Argyll and Bute Council

Internal Audit Report

May 2023

FINAL

Payroll Processes

Audit Opinion: Reasonable

	High	Medium	Low	VFM
Number of Findings	0	5	0	0

Contents

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1. Executive Summary

Introduction

1. As part of the 2022/23 internal audit plan, approved by the Audit & Scrutiny Committee in March 2022, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to Payroll Processes.

2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed. The findings outlined in this report are only those which have come to our attention during the course of our normal audit work and are not necessarily all the issues which may exist. Appendix 1 to this report includes agreed actions to strengthen internal control however it is the responsibility of management to determine the extent of the internal control system appropriate to the Council.

3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

Background

4. Payroll costs form a significant part of the Council's expenditure and it is therefore important to have robust and effective controls in place to ensure that only valid employees are paid at the correct and authorised rate and to ensure that calculations of all payments and deductions are correct and in accordance with any relevant legislation and regulations.

5. A Business Process Reengineering Project (BPR) commenced in 2020 to look at the activities undertaken by Payroll and to consider where the team best sat within the structure of the Council. The responsibility for payroll services transferred from Human Resources (HR) to Financial Services in January 2022.

6. The Payroll and Pensions section is responsible for ensuring that wages are paid on time, at the correct rate. During the last financial year expenditure on payroll costs amounted to over £163m with the payroll department processing payments for around 4,600 employees plus LiveArgyll staff and staff from a couple of small organisations.

7. In order to ensure that staff receive their pay on time at the correct rate Payroll and Pension staff rely on the procedures and process in place within HR and the process between HR and Payroll.

8. As part of the continuous monitoring programme, Payroll processes are subject to review on a regular basis. We will place reliance on any transactional areas that are reviewed as part of this programme.

Scope

9. The scope of the audit was to review the processes and procedures in place between HR and payroll to ensure that employee information is updated in a timely manner as outlined in the Terms of Reference agreed with the Finance Manager – Departmental support on 6 April 2022.

Risks

10. The risks considered throughout the audit were:

    - Audit Risk 1: failure to have robust processes and procedures in place
    - Audit Risk 2: ineffective communication between HR and the Payroll and Pensions team
    - Audit Risk 3: failure to amend payroll records in a timely manner
    - Audit Risk 4: inadequate control frameworks within the payroll system

Audit Opinion

11. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion is provided in Appendix 2 to this report.

12. Our overall audit opinion for this audit is that we can take a reasonable level of assurance. This means that internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.

Recommendations

13. We have highlighted 5 medium priority recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:

    - Roles and responsibilities for the whole recruitment and payroll process should be clearly outlined on completion of a review of the tasks undertaken by managers, HR&OD and Payroll staff.
    - All recruitment documents and basic employee information should be populated by HR&OD staff with Payroll staff only keying in necessary information to run payroll.
    - The replacement HR and Payroll system must deliver efficiencies in the processes, however, work should commence in advance of the new system to streamline unnecessary repetition of work where there could be alternative and more efficient ways of processing information.
    - Managers should be provided with support on processes relating to HR which impact payroll and a review undertaken of management responsibilities within the services for recruitment process/payroll processes with consideration given as to whether their role in the process is appropriate.
    - A record and/or an action log should be maintained of meeting held between HR&OD and Payroll.

