

ABERDEEN CITY COUNCIL

---

<b>COMMITTEE</b>	Audit, Risk and Scrutiny Committee
<b>DATE</b>	12 May 2021
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Internal Audit Report AC2025 – HR / Payroll System
<b>REPORT NUMBER</b>	IA/AC2025
<b>DIRECTOR</b>	N/A
<b>REPORT AUTHOR</b>	Colin Harvey
<b>TERMS OF REFERENCE</b>	2.2

---

**1. PURPOSE OF REPORT**

- 1.1 The purpose of this report is to present the planned Internal Audit report on the HR / Payroll System.

**2. RECOMMENDATION**

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

**3. BACKGROUND / MAIN ISSUES**

- 3.1 Internal Audit has completed the attached report which relates to an audit of the HR / Payroll System.

**4. FINANCIAL IMPLICATIONS**

- 4.1 There are no direct financial implications arising from the recommendations of this report.

**5. LEGAL IMPLICATIONS**

- 5.1 There are no direct legal implications arising from the recommendations of this report.

**6. MANAGEMENT OF RISK**

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

## 7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Council Delivery Plan, or the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

## 8. IMPACT ASSESSMENTS

<b>Assessment</b>	<b>Outcome</b>
<b>Impact Assessment</b>	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
<b>Privacy Impact Assessment</b>	Not required

## 9. APPENDICES

- 9.1 Internal Audit report AC2025 – HR / Payroll System.

## 10. REPORT AUTHOR DETAILS

Colin Harvey, Chief Internal Auditor  
[Colin.Harvey@aberdeenshire.gov.uk](mailto:Colin.Harvey@aberdeenshire.gov.uk)  
(01467) 530701



**Internal Audit Report**

**Customer Experience**

**HR/Payroll System**

**Issued to:**

Andy MacDonald, Director of Customer  
Steven Whyte, Director of Resources  
Jacqui McKenzie, Chief Officer – Customer Experience  
Isla Newcombe, Chief Officer – People & Organisation  
Fraser Bell, Chief Officer – Governance  
Jonathan Belford, Chief Officer – Finance  
Neil Yacamini, HR and Payroll Service Centre Manager  
External Audit

## EXECUTIVE SUMMARY

The Council's staffing costs are approximately £313 million per annum. The Council utilises the CoreHR system to manage and process payments to employees. It is also used as a source of workforce data for planning and reporting purposes. Committee approval was obtained in 2018 for up to £1.494 million of expenditure on the system over 4 years.

The objective of this audit was to provide assurance that there is adequate control over the new CoreHR system and that issues raised in relation to the previous system have been addressed. The review mainly focused on controls over the system, and processing of payments to employees.

In general, there are suitable procedures and controls in place, and the payroll aspects of the system operate as required. Whilst Internal Audit recommendations raised in respect of the previous system have been concluded, it was not possible to fully address all of the actions using the system as originally anticipated. However, suitable alternative processes are in place to fulfil these requirements.

Access controls were improved during 2020 to reflect the Council's password requirements, and access restrictions have been adjusted as use of the system has further developed.

Charges for the system depend on the number of active payroll records during each year, and therefore capacity may need to be increased due to staff turnover. The Service has been reliant on the supplier to provide information to monitor and identify when changes need to take place, as part of annual contract reviews. Costs are monitored to ensure they are compliant with the contract, and to ensure appropriate authorisations are obtained if there is a risk of the Committee approval being exceeded. It is not anticipated that this will be required.

A data protection impact assessment was undertaken during initial implementation of the system in 2019, and requires to be updated to reflect changes, and ensure risks identified have been mitigated as appropriate. This will be completed following a planned upgrade in May 2021.

Data is taken from the YourHR system and edited prior to input into CoreHR to facilitate payment of overtime and enhancements. Checks are in place and staff relied upon to fully, accurately and appropriately edit this data to ensure the correct payments are made to the right employees. As there are manual aspects of this process there is a risk of error. The Service considers that appropriate checks are in place, however the system development plan includes proposals to review further use of the CoreHR system itself for timesheet and overtime data.

It is recognised that the Council has undertaken significant transformational change to its workforce and how it operates, and any new system takes time to implement and embed within an organisation. The Service has highlighted that plans and requirements have been amended and implementation of further functionality prioritised where appropriate and agreed through the project board.

The initial (extended) contract for the system, and the associated Committee approval for its award, expires in March 2022. As the contract is due to expire in just over one year, procurement plans and relevant approvals will be sought at Strategic Commissioning Committee in April 2021. The Service has developed plans, which will progress through the relevant approval routes, to demonstrate achievement of Best Value.

