



## Appendix A

# Draft Internal Audit Report

# East Herts Council – Payroll (Assurance Mapping) 2021/22

March 2022

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<b>Final Copied to:</b>	Steven Linnett – Head of Strategic Finance & Property Members of the Audit and Governance Committee Executive Member for Financial Sustainability
<b>Report Status:</b>	Draft
<b>Reference:</b>	E4414/21/046
<b>Overall Assurance:</b>	Reasonable
<b>Recommendations:</b>	2 Medium, 3 Low

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## 1. EXECUTIVE SUMMARY

### Introduction

- 1.1 Internal Audit provides East Herts 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 work programme. This audit forms part of the approved 2021/22 Internal Audit work programme.
- 1.2 The assurance opinion provided has been informed by the production of an Assurance Map. The Map has been developed based upon our key lines of enquiry and allows other sources of assurance to be identified and relied upon for internal audit purposes. This approach accommodates the Council's preference for minimising audit duplication and work that may overlap. Once produced the Map can be reviewed and updated in subsequent years, and in line with service developments or emerging risks. It also sits alongside Internal Audit's conventional assurance work agreed with management and will be used to help inform overall annual assurance opinions.
- 1.3 The Assurance Map has been based upon an established model which places known sources of assurance into one of three categories. This builds a picture of the applicable control framework and highlights any potential gaps. The three categories are:
  - a) First line of assurance – operational management arrangements in place
  - b) Second line of assurance – oversight functions and systems
  - c) Third line of assurance – internal and external assurance provided
- 1.4 The resulting Assurance Map produced a visual summary of the current sources of assurance and rates how well these sources managed risk. This type of work also identifies any gaps in the control framework, which are outlined in the Assurance Map. As a result of the assurance map, recommendations have been made for improvements to the control environment.

### Overall Audit Opinion

- 1.5 Based on the work performed during this audit, we can provide overall **reasonable assurance** that there are effective controls in operation for those elements of risk covered by this review. The control enablers are detailed in the Control Enablers Reviewed Table in section 2 below. For definitions of our assurance levels, please see Appendix B.
- 1.6 The payroll assurance mapping work concluded that there are adequate arrangements in place to provide assurance over payroll processing at the Council. The first line of assurance (operational management) has a clear checklist in place to outline the work required and that amendment requests are received and actioned by the Payroll Manager. They are aware of their responsibilities and have effective processes in place to complete the payroll on a monthly basis. However, the processing notes in place by the payroll team require formalising to ensure business continuity in an instance of key staff absence and they have an opportunity to explore the full use of

their payroll system to automate all possible processes and increase available officer time.

- 1.7 The second line of assurance includes clear policies and procedures in place that govern payroll processes; these are created, monitored, and reviewed by HR and include the expenses policy, pay policy statement, family friendly policy, redundancy policy, and the standby and out of hours policy. There is appropriate segregation of duties between creation and implementation of the policies. While the Council do have access to information made available by HMRC (webinars and training material), they do not have a standardised system for training in place. While they do complete on the job training and are currently considering the requirements of induction of new staff members to ensure this adequately reflects tasks required, these are not formally recorded. Given the nature of the small payroll team, there is an inherent business continuity risk for the Council should the Payroll Manager be out of the office, and the Council do not have a formal business continuity plan in place should this occur. In addition, the payroll is processed without independent review by a senior manager, although the Head of Human Resources & Organisational Development does authorise BACS payments before they are made.
- 1.8 The third line of assurance is currently completed by both internal and external audit; the Council facilitates independent assurance across a variety of topics relating to payroll. The Shared Internal Audit Service (SIAS) have completed payroll audits at least annually since the 2011/12 financial year, with additional topics being covered (such as Payroll Self Service – Annual Leave) when required. Regular topics of review have included payroll processing (e.g. payroll runs, BACS processing, starters and leavers, and statutory payments), reconciliations, systems access controls, and policies and procedures. Additionally, external audit complete work to provide an opinion relating to the Council's statement of accounts. While this does not specifically review the payroll function for the Council, it does include a review of financial policies, procedures and practices, and comments on the employee benefits provided by the Council. Substantial assurance has been provided in this area because the Council has facilitated third line assurance.
- 1.9 Please see the attached assurance map for further information regarding the assurance provision for each of the control enablers reviewed.