14. Full details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

2. Objectives and Summary Assessment

15. Exhibit 1 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Link to Risk	Assessment	Summary Conclusion
1	There is effective processes, procedures and communication between HR and Payroll to ensure that employee information is updated in a timely manner	Audit Risk 1 Audit Risk 2	Reasonable	Payroll are dependent on the systems and processes in place which inform them of additions or changes within the payroll system. The efficiency of the whole process is heavily reliant on managers within the services inputting the correct information and uploading all the relevant paperwork in a timely manner. Whilst there are well understood processes and procedures in place for the management of payroll updates, the whole process is hugely inefficient. Each step of the process requires considerable amounts of manual intervention with the same basic information requiring to be keyed in separately by HR&OD and payroll, increasing the risk of error. A combination of the challenges that can be experienced at times, include payroll not being updated in a timely manner. In 2022/2023 there were 1,419 contracts issued, of these 536 of them had one or more errors with 333 received after the employee started in their post. Whilst monthly meetings take place between HR&OD and Payroll there are no notes taken or agreed actions recorded.
2	All changes to the payroll system, permanent and temporary, are properly authorised, are accurate and completed in a timely manner	Audit Risk 3	Limited	Payroll have established timetables which are available on the HUB for staff to view. The number of payroll errors and late submissions to payroll are tracked on a spreadsheet and reported each quarter. The number of late submissions and errors for the year 2022/23 is at an unacceptable level, resulting in delays for payroll staff processing payroll in a timely manner. We were provided with examples where managers failed to submit leaver forms in a timely manner resulting in overpayments. However, not all delays are attributable to late submissions or errors. Payroll deadlines on a monthly basis and processing new starts within Education at the start of term creates peak

3	There is an adequate control framework in place governing the operation of the payroll system and access to the payroll system is restricted to appropriate staff	Audit Risk 4	Substantial	Reliance was placed on work undertaken as part of the continuous monitoring process. Staff are restricted from certain areas of the systems and can only access data/areas that fall within their job remit. User lists and access right are reviewed on a monthly basis and are updated as and when Payroll are notified of any leavers. The Resourcelink system automatically suspends users' profiles after a period of inactivity (40 days) and users have to contact system admin to get reinstated to the system.

16. Further details of our conclusions against each control objective can be found in Section 3 of this report.

3. Detailed Findings

There is effective processes, procedures and communication between HR and Payroll to ensure that employee information is updated in a timely manner

17. Ensuring employee payroll information is updated in an efficient and timely manner is heavily reliant on the information being passed from the managers to HR&OD then forwarded on to Payroll staff who are at the end of the process. The findings in this audit report therefore relate to the whole process, end to end. The processes in place to ensure that employee information on payroll is updated in a timely manner are highly inefficient and at times in-effective resulting in delays processing employee payroll information. There is no overall workflow outlining the process, highlighting roles and responsibilities between managers within the services, HR&OD and Payroll staff.

Action Plan 1

18. Basic essential employee information is keyed by HR&OD staff into CIVICA (employee name and an employee number), then separately into ResourceLink by Payroll staff (the much more detailed information needed to record the employee's personal, post and payroll information). This is inefficient and takes up considerable staff time within Payroll.

Action Plan 2

19. There are several systems which contribute to the management of the payroll process. TalentLink is the Council's vacancy management system. Job adverts are placed on MyJobScotland, with MyJobScotland website importing data from Talentlink. ResourceLink is the council's payroll and HR system where all employee information and post information is held. Information on TalentLink is not automatically pulled through to ResourceLink leading to inefficiencies in the process. All documents are stored in CIVICA the Council's document management system.

20. Processes are in place sitting within CIVICA as workflow instructions to assist staff to complete the whole process. Staff generally have these open to ensure that each step is followed, for example if they are putting on a new start on ResourceLink. Assurance has been provided from the continuous monitoring programme where the day-to-day procedures were reviewed.

21. Whilst there are well understood processes and procedures in place for the management of payroll updates, the whole process is hugely inefficient. Each step of the process requires considerable amounts of manual intervention with the same basic information requiring to be keyed in separately by HR&OD and payroll.   This increases the likelihood of errors occurring. However, checks are made independently of the person keying the information at each stage of the process to mitigate these risks. A new HR and payroll system is planned for the future to replace the existing systems.

