



Internal Audit Report
Chief Executive's Service
Payroll 13-13
March 2014

Final Report

Chief Executive's Service
Finance Division
Perth & Kinross Council
2 High Street
Perth PH1 5PH

Background and Introduction

This audit was carried out as part of the audit plan for 2013/14, which was approved by the Audit Committee on 27 March 2013.

The audit examined Perth and Kinross Council's payroll procedures and controls with regard to starters and leavers, as operated by Chief Executive's Service Finance Division in the period April to September 2013. During this period, Finance Division's Employment Services Team organised salary and other payments worth more than £50 million and prepared more than 35,000 pay advices.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of Chief Executive's Service Finance Division, Human Resources and Legal Services received during this audit.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A 'control objective' is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective: To ensure the adequacy of controls that ensures bona fide new employees and leavers are appropriately and adequately authorised and input promptly to the payroll system.	
Auditor's Comments: The audit found controls relating to starters and leavers to be generally effective, timely and suitably documented. However, there remains scope for improvement in procedures and in the implementation of Council policies.	
Strength of Internal Controls:	Moderately strong

Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point. Appendix 3 features two action points derived from audit work but which do not relate directly to the Control Objective above; these will also be monitored via follow-up.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken

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not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Feedback

Internal Audit welcomes feedback from management, in connection with this audit or with the Internal Audit service in general.

Distribution

The report has been distributed to:

B Malone, Chief Executive

J Symon, Head of Finance

I Innes, Head of Legal

K Donaldson, Corporate HR Manager

E Sturgeon, Chief Exchequer Officer

K Ridley, Personnel Manager

G Taylor, Head of Democratic Services

P Dickson, Complaints & Governance Officer

External Audit

Authorisation

The auditor for this assignment was R D Watt. The supervising auditor was M Morrison.

This report is authorised for issue:

Jacqueline Clark
Chief Internal Auditor
Date: 7 March 2014

Appendix 1: Summary of Action Points

Appendix 2

No.	Action Point	Risk/Importance
1	Financial Regulations	Medium
2	Guidance on ERIC	Medium
3	Verifying the status of new employees	Medium

Appendix 3

1	Recruitment and Selection Policy	Low
2	Document Retention Policy	Low

Appendix 2: Action Plan

Action Point 1 - Financial Regulations

According to the Financial Regulations, most recently approved by the Council on 19 December 2012, the Head of Finance is responsible for administering the payroll and for issuing appropriate instructions to Services.

The audit found that:

1. The Financial Regulations state that establishment information will be provided to Services every six months. With the improved functionality of the integrated Human Resources and Payroll system, this information is now provided on a monthly basis. In addition, Financial Regulations require Services to confirm that they have performed an annual reconciliation of the establishment list to the payroll as at 31 March, however Services now provide this confirmation at different times during the year.
2. The Financial Regulations allocate payroll-related responsibilities and are supported by extensive guidance on ERIC for Services, line managers and employees. Detailed written procedures are in place within the Employment Services Team, however they have not been formally approved and there is no hyperlink to the Financial Regulations.

Management Action Plan

1. The Financial Regulations are currently being reviewed. The section on Payroll will be revised to reflect current practice regarding provision of information to Services, and the timing of establishment-payroll reconciliations by Services. Hyper-links will be included in the revised text to the key payroll-related guidance on ERIC.
2. The Exchequer Management Team will consider and approve all written procedures and guidance operated by the Team.

Importance:	Medium
Responsible Officer:	E Sturgeon, Chief Exchequer Officer
Lead Service:	Chief Executive's Service
Date for Completion (Month / Year):	1. December 2014 2. June 2014
Required Evidence of Completion:	1. Revised Financial Regulations 2. Minute of the Exchequer Management Team documenting the approval.

Auditor's Comments

Satisfactory

Action Point 2 - Guidance on ERIC

Since 2011, the employment of new staff has been subject to an Establishment Approval Procedure (EAP). Recruitment to most posts in the Council must be authorised by the Executive Officer Team. However, the audit found that several recruitment processes operate outside the EAP (i.e. probationer teachers, modern apprentices and casuals). These exceptions are neither acknowledged within the EAP nor adequately described in guidance to staff.

Furthermore, the high volume of separate guides on ERIC makes it difficult to ensure that guidance is consistent and up to date.