### **Summary of Recommendations**

- 1.10 We have made five recommendations; three recommendations are classified as medium priority and two as low priority as part of the assurance mapping process. These recommendations relate to:
- Payroll Sign Off (Leadership and Management) – Medium Priority
  - Business Continuity (Resources) – Medium Priority
  - Training (People and Knowledge) – Low Priority
  - Guidance / Processing Notes (Strategy and Policy) – Low Priority
  - Automating Processes (Processes) – Low Priority
- 1.11 Please see Management Action Plan at Appendix A for further detail.

## **Annual Governance Statement**

1.12 This report provides reasonable levels of assurance to support the Annual Governance Statement.

## **2. CONTROL ENABLERS REVIEWED**

2.1 Our specific objectives in undertaking this work, as per the Terms of Reference, were to create an Assurance Map for Payroll that focusses on the control categories:

- a) **Leadership & Management:** organisational leaders have oversight of payroll
- b) **Strategy & Policy:** there are clear strategies & policies in relation to payroll
- c) **People & Knowledge:** people are equipped and supported to manage payroll processing
- d) **Resources:** there is capacity and capability to effectively manage payroll
- e) **Partnerships:** risk profile and control environment reflect working collaboratively
- f) **Processes:** there are effective processes to support payroll processing
- g) **Outcomes & Delivery:** payroll contributes to overall performance & specific outcomes

2.2 The assessments of assurance provided have been included in the attached assurance map. Please see definitions for the assurance levels at Appendix B.

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
Associated Risks					
1.	<p><b>Payroll Sign Off (Leadership and Management)</b></p> <p>While the Head of Human Resources and Organisation Development does sign off the BACS payments prior to processing, and the Finance team review the payroll as part of their costings process after it has been processed, there is no independent check at the first line of assurance to sign off the payroll prior to processing, these checks are only completed within the payroll team. Therefore, there is no segregation of duties between those who run payroll and those who approve payroll to be processed. This could mean that any errors in payroll processing could potentially only be identified after the payroll has been run.</p> <p><b>Associated Risk</b></p> <p>The Council do not have an independent sign off of the payroll report (by an officer who is not involved in the processing of payroll), which means an independent party cannot verify the accuracy and completeness of the payroll processing. This could lead to inaccuracies in the pay run not being picked up until after it has been processed.</p>	Medium	We recommend that the Council have an independent senior officer review and sign off the payroll report prior to processing. This would ensure that an independent review occurs to identify any potential errors in payroll before it is paid. The reports provided for sign off should be sufficient to ensure that the reviewer has sufficient information to sign off the payroll.	<p><b>Responsible Officer:</b></p> <p>Head of HR and OD</p> <p><b>Action to be Taken:</b></p> <p>Monthly sign off using full variance report with Head of HR&amp;OD and PM</p>	June 22
2.	<p><b>Business Continuity (Resources)</b></p> <p>Due to the size of the payroll team, there is an</p>	Medium	We recommend that the	<b>Responsible Officer:</b>	

