



Internal Audit Report

Timesheets and Allowances

Issued to:

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Ewan Sutherland, Head of HR and Customer Service
Steven Whyte, Head of Finance
Keith Tennant, HR Team Leader
David Cheyne, Payroll Manager
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EXECUTIVE SUMMARY

During the course of this audit, a sample of timesheets relating to 300 employees was examined to ensure compliance with the Council's terms and conditions and Financial Regulations.

A majority of timesheets were found to be completed appropriately and processed accurately. However, areas were identified for improvement including payments of Non-Standard Working Week Allowances, Working Time compliance, and the classification of additional hours / overtime worked which may be eligible for additional holiday pay.

Each of these is discussed in more detail in the main part of the report along with the recommendations made and the Services' responses to these.

1. INTRODUCTION

- 1.1 Council employees under Equal Pay & Modernisation terms and conditions are paid for any hours worked as part of their contracted hours at plain time (normal hourly rate). Contracted hours are paid automatically having been set up on the payroll system whilst additional hours and enhancements have to be claimed on a monthly timesheet.
- 1.2 Work in excess of an employee's contracted hours is paid as follows:
- Where the employee is contracted to work less than 37 hours per week, additional hours up to 37 hours per week are paid at plain time. Any hours over 37 hours per week, unless part of an agreed rota where the average weekly hours are 37 hours or less, are defined as overtime.
 - Where an employee is contracted to work over 37 hours per week (this can be up to 45 hours per week), all hours over the employee's contracted hours (except where this is part of an agreed rota where the average weekly hours covering the rota period are below the employee's contracted hours) shall be considered as overtime.
 - Overtime is paid at the rate of time and one half. However, for employees paid above Grade 12, overtime payments are restricted to the flat rate equivalent of the top point of Grade 13.
- 1.3 Where additional hours / overtime is considered to be "regular" (see paragraph 2.4.2, below) the payment made attracts an additional holiday entitlement of 8.3%.
- 1.4 Certain hours that are not paid at the overtime rate attract a non-standard working week enhancement:
- Hours worked between 2000 and 0700, Monday to Friday attract an enhancement of one third.
 - Hours worked on a Saturday and Sunday attract an enhancement of 40%.
- 1.5 Employees providing the Out of Hours Service in Social Work do not claim the enhancements for unsocial hours. They are, instead, paid a composite rate of 25% on all hours worked in lieu of the non-standard working time allowances. This was approved by the Corporate Policy and Performance Committee in December 2011.
- 1.6 Casual Workers are paid all of their hours at the basic hourly rate for the job undertaken. An additional 12.07% of the hourly rate for each hour worked up to 37 hours per week is paid in respect of the workers entitlement to annual leave. These workers are not employees of the Council and there is no 'mutuality of obligation' to offer or accept work.
- 1.7 The objective of this audit was to review of a sample of timesheets to ensure that they had been completed, authorised and paid correctly. This was undertaken in the form of a "desk top" exercise, reviewing a sample of timesheets that had been paid in August 2016 for reasonableness (without initial reference to supporting documentation held by Services) and, where appropriate, seeking further information from Services to support and justify the hours being claimed.
- 1.8 The factual accuracy of this report and action to be taken with the recommendations made have been agreed with Ewan Sutherland, Head of HR and Customer Service, Keith Tennant, HR Team Leader, and David Cheyne, Payroll Manager.

2. FINDINGS AND RECOMMENDATIONS

2.1 Review of Timesheets

- 2.1.1 In order to establish compliance with the Council's terms and conditions, timesheets relating to payments made to 300 employees in August 2016, were examined. Whilst a majority of timesheets appeared to be completed appropriately some were queried with authorising officers and / or HR / Payroll for a number of reasons and the outcomes are detailed below.

2.2 Non-Standard Working Week Allowance

- 2.2.1 Where staff work Non-Standard Working Week (NSWW) hours, ie between 2000 and 0700 on a weekday, or any hours at a weekend, they are entitled to payment of an enhanced rate. The additional payment made is 33% for the weekday hours and 40% for weekend hours. Where staff work such hours as part of a rota, they can be paid the additional allowances as a fixed element of pay so that they don't have to claim the enhancements on a timesheet. Whilst this is efficient in terms of processing, it does rely on HR and Payroll being advised of any changes to rotas so that adjustments can be made to fixed pay. In April 2016, payments totalling £88,500 were made in respect of fixed NSWW Allowances (equating to approx. £1.062 million per annum, plus employers on-costs). 604 employees currently receive a fixed NSWW Allowance each month.

