Final Internal Audit Report

East Herts Council – Payroll 2020-21

January 2021

Issued to:	**Gill Coleman** – Payroll Manager **Simon O'Hear** – Head of Human Resources and Organisational Development
Copied to:	**Steven Linnett** – Head of Strategic Finance and Property **Members of the Audit and Governance Committee** **Executive Member for Financial Sustainability**
Report Status:	Final
Reference:	**E034/20/001**
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 2020/21 Internal Audit Plan.

1.2   Payroll is a key financial system and as such, management need to be satisfied that the system is soundly controlled and can be relied upon to meet its objectives. The work of internal audit in reviewing the presence and operation of controls within the system provides a source of assurance that the system can be relied upon during the current financial year.

1.3   Pay expenditure forms a significant part of the Council's overall expenditure. There were 411 employees paid in November 2020 totalling £679,329. 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   Due to the Covid-19 pandemic we completed the review with the support of the Payroll and HR team, through discussion and sharing documents electronically.

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.

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   Although not affecting the overall assurance opinion, in the risk area of system access and working practice we have provided satisfactory assurance. This is due to some uncertainty on the access rights to the Council's payroll system. In addition, there is insufficient procedural guidance and access for staff to ensure business continuity in the absence of key payroll staff. We have made recommendations to review these items in Appendix A.

1.8   Statutory parameters are set at the start of the year as provided by the payroll system provider 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 ensure staff receive the correct pay.

1.9   We observed good levels of control over starters and leavers and changes to pay. There are satisfactory levels of separation of duties for the input and checking with supporting evidence and appropriate authorisation.

1.10 Currently, Payroll and HR place reliance on the service line management to check and authorise expenses as this forms part of the automated process within the 'My

View' system. However, neither Payroll or HR had access to sufficient details of what evidence had been provided and who had authorised Officers expenses. Therefore, audit could only partially test the expenses claimed through the records available. We will follow this up in future audits, as the HR Team were in the process of resolving this with Zellis* whilst the audit was being undertaken.

* Update 16 January 2021 - Zellis have responded to advise that this issue will be rectified once the new release is installed as scheduled to be done on 23 February 2021.

1.11 We confirmed 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.

1.12 For definitions of our assurance levels, please see Appendix B.

Summary of Recommendations

1.13 We have made two 'low priority' recommendations designed to enhance the control environment of system access and staff guidance.

1.14 Please see Management Action Plan at Appendix A for further detail.

Annual Governance Statement

1.15 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
a) **System access, records & working practice:** • access to payroll data is appropriately controlled. • access is restricted to business needs. • staff guidance, procedure notes and HR policies in place.				
b) **Statutory parameters:** • system parameters are set up in accordance with statutory rates.				
c) **Starters and leavers:** • new starters are appropriately authorised and accurately set up on the payroll system. • staff leaving the authority have pay processed in a timely and accurate manner, ensuring that final payments are correct.				
d) **Changes to payments:** • Contract variations, market forces payments and annual pay-scale uplifts are reviewed by a second senior officer and this is evidenced. • amendments to pay are authorised and consistent with policy.				
e) **Payroll runs:** • appropriate management checks are performed to verify the accuracy of the payroll prior to transmission. • overpayments are identified and recovered.				
f) **Third party payments:** • payments to pension providers and HMRC are made on a timely and accurate basis. • statutory returns to HMRC are submitted.				

Overall				

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

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
1.	**System access** We reviewed the operator file for users with access to the Council's payroll system provided by Zellis. There were 20 Users with current access, that included: i. Generic titles such as: Pin Access, Supervisor default operator, HR Default, HR email & Payroll Default. ii. Named Zellis employees, and iii. Two users set up for the same H&S Officer. The Payroll Manager was not sure on the need or reason for some of these user accounts still being active. Associated Risk Unauthorised access to staff details by third parties. May lead to fraudulent activity and a breach of data protection regulations.	Low	We recommend that the current user accounts set up on the Council's payroll system are reviewed. Where accounts are identified as unnecessary or inappropriate, action must be taken to deactivate the access rights. We further recommend a regular review of account access is carried out at least every three years.	**Responsible Officer:** **Gill Coleman & Emily Cordwell** Obsolete dates input on all operators no longer required. Remaining 8 left are HR/Payroll Officers plus Supervisor default operator & Northgate Support	Done 19 Nov 2020

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
2.	**Staff guidance and procedure notes.** The Payroll Manager has access to several guidance notes and templates that detail step by step payroll procedures. However, these are not all accessible to all appropriate staff and may not be enough to guide staff in all payroll procedures. Associated Risk Insufficient guidance for staff in the absence of key payroll officers. This may lead to inappropriate payments being made which could be fraudulent and result in a financial loss for the council.	Low	We recommend that the guidance notes and templates in place are reviewed and appropriately agreed to provide full guidance on the Councils payroll procedures. When completed, they should be placed in a staff manual on the HR shared drive accessible to appropriate staff for business continuity.	**Responsible Officer:** **Gill Coleman & Carmela Bavaro** This is a PDR objective to be completed – Type detailed step by step procedures manual to include screenshots outlining best practice to be accessible for business continuity to link in with the monthly payroll check list.	Dec 2021

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 as a whole, 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.