



Internal Audit Report  
Corporate and Democratic Services; All Services  
Payroll Assignment No.15-14  
January 2016

## Final Report

Finance Division  
Corporate and Democratic Services  
Perth & Kinross Council  
Blackfriars Development Centre  
North Port  
Perth PH1 5LU

## Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

On 27th March 2013, the Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

## Background and Introduction

This audit was carried out as part of the audit plan for 2015/16, which was approved by the Audit Committee on 1 April 2015.

The Council’s Payroll function makes salary payments to all Council employees and elected members in accordance with agreed salary structures, terms of employment, and working hours, making deductions for pensions (including additional voluntary contributions), statutory deductions and wages arrestments as applicable and other deductions as instructed.

Whilst Payroll is administered by Corporate and Democratic Service’s Finance division, all Council Services are responsible for the proper completion of the relevant forms and adherence to the Council’s Financial Regulations to ensure the accuracy of payments to members of staff.

Audit testing was carried out in November and December 2015.

## Scope and Limitations

In order to arrive at an opinion on the achievement of the control objectives, the audit comprised interviews with the staff in Corporate and Democratic Service’s Finance Division and testing to confirm the proper operation of expected controls. The audit concentrated on the efficient operation of the payroll system, in line with the indicative scope.

Limitations of the Audit: payments for travel and subsistence expenses and statutory and pension deductions were excluded from this review.

## 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 payment of employee salaries, including temporary variations and deductions are timely, accurate and properly authorised.
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Auditor’s Comments:
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Payroll deadlines including the completion of overtime claims are available on the Council’s intranet, ERIC, to ensure that payroll staff are given sufficient time for
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processing, in order to comply with contract terms. Additional payments were found to have been paid in accordance with the schedules ensuring that there are no unnecessary delays.

Systems and reporting routines ensure that payroll totals are properly authorised and agreed prior to processing.

Payroll staff have access to authorised signature lists in order to verify the authenticity of signatures authorising additional payments. In some instances, where authorising signatures could not be easily verified, payroll demonstrated a good knowledge of their validity. Some paid overtime claims were signed by signatories who did not have an appropriate record of delegated authority, and in one instance an overtime claim was authorised by a relative of the claimant. In addition, some additional payment forms were not in the format set out by the Council's Financial Regulations.

Sample testing demonstrated appropriate checking processes and correct payment of overtime on the additional payment forms although there are no written procedures for the processing and checking of the general payroll.

Temporary Higher Duty Payments are subject to system parameters to identify when such arrangements are due to end, to prevent overpayment.

Strength of Internal Controls:

Moderate

Control Objective: To ensure the maintenance of standing data in the Council's payroll system in accordance with the establishment

Auditor's Comments:

The Information Systems Development Team in Employment Services is responsible for maintaining the structure of the Council's establishment, including pay rates and grades in the Payroll system. They were found to make changes in standing organisational structures as instructed on proper authorisation by Services.

Establishment lists are sent out each month to Services, in accordance with the Financial Regulations, to enable the accuracy of the content to be verified. In practice changes are advised by Services on an ad hoc basis.

The Financial Regulations, which were approved by Council in October 2014, also require that Services reconcile their establishment lists to their Service budget as at 31 October each year. However Services' Operational Financial Regulations do not all include how they will meet this requirement. One Service reported they would be unable to provide this reconciliation until March 2016 and one has yet to inform Internal Audit of their intentions in this regard.

Strength of Internal Controls:

Moderate

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Control Objective: To ensure that specified deductions are paid over in a timely manner and as authorised.	
Auditor's Comments: The authorising and processing of the transactions reviewed were generally carried out in a timely manner and as instructed.	
Strength of Internal Controls:	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.

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 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.

### Acknowledgements

Internal Audit acknowledges with thanks the co-operation of Payroll, Employee Support and Information Systems Development in Corporate and Democratic Services, during this audit.

