Appendix B - Staff Interviewed.....       | 6 |
| Statement of Responsibility.....          | 7 |

# 1. Executive Summary

## 1.1. Background

As part of the Internal Audit Programme for 2016/17, we have undertaken an audit of the Council's systems of internal control in respect of Payroll and Pensions Administration.

## 1.2. Audit Objective and Scope

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

In summary, the scope covered the following areas: Payroll Transactions and Records; Joiners; Leavers, Variations and Adjustments to Pay; Deductions; Payments; and Pension Administration.

## 1.3. Summary Assessment

Our audit of the Council's internal controls operating over the administration of Payroll and Pension Administration found that, there is a sound system of internal control designed to achieve the system objectives. The controls are being consistently applied.

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                  | Full               |

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 the Payroll and Pensions Administration are shown in Section 3.

#### 1.4. Key Findings

We have not raised any recommendations as a result of this work.

In April 2016, the Council moved from a payroll system administered by Aylesbury Borough Council to a SAP system administered by Serco. Examination of the pre go live reconciliation report found that there had been errors in the transfer of payroll data to the new system. We were informed by the Payroll Team Leader that these errors had been corrected, and that a payroll run reconciliation was completed between the new and old systems in April 2016, and no errors were present. However, we were unable to obtain working papers confirming this. As no issues relating to the transition were identified through testing, a recommendation will not be raised. Nevertheless, working papers relating to reconciliations should be retained to enable independent review.

A variance report is reviewed as part of the monthly payroll run process. The report compares the current month's payroll amount against the previous month for each employee. However, secondary spot check on the variances is not currently undertaken. The Lead Payroll Officer explained that she checks 100% of all amendments resulting in variances in pay and her signature on the payroll report indicates that these checks have been completed. Both officers process payroll transactions and although the Lead Payroll Officer checks all amendments, any transactions processed by the Lead Payroll Officer are not subject to independent checks. This has been discussed and the Lead Payroll Officer is aware of this issue. The Lead Payroll Officer explained that the payroll team consists of the Lead Payroll Officer and another officer and due to small size of the team, it is not possible to have a segregation of duties. On the basis of the explanation provided and given that we did not find any exceptions from our sample tests, we have not raised a recommendation regarding this.

#### 1.5. Acknowledgement

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 that the systems of control in respect of Payroll and Pension Administration, with regards to the areas set out in section 2.3, are adequate and 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:

#### **Payroll Transactions and Records**

Reliability, integrity, confidentiality and security of the payroll system and employee records is maintained through the reliable operation of the system and its interface to the main accounting systems.

#### **Joiners**

Only appropriately vetted new joiners are completely, accurately, validly and timely added to the payroll at the rates of remuneration per the contracts of employment.

#### **Leavers**

Employees leaving organisation's employment are completely, accurately, validly and timely removed from the payroll and outstanding commitments to both parties to the contract of employment are completely, accurately and validly made to prevent complications arising after the termination of the employment.

#### **Variations and Adjustments to Pay**

Variations and adjustments to the payroll are completely, accurately and validly processed in a timely manner.

#### **Deductions**

Deductions, both statutory and voluntarily made, are completely, accurately, validly and timely made in line with the contracts of employment and regulatory requirements.

#### **Payments**

Payments to staff and statutory and other agencies are completely, accurately, validly and timely made in line with the contracts of employment and regulatory requirements.















#### **Pension Administration**

Correct contributions (from both employer and employee) are made per the contract and the Council's policy. DBC complies with the automatic enrolment and evidence of opt out is retained where appropriate.

### 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.

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





| Control Objectives Assessed       | Design of Controls  | Operation of Controls   | Recommendations Raised |
|-----------------------------------|---|---|------------------------|
| Payroll Transactions and Records  |    |    | -                      |
| Joiners                           |    |    | -                      |
| Leavers                           |    |    | -                      |
| Variations and Adjustments to Pay |    |    | -                      |
| Deductions                        |    |    | -                      |
| Payments                          |   |   | -                      |
| Pension Administration            |  |  | -                      |

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

## 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  |
|--------------------|--|--|---|
| <b>Full</b>        |   | There is a sound system of internal control designed to achieve the system objectives.   | The controls are being consistently applied.  |
| <b>Substantial</b> |   | 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. |
| <b>Limited</b>     |   | 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.   |
| <b>Nil</b>         |  | 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   |
|---------------------------------------|--|
| <b>Priority 1</b>                     | Recommendations which are fundamental to the system and upon which the organisation should take immediate action.                  |
| <b>Priority 2</b>                     | Recommendations which, although not fundamental to the system, provide scope for improvements to be made.                          |
| <b>Priority 3</b>                     | Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.       |
| <b>System Improvement Opportunity</b> | 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 Payroll Officer
- Tracy Claridge - Assistant Accountant

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



## 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**

#### **May 2017**

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.