Action Plan 3

22. Payroll are dependent on the systems and processes in place which inform them of additions or changes within the payroll system. The Argyll & Bute Manager is responsible for maintaining the posts within their establishment list, including notifying HR&OD when an employee starts, transfer post within the Council, leaves a post or there are changes within the post. The efficiency of the whole process is heavily reliant on managers within the services inputting all the correct information and uploading all the relevant paperwork in a timely manner, this includes the successful candidate form (SCF).

23. Following the recruitment process, a successful candidate form is completed by the manager and sent to the HR Service Centre with the relevant appointment details. It is essential that the recruitment details on Talentlink match the details on the SCF, for example the correct post number, working hours, post occupancy type etc. Failure to ensure that all the relevant paperwork is obtained or completed by the manager ultimately results in delays within payroll system leading to an increased number of complaints.

24. In 2022/2023 there were 1,419 contracts issued, of these 536 of them had one or more errors with 333 received after the employee started in their post. The types of errors recorded included missing paperwork, for example references, ID, criminal conviction forms, interview assessment forms and Head Teacher reports. Other recorded errors included incorrect post number or post details not matching the information held on ResourceLink, amendments required to incorrect hours/work patterns and issues with start dates. The table below outlines the number of contracts issued per service and the error rate:

Service	Contracts issued	No with errors	Received after commencement
CHIEF EXEC PL3 DIRECTORATE	1	1	1
HEAD OF ADULTS - ACUTE & COMPLEX CARE	37	13	3
HEAD OF ADULTS - HEALTH & COMMUNITY CARE	75	37	18
HEAD OF CHILDREN, FAMILIES & JUSTICE	61	32	6
HEAD OF COMMERCIAL SERVICES	131	43	21
HEAD OF CUSTOMER SUPPORT SERVICES	31	7	3
HEAD OF DEVELOPMENT & ECONOMIC GROWTH	25	10	2
HEAD OF EDUCATION	680	247	221
HEAD OF FINANCIAL SERVICES	27	5	3

HEAD OF LEGAL & REGULATORY SUPPORT	39	9	2
HEAD OF ROADS & INFRASTRUCTURE SERVICES	110	47	11
HEAD OF STRATEGIC PLANNING & PERFORMANCE	4	2	0
HSCP PL3 DIRECTORATE	2	2	0
SUBSTITUTE HOS CEU	6	4	0
UNIT A PL3 DIRECTORATE	10	6	6
(blank)	6	4	2
Grand Total	**1419**	**536**	**333**

Action Plan 4

25. All information to assist managers in the recruitment and HR processes is available on the Council's HUB including information on what is required processing a vacancy on TalentLink, user guides and templates and reference documents.

26. Meetings are held between HR&OD and Payroll on a monthly basis to discuss ongoing developments or raise any issues. Although an Agenda of matters to be discussed is available, there are no minutes or notes recorded of these meetings and no subsequent logs/tracking of any agreed actions or details of who the responsible officer is for completing those actions.

Action Plan 5

All changes to the payroll system, permanent and temporary, are properly authorised, are accurate and completed in a timely manner.

27. Payroll have established timetables which are available on the HUB for staff to view. The timetable outlines 'cut off' dates when information must be received. It also includes dates for contractual amendments. As there are two payruns per month, there is one timetable for SLGE staff and one for Teachers.

28. The number of payroll errors and late submissions to payroll are tracked on a spreadsheet and reported each quarter. The quarterly reports form part of the report 'Health of the Organisation' report submitted to the Executive Directors. Detailed below highlights a number of issues, including the number of late submissions resulting in payroll not being updated in a timely manner. However, not all delays are attributable to late submissions or errors. Payroll deadlines on a monthly basis and processing new starts within Education at the start of term creates pressure requiring payroll staff to prioritise workflows.

