



ABERDEEN

CITY COUNCIL

Internal Audit Report

Human Resources & Customer Service

Payroll System

Issued to:

Angela Scott, Acting Director of Corporate Governance
Ewan Sutherland, Head of HR and Customer Service
Steven Whyte, Head of Finance
David Cheyne, Payroll Manager
Anne MacDonald, Audit Scotland

EXECUTIVE SUMMARY

Since 2000, the Council has operated the PS enterprise (PSe) system supplied by Northgate to process and administer salaries for its own staff and organisations including 'Grampian area' Police Scotland staff, Aberdeen City Councillors, Aberdeen Safer Community, Aberdeen Greenspace Trust, and Bon Accord Care.

In 2014/15, gross salaries paid to 8,700 Aberdeen City employees through the system totalled £198.9 million.

The objective of this audit was to ensure that appropriate control is being exercised over the Payroll system, including contingency planning, disaster recovery, and interfaces, and that payments made by the system are accurate. In general, this was found to be the case. Recommendations to develop a strategy for replacement of the existing system which ceases to be supported from 2020 onwards, ensuring that password composition is in accordance with the Council's Information Good Security Practice Guidelines, and the development of reports to allow for more focussed checking of information have been agreed by the Service.

Currently there is no high level documentation detailing how the system operates. Whilst the lack of this documentation has not impacted on the Service to date there remains a risk that if key personnel were to leave the organisation there would be a loss of information. The Service has advised that the current focus is on the replacement strategy referred to above.

1. INTRODUCTION

- 1.1 Since 2000, the Council has operated the PS enterprise (PSe) system supplied by Northgate to process and administer salaries for its own staff and organisations including 'Grampian area' Police Scotland staff, Aberdeen City Councillors, Aberdeen Safer Community, Aberdeen Greenspace Trust, and Bon Accord Care.
- 1.2 In 2014/15, gross salaries paid to 8,700 Aberdeen City employees through the system totalled £198.9 million.
- 1.3 The objective of this audit was to ensure that appropriate control is being exercised over the Payroll system, including contingency planning, disaster recovery, and interfaces, and that payments made by the system are accurate.
- 1.4 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with David Cheyne, Payroll Manager.

2. FINDINGS AND RECOMMENDATIONS

2.1 System Support & Documentation

- 2.1.1 The PSe system was implemented by the Council in 2000. Key staff within both the Payroll Development Team and the Payroll processing teams have been in post for many years and are familiar with the PSe system and supporting payroll procedures.
- 2.1.2 The Payroll Development Team and ICT advised that the system has been subject to local customisation over the years to meet the changing needs of the organisation. The Service advised that PSe is not viewed by Northgate as one of their core products and as such there is no significant ongoing development of the system, however software system problems are resolved and statutory updates are provided. Management advised that Aberdeen City is currently the only Council in Scotland using PSe.
- 2.1.3 Whilst in-house customisation has benefits for the organisation, the risk exists that ongoing support and maintenance of the system may prove problematic. There is also a risk that, if the product is not being actively developed by the provider, future support and maintenance costs may become prohibitively expensive or support may be withdrawn altogether.
- 2.1.4 The Payroll Manager confirmed that support will continue with Northgate until January 2020 when the life of the product will end and that consideration is being given to replacing the current system with a new HR and Payroll system. At this stage however, management are making plans but no firm decisions have been made. A recommendation is included here to highlight the need for a strategy for replacing the current system.

Recommendation

The Service should ensure that a strategy is developed to ensure continued ability to provide payroll services.

Service Response / Action

Agreed. A project team has been set up to look at HR and Payroll System requirements and develop a strategy.

Implementation Date

April 2017

Responsible Officer

Head of HR

Grading

Significant within audited area

2.2 System Changes

- 2.2.1 Prior to the implementation of changes to the live payroll system, for example statutory rate changes for tax, NI and student loans, Northgate will notify the Payroll Development Team, who will undertake system testing to ensure that the proposed system changes are accurate.
- 2.2.2 The Payroll Development Team select an employee record which they know will be affected by one of the changes and undertake a manual calculation for each change. In addition, when the change relates to tax and national insurance a second verification is undertaken using a software product called Qtac. There is also a verification of parameters that should not be changed as part of the update process.

2.2.3 A review of the 2014/15 year end change information processed by the Senior Payroll Development Officer confirmed that planned changes had been adequately tested prior to implementation within the live environment.

2.2.4 Once tested the system upgrades are provided by Northgate to ICT for implementation.

2.3 Written Procedures

2.3.1 Accessible, comprehensive and up to date written procedures can reduce the risk of errors and inconsistency. They are beneficial for the training of current and new employees and provide management with assurance of correct and consistent practices being followed, especially in the event of an experienced employee being absent or leaving.

2.3.2 Whilst documented procedures are available which aim to show the steps that the Payroll Development Team and payroll staff should follow to complete various tasks, there is a lack of high level documentation setting out how the PSe system operates overall, how it is structured, how user profiles are created and maintained, how key system controls operate, what maintenance and support arrangements are in place, how audit logs are produced and maintained, and use of Access databases for reporting purposes.

