



MALDON DISTRICT COUNCIL

INTERNAL AUDIT REPORT - FINAL

PAYROLL
FEBRUARY 2021

LEVEL OF ASSURANCE	
Design	Operational Effectiveness
Substantial	Substantial

DISTRIBUTION	
Name	Job Title
Chris Leslie	Director of Resources
Annette Cardy	Resources Specialist Services Manager
Alastair Morrell	Resources Case Manager

REPORT STATUS LIST	
Auditors:	Nemisha Patel - Senior Internal Auditor
Dates work performed:	04 January 2021 - 21 January 2021 (closing meeting)
Draft report issued:	26 January 2021
Final report issued:	03 February 2021

EXECUTIVE SUMMARY**LEVEL OF ASSURANCE: (SEE APPENDIX I FOR DEFINITIONS)**

Design	Substantial	There is a sound system of internal control designed to achieve system objectives.
Effectiveness	Substantial	The controls that are in place are being consistently applied

SUMMARY OF RECOMMENDATIONS: (SEE APPENDIX I)

High	-
Medium	-
Low	2

TOTAL NUMBER OF RECOMMENDATIONS: 2**CRR REFERENCE:**

CRR 21 - Annual financial statements qualified

BACKGROUND:

Payroll is a core financial system and therefore, a strong system of internal control needs to be in place at the Council to ensure that employees are paid correctly, in a timely manner, and that the risk of financial loss, incorrect payments, employee dissatisfaction and fraud is reduced.

In 2019/20, the Council reported total allowances (Basic Allowance, Other Allowance, Expenses) to Members of £217k.

The Council utilise the Sage software as the Payroll system. We undertook the following sample testing as part of the review:

- 10 Starters
- 15 Overtime claims and 5 Time Based Pay claims
- 5 Leavers
- 8 Members allowances and 2 Members expenses

GOOD PRACTICE:

- All starters' salaries, hours and start dates were accurate and reconciled with the pay scales and contractual agreements. Starters contracts were issued and signed by the Council and all starters correctly processed and added to payroll within a timely manner
- Access to payroll standing data and the ability to amend data through the payroll system is restricted to the payroll team with access only granted or removed by the Finance Specialist (Payroll)
- Tax rates and national insurance contributions deductions parameters have been correctly set-up within the Payroll system for the 2020/21 tax year.

- Overtime claim and Time-based payments were appropriate, relevant forms and timesheets were retained and approved by a Manager and correctly processed on payroll.
- Leavers have been accurately processed, appropriate deductions made in a timely manner and P45 forms have been completed for the leavers.
- Members' allowances have been correctly paid in accordance with the 2020/21 rates outlined on the Council's website. Members expense claims forms have been approved at Director level and correctly processed on Payroll.
- Payroll control account reconciliations are undertaken on a monthly basis and supporting reports retained

KEY FINDINGS:

- Payroll reconciliations are not signed and dated by the preparer and reviewer (Finding 1- Low)
- For one starter, no signed contract was on file (Finding 2- Low)

DATA ANALYTICS

DATA ANALYTICS PERFORMED	DATA ANALYTICS OUTCOMES
<p>Extraction of employees with duplicate:</p> <ul style="list-style-type: none"> • Code/Employee number • Bank details • Employee name • NI number • Name and address • Addresses • Payments 	<p>Results:</p> <ul style="list-style-type: none"> • Code/Employee number: No exceptions noted • Bank details: 6 sets identified • Employee name, NI number and Name & Address: 5 sets identified (same as those identified in Bank details) • Addresses: 10 sets identified (6 same as those identified in Bank details) • Payments: No exceptions noted <p>Adequate explanations and evidence provided for those sets identified.</p>
<p>Extraction of employees with blank:</p> <ul style="list-style-type: none"> • NI number • Name • Code/Employee number • Date of Birth • Address • Tax code 	<p>No exceptions noted.</p>
<p>Extraction of leavers still on the payroll after the leave date.</p>	<p>2 Leavers were paid the annual increase, effective from April 2020 but this was not approved by the Council until September 2020 after their leaving date.</p>

CONCLUSION:

Overall, we have concluded substantial assurance over the design of the controls and the effectiveness of the controls. We confirmed starters were correctly processed, overtime claim forms and time-based pay claims were approved and members allowances and expenses accurately paid.

DETAILED FINDINGS

RISK 4: DETAILS OF NEW EMPLOYEES' PAY RATES, TAX CODES, PREVIOUS EMPLOYMENT FIGURES, BANK ACCOUNT DETAILS ARE INACCURATE OR INCOMPLETE ON THE PAYROLL, LEADING TO INCORRECT PAYMENTS BEING MADE

Ref	Significance	Finding
1	Low	<p><u>Payroll control account reconciliations</u></p> <p>Payroll control account reconciliations are undertaken on a monthly basis. From a review of the payroll reconciliations from October, November and December 2020, we identified the following for all three reconciliations:</p> <ul style="list-style-type: none"> • The reconciliations are prepared by the Finance Specialist (Payroll), once prepared the reconciliations are not signed or dated • The monthly reconciliations are reviewed by the Lead Finance Specialist (Payroll) whom has oversight and checks the reconciliation balances and this is discussed with the Finance Specialist (Payroll) however it is not signed or dated once reviewed. <p>Where payroll reconciliations have not been signed or dated by the preparer or reviewer there is a risk they have not been correctly reconciled and accountability for this is unclear.</p>

RECOMMENDATION:

The preparer and reviewer of the monthly payroll reconciliations should electronically sign and date the reconciliation once prepared and reviewed to ensure this has been undertaken within a timely manner and there is an adequate segregation of duties.