# **1. INTRODUCTION**

- 1.1 The Council's staffing costs are around £313 million per annum. The Council utilises the CoreHR system to manage and process payments to employees. It is also used as a source of workforce data for planning and reporting purposes.
- 1.2 The objective of this audit was to provide assurance that there is adequate control over the new CoreHR system and that issues raised in relation to the previous system have been addressed. The review focused on controls over the system, and processing of payments to employees.
- 1.3 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Jacqui McKenzie, Chief Officer – Customer Experience and Martin Murchie, Chief Officer – Data and Insights (on behalf of Digital & Technology)

## 2. FINDINGS AND RECOMMENDATIONS

### 2.1 Written Procedures and Training

- 2.1.1 The Service provided copies of procedures that were in place for HR and Payroll for all the processes that were in place when the audit commenced in January 2020. The procedures had been created as part of the testing of new areas of the system, prior to its implementation in May 2019. At the time procedures were reviewed by Internal Audit not all aspects of the system were live, therefore some guidance remained to be finalised. The Service has noted that this has since taken place.
- 2.1.2 Initial procedures varied in detail – and in some cases referenced that activities and checks should take place without providing detail of, or cross-references to, the process to be followed in undertaking those activities. Whilst this may not be an issue for experienced payroll team members, more detailed procedures promote consistency and reduce reliance on specific staff.

#### **Recommendation**

The Service should ensure procedures are sufficiently detailed.

#### **Service Response / Action**

Agreed. In the two years since the system was implemented the Service have worked to review and refine the procedures and made use of new technology such as Microsoft Stream to develop procedures for all staff members.

#### **Implementation Date**

Implemented

#### **Responsible Officer**

HR and Payroll Service  
Centre Manager

#### **Grading**

Important within audited  
area

### 2.2 System Supply and Maintenance

- 2.2.1 In February 2018 the Finance, Policy & Resources Committee approved delegated authority to award a contract for a Human Capital Management system following a compliant procurement process, with estimated expenditure of up to £1.494 million over 4 years. This included £800,000 of capital expenditure, and £231,000 per annum for 3 years thereafter for software support costs, up to 2021/22. A contract was awarded in 2018 and was formally extended to 31 March 2022 in March 2020.
- 2.2.2 For 2019/20, costs were approximately £217,000 per annum. The subscription fee is based on the number of employees on the system throughout the year, and at the time this included up to 9,500 'active' employees – i.e. those with a payment or change to their record within the period under review. As this can vary, the number is reviewed annually based on an average. In 2019/20 the Council was within 93% of this figure. For 2020/21 the contract review process identified a need to increase the subscription to 10,500, at £245,000 per annum. The Council is within 81% of this figure.
- 2.2.3 Available capacity is currently reviewed annually as part of the contract review process. As the system is hosted, reliance has to be placed on the supplier to identify and raise this with the Service if it is identified as an issue, and to charge accordingly. There is therefore a risk of additional costs being incurred before the Service identifies a change in activity and, in the event of this exceeding the agreed budget, channelling this through the appropriate approval route.

**Recommendation**

The Service should monitor its use of the system to ensure costs are accurately billed and changes authorised.

**Service Response / Action**

Agreed. Costs will continue to be monitored to ensure that we have adequate capacity within the system and to ensure contract compliance. The report identifies that we are currently at 81% capacity in the system which indicates the review undertaken of the contract has been effective in the control of capacity of the system. We monitor the costs, but control over the number of records is dependent on wider organisational and staff turnover. It is essential that capacity is maintained in order to continue paying staff. Appropriate authorisations will be obtained if there is a risk of the Committee approval being exceeded. It is not anticipated that this will be required.

**Implementation Date**

Implemented

**Responsible Officer**

Customer Experience  
Officer - Digital and  
Technology

**Grading**

Significant within audited  
area

**2.3 System Access**

- 2.3.1 As the system is used for processing sensitive and other personal data, a data protection impact assessment was completed in September 2019, after elements of the system had gone live. The Council's data protection and information security team highlighted risks which were not fully mitigated at the time, particularly in respect of access controls, privacy risks, and security testing. Further system development has been undertaken since; therefore it would be prudent to refresh the data protection impact assessment to take this into account and ensure risks have been adequately mitigated.

**Recommendation**

The Service should update the data protection impact assessment.

**Service Response / Action**

Agreed. Following discussion with the Councils Data Protection Officer, it has been agreed to work in collaboration with them to develop a new data protection impact assessment which will be undertaken to take account of the system upgrade which will be completed in May 2021.