### Feedback

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

### Distribution

This report has been distributed to:

B Malone, Chief Executive

J Walker, Depute Chief Executive, HCC (Corporate and Community Development Services) and Chief Operating Officer

B Renton, Director, The Environment Service

J Gilruth, Director, Housing and Community Care

S Devlin, Director, Education and Children's Services

## Internal Audit Report

J Symon, Head of Finance

S MacKenzie, Head of Performance and Resources, The Environment Service

A Taylor, Head of Corporate IT and Revenues

G Boland, Senior Business and Resources Manager

K Donaldson, Corporate HR Manager

E Sturgeon, Chief Exchequer Officer

S Walker, Chief Accountant

A Ramsay, Team Leader (Payroll)

S Liston, Team Leader (ISD)

V Iwanio, Team Leader (Recruitment and Employment Support)

C Robertson, Central Services Manager, Corporate and Democratic Services

N Copland, Business and Resources Manager, Housing & Community Care

J Cockburn, Finance and Governance Manager, Education & Children's Services

F Crofts, Finance and Resources Manager, The Environment Service

S Welsh, Finance and Governance Team Leader, The Environment Service

K McNamara, Head of Strategic Commissioning and Organisational Development

G Taylor, Head of Democratic Services

P Dickson, Complaints & Governance Officer

External Audit

### Authorisation

The auditor for this assignment was A Gallacher. The supervising auditor was M Morrison.

This report is authorised for issue:

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Jacqueline Clark

Chief Internal Auditor

Date: 8 January 2016



## Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	<a href="#"><u>Operational Financial Regulations</u></a>	High
2	<a href="#"><u>Annual Reconciliation of the Establishment</u></a>	Medium
3	<a href="#"><u>Monthly Establishment Lists</u></a>	Low
4	<a href="#"><u>Documentation to support Market Supplements and Temporary Higher Duty Payments</u></a>	Medium
5	<a href="#"><u>Establishment Approval Process</u></a>	Low
6	<a href="#"><u>Fraud Prevention</u></a>	High
7	<a href="#"><u>Additional Payment Forms</u></a>	Medium
8	<a href="#"><u>Prevention of Unauthorised Additions</u></a>	Low
9	<a href="#"><u>Working Time Regulations – Policy on Breaks</u></a>	High
10	<a href="#"><u>Timely Payment of Deductions</u></a>	Low
11	<a href="#"><u>Written Procedures</u></a>	Low

## Appendix 2: Action Plan

## Action Point 1 - Operational Financial Regulations

The Council's Financial Regulations state that Executive Directors may issue guidance relating to the Financial Regulations in respect of their own Service. In practice, these are known as each Service's Operational Financial Regulations (OFRs) and they delegate to specific officers responsibility for implementing the Financial Regulations.

A review of current OFRs, relating to the sections on Payroll, found that two Services' OFRs were not based on the current approved version of the Financial Regulations and therefore corporate requirements were not reflected in local procedures. The other Services, whilst using the current Financial Regulations as the basis for their OFRs, had not amended all relevant payroll regulations to reflect changes in the corporate requirements.

## Management Action Plan

Each Service's Operational Financial Regulations will be reviewed to ensure that they are based on the Financial Regulations approved by Council in October 2014 and include operational arrangements for the Service to demonstrate compliance with Section 12 relating to Payroll.

Importance:	High
Responsible Officer:	(a) F. Crofts, Finance and Resources Manager (b) J Cockburn, Finance and Governance Manager (c) N Copland, Business and Resources Manager (d) C Robertson, Central Services Manager
Lead Service:	(a) The Environment Service (b) Education and Children's Services (c) Housing and Community Care (d) Corporate and Democratic Services
Date for Completion (Month / Year):	(a) January 2016 (b) January 2016 (c) March 2016 (d) Completed
Required Evidence of Completion:	Updated OFRs published on Eric

## Auditor's Comments

Satisfactory



## Action Point 2 - Annual Reconciliation of the Establishment

The requirement on all Services to reconcile Establishment lists and Service budgets at a specific date is set out in the Financial Regulations, approved by Council on 8 October 2014. This version of the Financial Regulations had changed the date for the reconciliation from 31 March each year, to 31 October, after consultation with Services.

In prior years, each Service had performed the reconciliation at various dates and consequently the verification of the entire establishment at a specific time and the resultant control over staff costs, did not take place. As at mid December 2015, this reconciliation had only been completed by two Services.

### Management Action Plan

The Chief Accountant will ensure that the Financial Controllers are aware of the importance of the completion of this task and will take account of their comments at the forthcoming review of the Financial Regulations, which is due to be presented to Council for approval at the end of 2016.

