Final Internal Audit Report

East Herts Council – Payroll Audit 2019-20

January 2020

Issued to:	**Gill Coleman** – Payroll Manager **Simon O'Hear** – Head of Human Resources and Organisational Development
Copied to:	**Bob Palmer** – Interim Head of Strategic Finance and Property **Members of the Performance, Audit and Governance Oversight Committee** **Executive Member for Financial Sustainability**
Report Status:	Final
Reference:	**E32/19/001**
Overall Assurance:	Good

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1. EXECUTIVE SUMMARY

Introduction

1.1 Internal Audit provides East Herts Council (the Council) with an independent and objective opinion on the organisation's governance arrangements, encompassing internal control and risk management, by completing an annual risk-based internal audit plan. This audit forms part of the Council's approved 2019/20 Internal Audit Plan.

1.2 Payroll is a key financial system and as such management need to be satisfied that it is soundly controlled and can be relied upon to meet its objectives. The work of internal audit in reviewing the design and operation of controls within the system will provide a source of assurance in this respect.

1.3 Pay expenditure forms a significant part of the Council's overall expenditure, amounting to approximately £650,998 per month on average for period April 2019 to December 2019. The number of employees paid in September 2019 was 395. It is therefore important that there is a robust process for ensuring staff are paid at the correct rates and that complete and accurate deductions are made.

1.4 This audit seeks to provide assurance on the design and operation of the key controls relating to systems access, amendments to standing data, the processing of starters, leavers, amendments to pay, payroll processing and payments made.

Overall Audit Opinion

1.5 Based on the work performed during this audit, we can provide overall **good assurance** that there are effective controls in operation for those elements of the risk management processes covered by this review. These are detailed in the Assurance by Risk Area Table in section 2 below.

Audit Commentary

1.6 In arriving at our overall assurance opinion, we have acknowledged that there are consistent and robust controls in place covering all risks relating to the processing of the Council's payroll.

1.7 Systems access is restricted to specific employees and they have appropriate user access rights.

1.8 Statutory parameters set at the start of the year are determined by the payroll system provider NGA (now called Zellis). The parameters are thoroughly tested by the Payroll Manager for accuracy. Any pay rises, either at the start of the year or in-year, are tested to help ensure staff receive the correct pay.

1.9 All starters, leavers, amendments and additional payments tested had supporting evidence and were appropriately authorised. We identified good levels of separation of duties for the input and checking of both the starters and leavers processes, as well as through the processing of expense claims and the pay run.

1.10 We noted that Payroll payments were subject to appropriate management checks, made in accordance with an agreed timetable and authorised in accordance with Council policy. Payments were also made to HMRC for income tax and national insurance contributions and to Hertfordshire County Council for pension deductions in accordance with statutory requirements.

1.11 For definitions of our assurance levels, please see Appendix A.

Summary of Recommendations

1.12 We have not made any recommendations as a result of the audit work undertaken and therefore no Management Action Plan is appended.

Annual Governance Statement

1.13 This report provides good levels of assurance to support the Annual Governance Statement.

2. ASSURANCE BY RISK AREA

2.1   Our specific objectives in undertaking this work, as per the Terms of Reference, were to provide the Council with assurance on the adequacy and effectiveness of internal controls, processes and records in place to mitigate risks in the following areas:

Risk Area	No	Limited	Satisfactory	Good
System access - access to payroll data is appropriately controlled. Access is restricted to business need.				
Statutory parameters - system parameters are set up in accordance with statutory rates.				
Starters, leavers and amendments - new starters are accurately set up on the payroll system. Amendments to pay are authorised and consistent with policy. Staff leaving the authority have pay processed in a timely and accurate manner, ensuring that final payments are correct.				
Additional payments, overtime and expenses – payments made are correct and consistent with policy, authorised prior to processing and supporting documentation had been retained.				
Payroll runs - appropriate management checks are performed to verify the accuracy of the payroll prior to transmission.				
Third party payments - payments to pension providers and HMRC are made on a timely and accurate basis.				

Overall				

2.2   See definitions for the above assurance levels at Appendix A.

Assurance Level	Definition
Good	The design and operation of the internal control framework is effective, thereby ensuring that the key risks in scope are being well managed and core objectives will likely be achieved. There are minor reportable audit findings.
Satisfactory	The internal control framework is largely working well in managing the key risks in scope, with some audit findings related to the current arrangements.
Limited	The system of internal control is only partially effective, with important audit findings in key areas. Improvement in the design and/or operation of the control environment is necessary to gain assurance risks are being managed to an acceptable level, and core objectives will be achieved.
No	The system of internal control has serious gaps, and controls are not effective in managing the key risks in scope. It is highly unlikely that core objectives will be met without urgent management intervention.

Priority Level			Definition
Corporate	Critical	🟥	Audit findings which, in the present state, represent a serious risk to the organisation, i.e. reputation, financial resources and / or compliance with regulations. Management action to implement the appropriate controls is required immediately.
Service	High	🟧	Audit findings indicate a serious weakness or breakdown in control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently.
	Medium	🟨	Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Remedial action is required in a timely manner.
	Low / Advisory	🟩	Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. The appropriate solution should be implemented as soon as is practically possible.