Management Action Plan

The Establishment Approval Procedure will be revised to identify those recruitment processes which are within its scope and those which are without and/or which are subject to authorised exceptions. For those processes which are outside or exempt from the standard Procedure, the Service will ensure that relevant risks are addressed and appropriate controls are in place and that those exceptions will be authorised by the Head of Finance. The guidance on ERIC will be reviewed to ensure it is up to date and consistent.

Importance:	Medium
Responsible Officer:	E Sturgeon, Chief Exchequer Officer
Lead Service:	Chief Executive's Service
Date for Completion (Month / Year):	June 2014
Required Evidence of Completion:	Provision of revised procedures

Auditor's Comments

Satisfactory

Action Point 3 - Verifying the status of new employees

Prior to placing a new employee on the payroll, line managers are required to send a completed "Interview Results Form" to the Employment Services Team. This records the personal details of the successful candidate and confirms that the manager has checked the candidate's supporting documents (e.g. qualifications, driving licence and evidence of right to work in the UK).

The audit found in only two cases from a sample of eight, that line managers confirmed to Employment Services that they had checked all necessary details. In none of the remaining six cases was the line manager's omission challenged by Employment Services.

Furthermore, there are no arrangements in place for Employment Services to verify line manager or Service compliance with Council requirements to copy and check documentation provided by new employees.

Management Action Plan

1. During the course of the audit, the Employment Services Team responded promptly to this issue. Team members have been reminded of the need to ensure that line managers in Services fully complete the Interview Results Form.
2. Financial Controllers will be reminded of this obligation by the Chief Exchequer Officer at their next scheduled meeting.
3. Employment Services will issue a reminder to recruiting managers prior to the start date, of the need to retain recruitment information for a period of 6 months. In addition, an email trigger will be issued to the recruiting manager, six months after that start date, of the need to destroy those records for unsuccessful candidates.

Importance:	Medium
Responsible Officer:	1. & 3. V Iwanio, Team Leader, Employment Services (Recruitment) 2. E Sturgeon, Chief Exchequer Officer
Lead Service:	Chief Executive's Service
Date for Completion (Month / Year):	1. Completed 2. & 3. July 2014
Required Evidence of Completion:	2. Minutes of Financial Controllers meeting 3. Copies of emails

Auditor's Comments

Satisfactory

Appendix 3 – Matters arising during the audit

Action Point 1 - Recruitment and Selection Policy

According to the Recruitment and Selection Policy, approved by Council in 2012, paragraph 2.3: “[Interview] Panel members are required to declare any relationship or knowledge of any applicant which might affect their ability to be impartial so that a decision can be made on their continued involvement in the recruitment and selection process”.

However, neither the Policy, nor its supporting guidance, specifies:

- to whom such a declaration should be made;
- the criteria to be applied when determining whether the panel member should continue to be involved in the recruitment and selection process;
- the record which should be made and kept of such declaration/decision.

Management Action Plan

Human Resources will review and amend the recruitment and selection guidance on ERIC to ensure the above Policy requirements are implemented appropriately and that such implementation is adequately documented.

Importance:	Low
Responsible Officer:	K Ridley, Personnel Manager
Lead Service:	Chief Executive’s Service
Date for Completion (Month / Year):	May 2014
Required Evidence of Completion:	Updated guidance on ERIC

Auditor’s Comments

Satisfactory

Action Point 2 - Document Retention Policy

The Council's document retention policy is to apply the recommendations of the Scottish Council on Archives' Records Retention Schedule. The Schedule stipulates a six month retention period for documents related to recruitment. This equates to the appeal time limit for unsuccessful candidates.

Since this is the only reference in the Schedule to retention of documentation at time of recruitment, it may be interpreted by managers to require that successful candidates' application forms and copies of supporting documentation (e.g. qualifications and evidence of right to work in the UK) should be destroyed after six months.

The above gives rise to a risk that in the event of candidate fraud – e.g., where a job applicant is successful on the basis of counterfeit academic qualifications or forged evidence of a right to work in the UK – then current practice may result in the destruction of such evidence after only six months.

Management Action Plan

Human Resources will review and amend the recruitment and selection guidance on ERIC to ensure retention of documents relating to successful job applicants (e.g. application form, qualifications and interviewers' notes).

Importance:	Low
Responsible Officer:	K Ridley, Personnel Manager
Lead Service:	Chief Executive's Service
Date for Completion (Month / Year):	May 2014
Required Evidence of Completion:	Updated guidance on ERIC

Auditor's Comments

Satisfactory