Recommendation

The Payroll Development Team should compile a PSe Operations manual which should provide an overview of the operations of the PSe system including system architecture, process maps, key system controls, key maintenance routines, etc.

Service Response / Action

This has not been required in the 15 years we have had the system. This would take a considerable amount of time to achieve with little benefit, requiring a resource that we are unable to provide as any additional resources will be allocated to the new HR/Payroll system project. This is where we feel the resources are better utilised.

Audit Position

Whilst it is accepted that there has not been a problem in the last 15 years were key members of staff with knowledge of the system to leave the organisation, there is a risk that the processing of payroll may be adversely affected.

Implementation Date

N/A

Responsible Officer

N/A

Grading

Significant within audited area

2.4 Access Controls

2.4.1 Access to the PSe application is administered by the Payroll Development Team who provide users with access levels appropriate to their job role. The Council's Information Security Good Practice Guidelines require that passwords are of a minimum length of 8 characters and are made up of letters and a minimum of one number and one special character. The current PSe system password set up requires a minimum length of 6 and a maximum of 12 characters, and doesn't require the use of numbers or special characters. Passwords require updating every 90 days and changes are forced via system controls.

Recommendation

The Service should explore whether or not it is possible to set the password parameters on the system to ensure compliance with Information Security Good Practice Guidelines.

Service Response / Action

Agreed. Whilst PSe has the capacity to comply with the Information Security Good Security Guideline, this was not part of the original system controls. The fix to resolve this is not straight forward, but payroll will investigate and change if possible.

Implementation Date

November 2016

Responsible Officer

Development Team
Officer

Grading

Important within audited
area

- 2.4.2 At the time of the audit review an exercise had been completed by the Payroll Development Team to check the authorisation rights of all system users following organisational changes within the Council which required new posts and job titles to be created and old posts and job titles to be deleted. The Service has advised that they intend to start reviewing all users on a three monthly rolling basis, to ensure that only valid users continue to have access to the system. The Service has advised that this will commence once the Council wide staffing restructure has been completed.

2.5 System Interfaces

- 2.5.1 As part of the original PSe implementation, IT interfaces were built linking the Payroll system with the travel system, the General Ledger and the Creditors system by Rebus Software Services. Each interface was formally commissioned by the ICT function and managed via the change control process. Each interface is supported by detailed system specifications, testing regimes and sign off. The interfaces that were processed in August 2015 were reviewed and were found to be operating effectively; the interfaced information was matched to the providing and receiving systems.

2.6 Transaction Input

- 2.6.1 Payroll staff involved in data input have received on the job training in the use of the application. System on line help facilities are available to assist users and where appropriate staff will enlist the help of other colleagues. Unresolved issues may be referred to the Payroll Development Team.
- 2.6.2 The input documents used are designed primarily to assist completion of the form rather than to match the PSe application input screen, although in practice most follow a logical format. "Drop Down" pre-coded data fields are used to assist staff inputting transaction data where possible, thus minimising the possibility of input errors.
- 2.6.3 In some systems, control over data input is exercised through secondary keying of data or using batch control totals. This is not used in the PSe system although, as a mitigating control, reliance is placed on monitoring of Payroll expenditure reports by Budget Centre Managers. Once information has been keyed into the system the input documents are typically marked (diagonal line scored on the document).
- 2.6.4 In addition to keying of input direct into PSe (which forms the main method by which data is input to the Payroll system), data can also be uploaded from Excel spreadsheets using a template/spreadsheet workbook created by the Development Team. Only valid information is processed directly into the payroll system, with any errors contained within the workbook highlighted on an Import Errors report, which is corrected by payroll operational staff with reference, where necessary, to the Service.

2.7 Data Processing

- 2.7.1 The salaries paid to ten new start employees and five employees that left the Council's employ were manually recalculated and compared to the system calculation. All but one system calculation matched the manual recalculations.
- 2.7.2 The Service advised that, in order to simplify calculations, the methodology for calculating starters' and leavers' salaries had been changed in April 2015 from a 365ths to a 12ths (Calendar month) basis, and the system calculation had not yet been updated to accurately reflect the change. A work around is currently in place whereby the salary entitlement is calculated manually and input to override the system generated figures. However, as a result of human error, the figures from the manual calculation were not input to the system and the system applied the original (but out of date) calculation to the starting salary thus generating an overpayment of approximately £40 to the employee.
- 2.7.3 This was highlighted to the Service during the course of the audit, and following a review of all new start employees affected by the change a further six overpayments were identified. The Service has advised that all overpayments have been recovered.
- 2.7.4 No independent check is carried out by Payroll staff on the accuracy of an individual's payroll calculation. There is a risk therefore that when new staff are being set up on the system and their pay is being calculated for the first time, any errors made at this stage will not be identified by Payroll and reliance will be placed on retrospective review by the employee themselves, or the relevant budget holder who may review a cost centre report giving payroll details. It is acknowledged that Payroll check that new starts and leavers are supported by paperwork from HR, but this does not constitute a check on the accuracy of the Payroll calculation itself.