**Implementation Date**

July 2021

**Responsible Officer**

HR and Payroll Service  
Centre Manager

**Grading**

Significant within audited  
area

- 2.3.2 The system is made up of two parts – the Portal which all employees have access to, where they can view payslips, personal details, etc; and the Back Office which is only accessible by HR and Payroll team members.
- 2.3.3 The Portal requires employees to log in with a username and password, which is linked to their corporate login details. Users not on the corporate network are required to have a username and password which is stored on the system, and may therefore have a lower level of security.
- 2.3.4 The Back Office requires a username and password to be entered. The password requirements of the system are:
- Between 6 and 12 characters in length
  - Contain at least 1 character from each of the following categories:
    - o Uppercase letter

- Lowercase letter
- Number
- Symbol
- Not a repeat of the last 8 passwords used
- To be changed every 90 days
- Account locked after 3 failed attempts
- Does not allow username for password
- There are no different requirements for Administrator or superuser access to the system.

2.3.5 The Council’s minimum password requirements, as set out in the Council’s Password Standard, are:

- At least 8 characters in length
- Contain a character from 3 of the following categories:
  - Uppercase letter
  - Lowercase letter
  - Number
  - Symbol
- Not a repeat of the last 5 passwords used
- Not contain the username or part of the user’s full name
- In addition, Administrators must have a password that is at least 15 characters in length.

2.3.6 The system requires unique user logins and passwords, and the majority of the Council’s criteria are matched or exceeded, but the system was not set up to ensure all of the Council’s minimum password requirements are applied. There is a risk that users and administrators may select shorter passwords than required. The requirement to change passwords regularly is also contrary to current best practice guidelines – as it can inadvertently encourage the use of weaker passwords – though this risk is limited by application of the minimum requirements.

**Recommendation**

The Service should ensure the system password requirements are in line with the Council’s password standard.

**Service Response / Action**

Agreed. The system has security levels in place. These reflect ACC password requirements.

**Implementation Date**

Implemented

**Responsible Officer**

HR and Payroll Service  
Centre Manager

**Grading**

Significant within audited  
area

2.3.7 At the time reviewed, all HR and Payroll staff had the same level of access to the Back Office system, in which they could access and amend information. Whilst no evidence has been identified to suggest that errors have occurred, in the absence of system applied segregation of duties and levels of authority there is an increased risk of inappropriate data access, or erroneous data entry, which may not be identified and corrected promptly.

2.3.8 The Service advised that the workflow requirements had been set out for staff, and there are clear rules for HR and Payroll staff processing changes to the payroll, including secondary checks on new starts and leavers to ensure calculations are correct, and a direction not to process their own or family’s records. At the time reviewed in January 2020 there were limited system controls in place to enforce these restrictions.



**Recommendation**

The Service should ensure that access levels and system workflow processes are reviewed to ensure data access and entry is adequately controlled by the system.

**Service Response / Action**

Agreed. The workflow for new starts and leavers is controlled, and includes secondary checks by multiple team members. Access to team members' own records is restricted. Where record access can not be restricted there are expectations in place which are outlined in procedures and checks are carried out by multiple members of the team

**Implementation Date**

Implemented

**Responsible Officer**

HR and Payroll Service  
Centre Manager

**Grading**

Significant within audited  
area

**2.4 Payroll Process**

2.4.1 A copy of the payroll timetable for 2019/20 was provided, which showed the dates when each of the payrolls and BACS processes are run for each payroll group. Typically the payrolls are run just over a week before the BACS are run, which gives sufficient time to adjust any issues or errors that may arise from reports run. Various checks and reconciliations are completed prior to finalising the payroll. Checks are run again to ensure corrections made on the system have been concluded appropriately.

2.4.2 Data is extracted from the YourHR system, reviewed, edited, and then input to CoreHR, in order to add timesheet and overtime data into the system. The Service has control totals and spot checks in place, however reliance is placed on staff to fully, accurately and appropriately edit this data to ensure the correct payments are made to the right employees, presenting an increased risk of error.

**Recommendation**

The Service should review the extent to which manual adjustments are required.

**Service Response / Action**

Agreed. The Service has reviewed this area and considers that appropriate checks are in place and that manual adjustments are kept to a minimum. This will be included in consideration of any future developments.

**Implementation Date**

Implemented

**Responsible Officer**

HR and Payroll Service  
Centre Manager

**Grading**

Significant within audited  
area

2.4.3 CoreHR automatically generates interfaces out to the General Ledger (financial system) and BACS output (bank payment system) as a part of the payroll run. Where errors are identified during upload to these systems, these are fed back from the relevant system owners to the Payroll team to correct on CoreHR.

2.4.4 The majority of system reports available on the Portal are HR related, with few that check the accuracy of the payroll. The Service advised that payroll reports are used to check the gross to net values of new starts and leavers, and for any employee who has a significant change from salary from the previous month e.g. (+/- £1,000). Other checks are carried out using a separate database system, which is used to view, combine and calculate different sources of data – which cannot be completed using CoreHR alone.