Importance:	Medium
Responsible Officer:	S. Walker, Chief Accountant
Lead Service:	Corporate and Democratic Services
Date for Completion (Month / Year):	December 2016
Required Evidence of Completion:	Communication to Financial controllers Updated Financial Regulations following consultation

### Auditor's Comments

Satisfactory

### Action Point 3 - Monthly Establishment Lists

There is no narrative accompanying the monthly Establishment lists when they are sent by ISD to Services to prompt the verification of the content nor to advise of any variation to Payroll.

### Management Action Plan

Narrative instructions will be included in the report sent to services to achieve compliance with Financial Regulations paragraphs 12.1.6 and 12.1.7.

Importance:	Low
Responsible Officer:	S Liston, Team Leader (ISD)
Lead Service:	Corporate and Democratic Services
Date for Completion (Month / Year):	January 2016
Required Evidence of Completion:	Copy of email and report to Services

### Auditor's Comments

Satisfactory

## Action Point 4 - Documentation to support Market Supplements and Temporary Higher Duty Payments

Specific documentation is required for Market Supplements (MS) and Temporary Higher Duty Payments (THDP), in accordance with the Financial Regulations. Policies for both require that they are approved for limited periods of time. The need for MS should be reviewed on an annual basis and THDP should only be implemented for a short to medium time period. The THDP Policy notes that where a prolonged period of cover is required, e.g. maternity cover, a fixed term contract should be used.

Testing found that for both of the above, for The Environment Service, general 'Change of Circumstances' forms had been used to apply for extensions through the Establishment Approval Process instead of the relevant forms. There is a risk that an appropriate level of scrutiny is not applied to such decisions.

### Management Action Plan

Instructions will be sent to TES management regarding the proper forms to use for Market Supplements and Temporary Higher Duty Payments. This will be further supported by an announcement alert on the TES intranet page.

Importance:	Medium
Responsible Officer:	S Welsh, Finance and Governance Team Leader
Lead Service:	The Environment Service
Date for Completion (Month / Year):	January 2016
Required Evidence of Completion:	Copy of notification sent to management

### Auditor's Comments

Satisfactory

## Action Point 5 - Establishment Approval Process

Following organisational re-structuring, the current Establishment Approval Process authorisation levels are out of date on the Council's intranet (ERIC).  
Current guidance states that early retirement requests, market supplements, external advertisements and increases in hours have to be approved by EOT, but this is no longer the case.

### Management Action Plan

The relevant guidance on ERIC will be updated to reflect the current authorisation processes.

Importance:	Low
Responsible Officer:	V. Iwanio, Team Leader (Recruitment and Employee Support)
Lead Service:	Corporate and Democratic Services
Date for Completion (Month / Year):	January 2016
Required Evidence of Completion:	Revised list published on eric

### Auditor's Comments

Satisfactory

## Action Point 6 - Fraud Prevention

It was noted during testing that there is no control in place to mitigate the risk of overtime forms being authorised by someone who may be deemed to have a conflict of interest.

One instance was noted during testing of an overtime claim form having been authorised by someone who is related to the claimant, which is contrary to the principles of the Code of Conduct.

## Management Action Plan

The Conflict of Interest Procedure and How to - Conflict of Interest guide will be amended to add that a potential conflict could arise if an undeclared personal relationship exists between the authoriser and claimant. Where disclosed, the authoriser's manager would decide if any additional controls/alternative approval arrangements are required.

Importance:	High
Responsible Officer:	K Ridley, HR Manager, Strategy
Lead Service:	Corporate and Democratic Services
Date for Completion (Month / Year):	January 2016
Required Evidence of Completion:	Updated documents

## Auditor's Comments

Satisfactory

## Action Point 7 - Additional Payment Forms

Testing found that 7 out of 15 forms used to support payments for additional duties did not use the Additional Payment Forms in the format prescribed by the Head of Finance, in accordance with Financial Regulations.

In particular, the forms used did not include declarations by the claimant and authorising signatory that the claims were made in accordance with the Council's policies and procedures, and did not record the printed name and designation of the authorising officer, for verification purposes. For The Environment Service, it was identified that 3 officers from a list of 17 names, which are used by Payroll as approving signatories, had the appropriate delegated authority within the Service to approve timesheets and overtime claims.