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	<p>inherent business continuity risk to the Council. While this has been considered by the Council, there are currently not formal business continuity plans in place, and processing notes require formalising to provide stronger support should key staff members be absent.</p> <p><b>Associated Risk</b></p> <p>The Council do not have effective business continuity arrangements in place to outline resilience arrangements in the case of key staff absence. Therefore, the Council might not be fully prepared in the case of key officer absence, and the payroll could not be completed effectively. This could lead to reputational damage for the Council.</p>		<p>Council create formal business continuity plans for running payroll in the instance that key officers are unavailable to run payroll. This could include formally training other colleagues to complete the payroll and documenting who should complete the pay run in the event of key staff absences.</p>	<p>Payroll Manager</p> <p><b>Action to be Taken:</b></p> <p>Hand written notes to made electronic and training provided to new recruit</p>	<p>July/Aug 2022</p>
3.	<p><b>Training (People and Knowledge)</b></p> <p>While the Payroll Manager has access to training and webinars published by HMRC, there are no formal training processes in place to govern a systematic training of payroll. While we recognise that any formal or systematic training programme would need to be proportionate to the small payroll team, and could involve the documenting of ongoing internal training that occurs, there is currently no process for regular training in place.</p> <p><b>Associated Risk</b></p>	Low	<p>We recommend that the Council develop a training plan for the payroll team (Payroll Manager and the HR Payroll Administrator). This should then be utilised and followed by the payroll team to ensure that key training has been undertaken by all staff members. This</p>	<p><b>Responsible Officer:</b></p> <p>Payroll Manager</p> <p><b>Action to be Taken:</b></p> <p>New recruit will be trained on the job by PM and with previous postholder will attend key updates from HMRC and Pensions</p>	<p>In line with recruitment expected July/August</p>

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	<p>The Council do not have sufficient or regular training scheduled relating to payroll processing. Therefore, individuals may not be well equipped to complete their role effectively. This could result in payroll processing not being run accurately or on time and this could cause reputational damage to the Council.</p>		<p>should be proportionate to the size of the payroll team, and could involve on-the-job training where appropriate.</p>		
4.	<p><b>Guidance / Processing Notes (Strategy and Policy)</b></p> <p>While the payroll team have documented their processes in processing notes, these are currently disparate for the different elements of payroll processing, and they are not in a standard or easily accessible format. Therefore, while these could be used to complete aspects of payroll processing if required, there is an opportunity to formalise these notes to provide stronger business continuity for the Council.</p> <p><b>Associated Risk</b></p> <p>The Council do not have formalised processing notes in place to outline the key activities completed by the payroll team to process payroll. Therefore, in the absence of key staff members, there may not be effective instructions in an easily accessible format for the payroll to be completed in their absence. This could lead to key individuals and companies not being paid on time if key staff members are absent and reputational loss for the Council.</p>	Low	<p>We recommend that the payroll team formalise the payroll processing notes that are in place</p>	<p><b>Responsible Officer:</b> Payroll Manager</p> <p><b>Action to be Taken:</b></p> <p>See action re 2. Above notes will be written into online format and shared with both Head of HR&amp;OD and new Administrator</p>	

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
Associated Opportunity					
5.	<p><b>Automating Processes (Processes)</b></p> <p>While the Council currently utilise some of the automated processes including mileage and expenses claims linked to MyView, the Council have an opportunity to further extend this to include currently manual workflows. Discussions with the Payroll Manager indicated that this is something that the Council is already considering but would need further resources and consideration to implement. The risks associated with payroll processing are currently well controlled, but the Council have the opportunity to further improve efficiency in processing.</p> <p><b>Associated Opportunity</b></p> <p>The Council have an opportunity to automate all payroll processes to reduce human intervention in the payroll process. This would reduce the opportunity for error in inputting manual information and increase officer efficiency and time to review payroll transactions rather than inputting data.</p>	Low	<p>We recommend that the Council obtain a list of all of the processes that could have fully automated workflows that are part of the package procured and used by the Council. They should then make an assessment as to which of these are appropriate and viable for the Council and create implementation plans where appropriate.</p>	<p><b>Responsible Officer:</b></p> <p>Payroll Manager and Head of HR&amp;OD and HR Officer (system development)</p> <p><b>Action to be Taken:</b></p> <p>This is an ongoing action and is subject to both internal IT support and funds re system development. Also we need to ensure that automation provides the same level of checks and balances which is not currently fully satisfactory.</p>	<p>TBC in line availability and other priorities.</p>

Assurance Level	Definition
<b>Substantial</b>	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Reasonable</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Limited</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>No</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Priority Level		Definition
Corporate	<b>Critical</b>	 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	<b>High</b>	 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.
	<b>Medium</b>	 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.
	<b>Low</b>	 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.