- 2.2.2 In order to test the accuracy of fixed payments, a sample of 24 work locations, where 194 employees were receiving the allowance, was selected and their line managers were requested to provide the rotas that were being worked. This identified the following:

- 63 employees were being paid correctly.
- 73 employees were being paid incorrectly as a result of: rotas changing and managers not advising HR / Payroll; the allowance having been calculated incorrectly when set-up; the allowance not being terminated when employees changed job; an employee being set up by Payroll to receive the allowance in error; employees being paid the allowance when not rota'd to work any unsocial hours; and employees not always working the rota for which the allowance is being paid. This has resulted in over and under payments of both contractual hours and NSWW Allowance, some of which were compensatory whilst others were significant.
- 6 rotas covering 58 staff were not provided as requested so no assurance can be provided regarding these.
- 4 employees were identified on rotas who were entitled to the allowance but were not receiving it (and were not claiming on timesheets).

- 2.2.3 Based on the above findings, the payment of the NSWW Allowance as a fixed element is not working as anticipated. Whilst administration has been reduced, the level of errors in payment is concerning. There are a number of potential solutions ranging from reviewing all rotas in existence and correcting the allowances being paid where found to be inaccurate, to stopping the payment of all fixed allowances with staff being required to claim the allowance by timesheet. This could increase the number of timesheets being processed each month by around 600.

- 2.2.4 Whilst reviewing the sample of paid timesheets, claims for NSWW Allowance on timesheets which exceeded the daily period for which the allowance is eligible were

identified. This was discussed with the Service involved and the matter has been addressed.

2.2.5 Most rotas result in staff working varying numbers of hours each week, although the hours worked, in most cases, equal the contractual hours over the period of the rota. However, when staff leave the Council, no adjustment is made to ensure that staff have been paid for the hours worked, resulting in the possibility that staff will be either under or over paid.

2.2.6 The Council's Financial Regulations require that the Head of HR take all reasonable steps to recover any identified overpayments. In view of this, steps need to be taken to stop the incorrect payments arising and to recover any amounts that have been overpaid.

Recommendations

1. HR should determine the most appropriate way of resolving the issue of incorrect payments being made via the Non-Standard Working Week Allowance.
2. Incorrect payments should be resolved, complying with Financial Regulations in respect of identified overpayments.
3. Consideration should be given to implementing a system whereby adjustments are made to the final salary of staff who work on a rota when they leave the Council.

Service Response / Action

1. The HR Service has put in place a requirement for all Managers/Supervisors of employees who have NSWWA as a permanent value set up in the payroll to enter the shift/rota/working pattern into the YourHR system. This will capture the data and allow regular (quarterly) verification of the working arrangements by Managers/Supervisors. There will also be a briefing of all Managers/Supervisors with responsibility for staff who are paid NSWWA of the necessity to alter the details in YourHR if there is any change in Rota/Shift/Working Pattern/Hours /Times of Work. The use of YourHR will also take account of calculation errors as the system will carry these out, this minimises any human error in calculation.
2. Further checking has been undertaken by the HR Service with Services to check there are no other instances outwith the Audit sample that have resulted in significant overpayments. Any other issue that is found will be dealt with consistently in accordance with the manner other issues are being taken forward as detailed in this report.
3. The issue flagged up of making adjustments to the final salary of staff working a rota will be looked into in detail and where feasible a solution developed. However, it should be noted initial thinking suggests a solution for those working over a short rota period (i.e. upto 4 weeks) may be possible but this will be more problematic for those working rota patterns over a longer period due to complexity of calculations.

Implementation Date

Responsible Officer

Grading

1. March 2017.

1. HR Manager

Significant within audited area.