Payroll Submissions	FQ1 2022/23	FQ2 2022/23	FQ3 2022/23	FQ4 2022/23
Submitted	952	775	613	517
Late	310	380	327	217
Number with Errors	134	154	69	33
%age on Time	67%	51%	47%	58%
%age Late	33%	49%	53%	42%
% with Errors	14%	20%	11%	6%

29. When an employee leaves a post the line manager must complete the Leaver Request Form and email HR contractual services. Failure to complete the leaver request form and submit within two days of the relevant payroll deadline could result in errors in payment to the employee or overpayment and may incur a £50 charge from payroll for any reworks required. Where an

overpayment is made to an employee as a result of the non-timely submission of a Leaver form, this is passed on to debtors to recover. We were provided of examples where managers failed to submit leaver forms in a timely manner resulting in overpayments.

Action Plan 4

There is an adequate control framework in place governing the operation of the payroll system and access to the payroll system is restricted to appropriate staff.

30. Staff are restricted from certain areas and can only access data and areas that fall within their job remit. User lists and access right are reviewed on a monthly basis and are updated as and when Payroll are notified of any leavers. The Resourcelink system automatically suspends users' profiles after a period of inactivity (40 days) and users have to contact a system admin to get reinstated to the system.

Appendix 1 – Action Plan

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	1	**Workflow** There is no overall workflow outlining the processes from recruitment to payroll, highlighting roles and responsibilities between managers within the services, HR&OD and Payroll staff.	Roles and responsibilities not clearly understood	Prepare a detailed process flow diagram which illustrates the end-to-end process and clearly articulates the roles and responsibilities for each step in the process.	Finance Manager – Departmental Support and HR Manager – Operations Date: 30 September 2023
Medium	2	**Use of Resources** Basic essential employee information is keyed in by HR&OD staff into CIVICA, then separately into ResourceLink by Payroll staff.	Inefficient use of resources	Completing and implementing action point 1 and 2 is expected to improve the overall efficiency of the process and optimise the use of staff time.	Finance Manager – Departmental Support and HR Manager – Operations Date: 31 December 2023
Medium	3	**Processes** Whilst there are well understood processes and procedures in place for the management of payroll updates, the whole process is hugely inefficient. A new HR and payroll system is planned for the future to replace the existing systems.	Inefficiencies in processes	Using the above process flow completed for action 1, conduct a value chain analysis exercise to identify points of duplication and any other inefficiencies in the current process. Redesign the process to remove the inefficiencies identified to optimise the use of staff and speed the process up.	Payroll and Pension Officer and Team Leader – HR Service Centre Date: 31 December 2023
Medium	4	**Management Responsibilities** The Argyll & Bute Manager is responsible for maintaining the posts within their establishment list, including notifying HR&OD when an employee starts, transfer post within the Council, leaves a post or there are changes within the post. Reports indicate a high number of errors or omissions of key documentation resulting in delays within payroll.	Significant delays and/or rework within the HR and payroll processes.	Review errors, establish common issues and consult with managers to identify the causes and possible solutions. Develop an improvement plan to address the issues identified with managers to reduce rework and delays.	Payroll and Pension Officer and Team Leader – HR Service Centre Date: 31 December 2023
Medium	5	**Meetings** Meetings are held between HR&OD and Payroll on a monthly basis to discuss ongoing developments or raise	Agreed actions may not be completed	Create Shared space on MS Teams to record/store agendas, minutes and action items. Use MS Planner application on the MS Teams site	Finance Manager – Departmental Support and Team Leader – HR Service Centre

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
		any issues. Although an Agenda of matters to be discussed is available, there are no minutes or notes recorded of these meetings and no subsequent logs/tracking of any agreed actions or details of who the responsible officer is for completing those actions		to record, allocate and track agreed actions. Note: the MS Teams site was created on 06/06/2023.	Date 30 June 2023

In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

Grading	Definition
High	A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.
Medium	Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken.
Low	Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.
VFM	An observation which does not highlight an issue relating to internal controls but represents a possible opportunity for the council to achieve better value for money (VFM).

Appendix 2 – Audit Opinion

Level of Assurance	Definition
High	Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.
Substantial	Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
Limited	Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.