MANAGEMENT RESPONSE:

Payroll Reconciliations will be reviewed and approved each month by Finance with an electronic signature and date to confirm completion.

Responsible Officer: Lance Porteous

Implementation Date: February 2021

RISK 1: UNAUTHORISED OR FICTITIOUS EMPLOYEES ARE ADDED TO THE PAYROLL SYSTEM, LEADING TO POTENTIALLY FRAUDULENT PAYMENTS AND FINANCIAL LOSS TO THE COUNCIL. ACCESS TO PAYROLL STANDING DATA IS NOT RESTRICTED, LEADING TO UNAUTHORISED CHANGES

Ref	Significance	Finding
2	Low	<p><u>Starters:</u> For all new starters a fresh service ticket is submitted and provided to Payroll to be processed and added to payroll. A Vacancy Control form (VCF) is completed for an out of budget role, the VCF form must be approved by the Leadership Team, HR and Finance and cannot progress until this has been completed. If they are recruiting for a position on the organisational chart with no budgetary impact then a VCF from is not required. A contract is issued outlining the start date, number of hours, grade and salary. The contract is signed and dated by HR once issued and returned by the employee to be signed and dated within 8 weeks or prior to their start date.</p> <p>From a review of a sample of 10 starters we identified:</p> <ul style="list-style-type: none"> In one case the starter's contract had been signed, however had not been dated. Due to this being electronic it may be an IT issue. <p>Where starters' contracts have not been dated there is a risk that they have not been completed in a timely manner which could lead to a potential dispute.</p>

RECOMMENDATION:

Once the starter returns their contract, the HR team should check this has been correctly signed and dated.

MANAGEMENT RESPONSE:

HR ensure that there is a signed and dated contract or that the contract is returned with an email agreement where staff have difficulty completing the signature and date electronically. This is already in place and the sample above did have an email agreement.

Responsible Officer: Annette Cardy

Implementation Date: Completed

STAFF INTERVIEWED

BDO LLP APPRECIATES THE TIME PROVIDED BY ALL THE INDIVIDUALS INVOLVED IN THIS REVIEW AND WOULD LIKE TO THANK THEM FOR THEIR ASSISTANCE AND COOPERATION.

Name	Job Title
David Wahl	Finance Specialist (Payroll)
Kate Roast	Payroll Caseworker

APPENDIX I - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN OF INTERNAL CONTROL FRAMEWORK		OPERATIONAL EFFECTIVENESS OF CONTROLS	
	FINDINGS FROM REVIEW	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

RECOMMENDATION SIGNIFICANCE

High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

APPENDIX II - TERMS OF REFERENCE

PURPOSE OF REVIEW:

The purpose of this audit is to provide assurance over the processes and controls with regard to the Council's payroll are robust and operating effectively.

KEY RISKS:

Based upon the risk assessment undertaken during the development of the internal audit operational plan, through discussions with management, and our collective audit knowledge and understanding the key risks associated with the area under review are:

- Unauthorised or fictitious employees are added to the payroll system, leading to potentially fraudulent payments and financial loss to the Council. Access to payroll standing data is not restricted, leading to unauthorised changes
- Duplicate employees are created, leading to potential fraud and financial loss to the Council
- Payments are made to past employees, leading to financial loss to the Council
- Details of new employees' pay rates, tax codes, previous employment figures, bank account details are inaccurate or incomplete on the payroll, leading to incorrect payments being made
- Salaries, taxes, overtime and deductions are calculated and processed inaccurately leading to incorrect payments being made
- Leavers are not processed in a timely manner leading to overpayments that are difficult for the Council to recover
- Members' pay and expenses are processed incorrectly, leading to incorrect or inappropriate payments being made

SCOPE OF REVIEW:

The following areas will be covered as part of this review:

- Review of payroll control account reconciliations
- For a sample, review of starters to ensure employees added are legitimate and accurate
- For a sample, review of leavers to ensure employees are removed on a timely basis to avoid overpayments
- For sample of time based pay and overtime records, verify records match supporting documentation and these have been appropriately authorised
- For a sample of payments made to members, verify that payments have been authorised properly and are appropriate in line with the Council's policies.

However, Internal Audit will bring to the attention of management any points relating to other areas that come to their attention during the course of the audit. We assume for the purposes of estimating the number of days of audit work that there is one control environment, and that we will be providing assurance over controls in this environment. If this is not the case, our estimate of audit days may not be accurate.

APPROACH:

Our approach will be to conduct interviews to establish the controls in operation for each of our areas of audit work. We will then seek documentary evidence that these controls are designed as described. We will evaluate these controls to identify whether they adequately address the risks.

We will seek to gain evidence of the satisfactory operation of the controls to verify the effectiveness of the control through use of a range of tools and techniques.

BAF/CRR REFERENCE:

CRR 21 - Annual financial statements qualified

DATA ANALYTICS:

We have considered the use of data analytics as part of this audit and the following tests will be performed:

KEY RISKS	DATA ANALYTICS TO PERFORM
<ul style="list-style-type: none"> • Duplicate employees are created • Unauthorised or fictitious employees 	<p>Extraction of employees with duplicate:</p> <ul style="list-style-type: none"> • Codes • Bank details • Employee name • Addresses • NI number • Name and address • Payments <p>Extraction of employees with blank:</p> <ul style="list-style-type: none"> • NI number • Name • Address • Code • Date of Birth • Address • Tax code
Leavers are not processed in a timely manner	Extraction of leavers still on the payroll after the leave date.

FOR MORE INFORMATION:**Greg Rubins**

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The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

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