2. March 2017

2. Payroll Manager / HR Team Leader

3. April 2017

3. Payroll Manager / HR Team Leader

2.3 Working Time

- 2.3.1 The European Working Time Directive requires that employees receive certain rest breaks in and between their working hours. In general, although there are exceptions, if an employee works for continuous periods in excess of six hours they should take a break of at least 20 minutes. Guidance relating to the Council's Working Time Policy states that a 30 minute break should be taken after 6 hours of work. The guidance goes on to state that whether such breaks are paid will depend on the terms of the employment contract. The timesheets for Casual Staff state that the minimum unpaid break if working more than six hours is 20 minutes.
- 2.3.2 During this audit, a significant number of timesheets were identified which clearly demonstrated when breaks were being taken during individual shifts. However, timesheets relating to 21 employees (out the 300 sampled) were identified where continuous periods in excess of six hours had been recorded with no unpaid in-work rest break having been evidenced between the starting and finishing times recorded. This compares with 37 out of 200 timesheets in the previous audit of Timesheets and Allowances, representing an apparent improvement in compliance. In each case, the authorising officer was challenged regarding the length of continuous periods of work shown on the timesheets.
- 2.3.3 The following responses were received:
- 9 employees related to one establishment and it has been confirmed that a break would have been taken and the employees have, therefore, been overpaid. During the audit, all staff at the establishment were reminded of the requirements.
 - 2 staff were working in an area where there was a new supervisor who has stated that he was not made aware of the requirements. This has now been addressed.
 - 1 member of staff did take a break and has been overpaid. The Service Manager has issued an instruction for the time overpaid to be recovered.
 - 8 Support Workers were working up to 13.5 hours without taking an unpaid in-work rest break as they provide 1:1 support and are unable to leave clients alone.
 - 1 could not be followed up as the authorising officer was not clear from the signature on the timesheet.
- 2.3.4 Potential issues regarding unpaid in-work rest breaks were also identified as part of testing relating to Non-Standard Working Week Allowances (where the allowance was being paid for all hours between start and finish times). The above testing also identified one employee regularly working in excess of 48 hours per week where a request had not been submitted, approved or passed to the Head of HR as required by the Council's Working Time Policy. HR is working with the Service to address this issue.
- 2.3.5 Internal Audit is aware that HR is working with Services to try and address issues regarding Working Time Directive compliance and ensuring that the Council complies with the law in this respect. In order to track progress, a recommendation is made here.

Recommendations

1. HR should continue to work with Services to resolve working practice issues and ensure that the Council is operating within the law regarding Working Time compliance.
2. Where it is agreed that breaks will be paid, a register should be maintained of agreements providing details of the staff groups affected.

Service Response / Action

1. HR will continue to work with Services to resolve any issues and have also recently issued corporate guidance on the application of the Working Time Regulations and the Working Time Policy.
2. A register is to be compiled of agreements by HR in conjunction with the appropriate Services where it has been identified that breaks will be paid.

Implementation Date

1. Ongoing
2. July 2017

Responsible Officer

1. HR Business Partners
2. HR Business Partner in conjunction with appropriate Service Managers

Grading

Significant within audited area.

2.4 Additional Holiday Pay on Additional Hours / Overtime

- 2.4.1 Where employees work regular additional hours / overtime, they are entitled to claim additional holiday pay at a rate of 8.3%. Where additional hours / overtime are not regular, additional holiday pay is not claimable.

- 2.4.2 In this respect, HR has issued the following additional holiday pay guidance to Services:

“The decision on whether the earnings form part of normal pay will be made by the managers concerned based on their knowledge and experience of the work. If the employee could reasonably expect those earnings on a regular or recurring basis then that would form part of normal pay. If they could have expected to earn that money had they been at work rather than on holiday then the hours are normal. Ad-hoc or one off occurrences would not be considered to be normal.”

- 2.4.3 Testing undertaken in a previous audit on Timesheets and Allowances identified that, whilst the majority of claims were being made correctly, there were occasions when staff were incorrectly claiming infrequent additional hours / overtime as Regular Hours and being paid Additional Holiday Pay whilst also enhancing their pension at additional cost to the Council. Conversely, some staff were failing to claim their additional hours / overtime against Regular Hours and were not being paid Additional Holiday Pay (and pension increases) which they were entitled to. HR discussed this issue with Directorate Business Managers and re-issued guidance in order to make improvements with compliance.

- 2.4.4 The results of this audit are similar to those detailed above and the consequence of this is that some staff are being overpaid and some are being underpaid.

- 2.4.5 The Council's Financial Regulations require that the Head of HR take all reasonable steps to recover any identified overpayments. It was agreed in the previous audit that Directorates would analyse the findings from that audit report and notify HR / Payroll of any overpayments to be recovered or underpayments due to be paid. HR is leading on an analysis of the benefits or otherwise of the exercise in view of the volume of work and

this is being discussed with the Heads of HR and Finance with the potential for drawing a clear line under previous errors alongside work to eliminate similar errors going forward. This should be complete by the beginning of February 2017.

- 2.4.6 Based on the results of testing, further action is necessary to ensure that payments are being correctly categorised to ensure that the correct additional holiday payments are claimed, authorised and paid

Recommendations

HR should determine the best approach to ensuring that additional holiday pay is only claimed when eligible hours have been worked.

Service Response / Action

1. Within YourHR a button has been set up with definition of regular, this has to be chosen for the additional holiday payment to be made. This will be in place when the first group of staff are introduced to electronic timesheets.
2. HR will reissue the guidance on additional holiday pay to Directorates and reiterate that this requires to be followed. Before issue, the guidance will be appropriately updated to reflect certain changes due to the introduction of the electronic timesheet on YourHR.

The responsibility for applying the guidance rests with the Directorates/Services (rather than HR).

Implementation Date

1. February 2017

2. February 2017

Responsible Officer

1. Digital HR Project Manager

2. HR Team Leader

Grading

Significant within audited area.