## Management Action Plan

- (a) An email instruction from TES Financial Controller will be issued to all Service Managers for distribution to all line managers. The email will instruct the use of the correct forms and will link to forms on Eric. Approved signatories for timesheets and overtime claims will be reviewed.
- (b) Additional Payment forms used in Housing and Community Care will be reviewed to ensure that they comply with the approved format.

Importance:	Medium
Responsible Officer:	(a) S Welsh, Finance And Governance Team Leader (b) N. Copland, Business and Resources Manager
Lead Service:	(a) The Environment Service (b) Housing and Community Care
Date for Completion (Month / Year):	(a) Copy of email from TES Financial Controller. Copy of revised authorised signatory lists (b) Revised HCC
Required Evidence of Completion:	(a) January 2016 (b) March 2016

## Auditor's Comments

Satisfactory

### Action Point 8 - Prevention of Unauthorised Additions

There is no requirement for additional payment forms to be closed off with a "Z" to prevent further hours being added following authorisation.

### Management Action Plan

A reminder of the good practice of ruling off unused lines on forms with a 'Z' will be issued.

Importance:	Low
Responsible Officer:	V Iwanio, Team Leader (Recruitment and Employment Support)
Lead Service:	Corporate and Democratic Services
Date for Completion (Month / Year):	January 2016
Required Evidence of Completion:	Copy of reminder

### Auditor's Comments

Satisfactory

## Action Point 9 - Working Time Regulations – Policy on Breaks

In compliance with the Working Time Regulations 1998, employees are required to take a 20 minute break where the working day exceeds 6 hours. This break should be unpaid – to reflect that no work is being undertaken. The Council's Flexitime Scheme states that employees must take a minimum 30 minute break however the Scheme does not apply to all Council workers. This Scheme does not refer to the Working Time Regulations. The requirement to take a break is not documented in the Council's Hours of Work, Working Time Regulations – Record Keeping Requirements, Personal Breaks or Overtime, Standby and Call out policies.

Testing of overtime claims found that periods of work of up to 10 hours without a break were being authorised and there is no monitoring to ensure compliance with this legislation. In addition, an inconsistent approach was in operation across the Council as to the amount of time being deducted for breaks which may also be a breach of the Council's Fair Working Policy.

### Management Action Plan

The Flexitime Scheme will be amended to reference the Working Time Regulations. In addition, the Working Time Regulations - Record Keeping Requirements document will be amended to include reference to the Regulations, along with the Overtime, Standby and Callout Policy and the Time Off In Lieu Policy.

Importance:	High
Responsible Officer:	K Ridley, HR Manager, Strategy
Lead Service:	Corporate and Democratic Services
Date for Completion (Month / Year):	January 2016
Required Evidence of Completion:	Updated documents

### Auditor's Comments

Satisfactory



## Action Point 10 - Timely Payment of Deductions

Non statutory deductions from payroll (e.g. credit union) were reviewed to confirm that they were paid promptly to the relevant third party as instructed by employees. In one instance, a delay of 6 days occurred between authorisation and payment due to a member of staff being on leave as there were no contingency arrangements in place.

### Management Action Plan

Contingency arrangements are now in place to ensure the timely payment of deductions to the relevant organisation.

Importance:	Low
Responsible Officer:	C. Robertson (Central Services Manager)
Lead Service:	Corporate and Democratic Services
Date for Completion (Month / Year):	Completed
Required Evidence of Completion:	Arrangements in place

### Auditor's Comments

Satisfactory

## Action Point 11 - Written Procedures

The Council administers two payrolls for its employees: one for teaching staff and one for non-teaching staff, referred to as 'general' payroll.

General payroll apply existing written policies, however whilst detailed written procedures are in place for the processing of teacher's salaries and adjustments, there are no such procedures for the processing and checking of the 'general' payroll.

### Management Action Plan

Procedures for the administration of general payroll will be written.

Importance:	Low
Responsible Officer:	A Ramsay, Team Leader (Payroll)
Lead Service:	Corporate and Democratic Services
Date for Completion (Month / Year):	May 2016
Required Evidence of Completion:	Written procedures

### Auditor's Comments

Satisfactory