2.4.5 A sample of 20 payments was selected for review, ranging from new starters, leavers, sickness and maternity leave, overtime and unpaid leave. Checks were carried out that appropriate forms, notification and authorisation had been provided by the employees'

Service and manager and that the changes were processed correctly and timeously. Each had been processed and paid as anticipated based on the input to the system.

- 2.4.6 However, minor errors were identified in manual calculations of hours in respect of three timesheets, a sickness absence, and application of a pay increment. These were calculated outside of the system and entered manually. Additional payments were also processed including payments for sick pay, and additional non-contractual payments for working during festive periods. The Service has stated that these have been checked and amended where necessary, and supported by relevant Service authorisations. The full paperwork was not available due to current restrictions on access to offices.

## 2.5 Business Continuity and Disaster Recovery

- 2.5.1 The HR and Payroll Service Centre business continuity plan covers the key requirements, including the system, which may be affected by an incident affecting the ability of the Service to continue its normal operations. The plan is comprehensive and reflects various scenarios including loss of staff, resources and systems.

- 2.5.2 However, it does not cover a situation where the supplier is no longer able to provide the service. As it is a cloud-based system, the Council does not hold a copy of the system or its data. The system service is provided under contract, and if there are any system performance issues these are logged and addressed as appropriate. The Service has indicated that it is satisfied with the level of performance. However, access to the data and use of the system is reliant on the supplier and its systems remaining operational.

### **Recommendation**

The Service should ensure the Business Continuity Plan includes information relating to supplier failure.

### **Service Response / Action**

Agreed. The Service welcomes Audit's opinion that the plan in place is comprehensive. Arrangements are in place if there is a supplier failure and in an emergency, previous months' BACS payment data is retained and could be re-run, with adjustments made to payroll records in subsequent periods. This Business Continuity Plan will be amended to reflect this information.

### **Implementation Date**

June 2021

### **Responsible Officer**

HR and Payroll Service  
Centre Manager

### **Grading**

Important within audited  
area

## 2.6 Human Capital Management (CoreHR) Project

- 2.6.1 The system was procured and a project progressed to implement it due to the end of life for the previous HR and payroll system, and a requirement for better consolidation of systems, integration and user experience, in line with the Council's digital strategies.

- 2.6.2 Implementation has been managed through a project board comprised of relevant Officers. Regular highlight reports show progress and any issues or risks that have arisen. These reports also state what has been done in the previous period and the priorities that will be carried out in the next period. The Digital Project Board also receives a report on the activities for each period that have been carried out. There is also a roadmap which is updated periodically, taking into account any anticipated changes to timescales.

- 2.6.3 Reports for December 2019 – February 2020 indicated that there had previously been issues with progressing the project on time and on budget. The Service has stated this was due to organisational change and members of the project team leaving. The reports

indicated that in various aspects business requirements had changed, were not yet sufficiently well specified, or that system requirements did not meet expectations. Work had not been concluded on overtime and time recording, and therefore as discussed at 2.4.2 above some manual processing is required to apply the Council's requirements. Absence recording and reporting requirements, and learning and development recording were also still to be defined and progressed. Further elements were planned for implementation as part of other phases of the project, and included a requirement for a gap analysis of current system capability against plans and expectations.

- 2.6.4 Whilst Internal Audit recommendations raised in respect of the previous system have been concluded, it was not possible to fully address all of the actions using the system as originally anticipated. For example: whilst the system now incorporates details of staff rotas the system does not support regular verification by line managers; compliance with the working time regulations is assisted through system reports but this monitoring is not automated; and health and safety training data is retained outside of the system. Additional or manual processes are in place to fulfil these requirements.
- 2.6.5 Time recording is still maintained separately, and is planned for implementation on the system. The Service has provided a copy of the updated system implementation plan, which currently runs through to August 2021.
- 2.6.6 It is recognised that the Council has undertaken significant transformational change to its workforce and how it operates, and any new system takes time to implement and embed within an organisation. The Service has highlighted that plans and requirements have been amended and implementation of further functionality prioritised where appropriate and agreed through the project board.
- 2.6.7 The initial (extended) contract for the system, and the associated Committee approval for its award, expires in March 2022. As the contract is due to expire in just over one year, procurement plans and relevant approvals will be sought at Strategic Commissioning Committee in April 2021. The Service has developed plans, which will progress through the relevant approval routes, to demonstrate achievement of Best Value.

**AUDITORS:** C Harvey  
R Brand

## Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
<b>Major at a Corporate Level</b>	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the organisation.
<b>Major at a Service Level</b>	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
<b>Significant within audited area</b>	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
<b>Important within audited area</b>	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.