Recommendation

The Service should consider introducing an independent check of a sample of all starting salary calculations to confirm accuracy until a system fix is introduced.

Service Response / Action

The fix has now been implemented by the Senior Development Officer.

Implementation Date

N/A

Responsible Officer

N/A

Grading

Important within audited area

- 2.7.5 The core function of the payroll system is to ensure that employees are paid correctly, and tax, national insurance and superannuation are accurately calculated. The payments and deductions for 10 employees were manually recalculated and matched that reflected within the system.

2.8 Output

- 2.8.1 A schedule is maintained detailing all the expected output following Payroll processing. On a monthly basis, a range of control reports including Payroll Reconciliation, Gross to Net Pay report, the Creditors report and the general ledger interface report are produced and reviewed by the Payroll Team at Part 1 and Part 2 of Payroll processing.
- 2.8.2 Reports reviewed as part of the Part 1 output, provide an opportunity to correct errors or omissions prior to the payroll being finalised and funds being transferred via BACS. On completion of the checking of reports at this stage, a print file is transmitted to Aberdeenshire Council to enable the hard copy payslips to be printed by the reprographics team. Payslips are then returned to the Council and sent out to

employees. The Service advised that any errors or omissions spotted by employees on receipt of their payslips can potentially be corrected prior to the payroll for the period being finalised and the funds transferred by BACS. On completion of final amendments and checking, key reports are rerun as Part 2 of the reporting schedule. If errors are spotted, and corrected and BACS payments amended, revised payslips are produced.

2.8.3 Reconciliations are performed between the Payroll and the financial ledger as part of period end checks. These reconciliations also involve a manual check on the cumulative totals per the system against manual spreadsheet records referred to as the “Black Books” which contain details of the period and cumulative totals for Tax, NIC, Pension, Student Loans, Maternity, Paternity and Adoption Pay. These reconciliations are performed and checked by staff within the Payroll Operations team on a monthly basis and are also subject to review by the Payroll Manager. A review of the manual checks completed for the May 2015 payroll was undertaken and found to be operating adequately. These monthly checks also involve a reconciliation to the financial ledger and evidence of this was obtained for May 2015.

2.8.4 There is currently no routine check carried out on the changes made to employee bank accounts. There is a report currently available through Access but it is not currently used by Payroll staff.

<u>Recommendation</u>		
The Service should consider reviewing a sample of changes made to bank account details to confirm that the change is adequately supported by a request from the employee whose pay will be redirected as a result of the bank account change.		
<u>Service Response / Action</u>		
This is already an area where the Payroll Team double check on entry. There has been a negligible amount of errors over the years due to Payroll input. I therefore think that the increased Payroll checking would have a negative input as the time spent could be used elsewhere. With the move to YourHR Anywhere most bank changes will be completed by self service.		
<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
N/A	N/A	Important within audited area

2.8.5 It was also noted that although an exception report is produced and reviewed which highlights monthly Gross Pay equal to or greater than £4500, there is currently no report available which highlights material variations in an individual’s pay from the current pay period to the previous period. A material variations report would allow for the identification of errors, misstatement and possible fraud prevention.

<u>Recommendation</u>		
Consideration should be given to developing a Payroll exception report highlighting significant variations between an individual’s Gross Pay in the current period, compared to the previous period.		
<u>Service Response / Action</u>		
Agreed. Payroll will look at the feasibility of developing an exception report which shows an agreed % differential. This will allow for more targeted checks.		
<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
April 2016	Payroll Development Officer	Important within audited area

2.9 BACS transfer

- 2.9.1 BACS is the central body for processing UK payments and the method most widely used by companies and local authorities to pay employees. The Council uses C – Series, a web based BACSTEL–IP software package to facilitate salary payments. Each paygroup within the Council has a unique BACS template within C-Series to allow the transmission of the payments file.
- 2.9.2 A formal process is in place for reconciling the payroll with the resulting BACS payment file. Authorisation to make payment is provided by one of the Payroll Officers (operating on rotation within the Payroll team). Subsequent transmission of the BACS file must then be completed by authorised staff within the Payroll Development Team. Both stages of the BACS payment authorisation routine are controlled by individual user names and passwords via the C – Series application. The submission for May 2015 (Month 2) was verified.

2.10 System back up and business continuity plans

- 2.10.1 Arrangements are in place for the regular and routine back up of the PSe system. These services are provided to the Council by ATOS IT Services UK and are administered by ICT. Back up jobs are run automatically on a daily, weekly and monthly basis. The backup schedule for May 2015 was reviewed together with the backup logs; all were completed successfully.
- 2.10.2 The Payroll Business Continuity Plan (BCP) forms part of the overall plan for the HR Service. An annual Disaster Recovery exercise is undertaken by ATOS and the Council covering all systems, the last being in November 2014 which involved the switching to ATOS's secondary site. Restoration from backups was tested in April 2015 and was completed successfully.

AUDITORS: D Hughes
M Beattie
D Lawson

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	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 Council.
Major at a Service Level	<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>
Significant within audited area	<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>
Important within audited area	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.