2.5 Overtime

- 2.5.1 The Council's Local Terms and Conditions for Local Government Employees state that work in excess of normal contracted hours should be discouraged. In view of this, Internal Audit looked for regular patterns of overtime within the sampled timesheets and, where identified, sought explanations from the authorising officers.
- 2.5.2 Responses received provided appropriate justification for the hours worked based on operational requirements pertaining at the time, for example specific project requirements that were time critical and had to be completed in additional hours.

2.6 Overtime Relating to Staff Paid Above Pay Scale 12

- 2.6.1 Staff who are paid above pay grade 12 have their overtime payments restricted to a flat rate equivalent of the top point of grade 13 for the actual hours worked. Hours should be recorded as overtime on the timesheet and the payroll system automatically restricts the payment in accordance with the Terms and Conditions.
- 2.6.2 Testing undertaken in a previous audit on Timesheets and Allowances identified that some staff whose substantive rate of pay was above the top point of grade 13 were recording overtime hours as additional hours and, as a result, were being paid at their substantive rate of pay. Testing in this audit confirmed that such time is now being claimed as overtime and the correct rate of pay is being paid.

2.7 Previous Year Overtime / Additional Hours

- 2.7.1 During another specific payroll audit it was identified that additional / overtime hours and some allowances were being paid in April 2016 for work done in previous months, at the April 2016 rate of pay (ie after pay awards had been applied). Payroll has confirmed that this issue only applied to those staff who had claimed their hours as Regular Hours which attracted the additional holiday pay entitlement. This has been referred to the system supplier so that a fix can be applied for the future and the Head of Finance agreed to write-off the overpayments identified in the April 2016 payroll as detailed in reports produced by Payroll.
- 2.7.2 A similar issue was identified during this audit with payments being made at the current rate of pay to two employees in July 2016 for work undertaken in the previous financial year. This arose following submission of late timesheets and it would be difficult to determine the extent of such overpayments. However, those identified should be recovered.

Recommendations

1. Arrangements should be made to recover overpayments made in months subsequent to April 2016 that related to pre-April work.
2. Services should be reminded to ensure that timesheets are submitted timeously and, where this is not the case, Payroll should ensure that the correct rate of pay is applied.

Service Response / Action

1. Payroll will recover the overpayments.
2. This is an issue for the Services (rather than HR) to ensure that timesheets are put in on time. Also the YourHR timesheet module will help ensure that payments are made at the correct rate. The system will only accept timesheets for the last three months.

Implementation Date

1. December 2016

Responsible Officer

Senior Payroll Officer

Grading

Important within audited area.

2.8 Part Year Employees

- 2.8.1 Employees who work for part of the year (eg term time only) are paid for the number of weeks that they work plus annual leave entitlement which is allocated based on the number of weeks worked and length of service. Should the employee work additional hours in weeks when they are not scheduled to work, it is unclear whether the hours fall within a holiday period or a non-contracted period and should be classed as additional hours (paid at plain time) or potentially overtime (paid at time and a half).
- 2.8.2 The Council's guidance on annual leave for part year employees states that five days are allocated in the Easter break, 5 days during the October break and the remaining days during the Summer break. Greater clarity would be gained if the actual weeks were to be designated, eg the second week of the Easter break, the first week of the October break, and specified weeks in the Summer break.

Recommendations

HR should consider designating specific periods as annual leave in order to provide greater clarity.

Service Response / Action

The above recommendation could potentially be difficult to implement. In the past the designating of particular weeks of the Easter/Summer/October break as annual leave has been discussed and it was identified that allocating weeks could create operational difficulties, in that there could be implications not only for rates of pay for those who do additional work in the school holidays, but also for accrual of annual leave during long term sickness absence, accrual of annual leave during maternity leave and part year new start and leavers calculations etc. The Service is, however, prepared to have a further look into this matter with the Services to determine its feasibility.

Implementation Date

April 2017

Responsible Officer

HR Advisor

Grading

Important within audited area.

2.9 General

2.9.1 During the review of the sampled timesheets the following issues were identified:

- Good practice in the completion of some overtime claims where the detail of what was done in the hours worked was recorded on the timesheet providing clarity of purpose.
- One instance where the input of additional time to the payroll system was not supported by a timesheet resulting in a small overpayment;
- Hours on one timesheet had been marked as input to the payroll system that had not been input resulting in an underpayment equivalent to 19 hours at plain time;
- An input error where the time recorded on a timesheet had been misread resulting in a small overpayment;
- A timesheet that had been incorrectly summed resulting in a small overpayment;
- Hours being transposed on a timesheet resulting in a small underpayment;
- The incorrect claiming of hours in excess of the standard 37 hours per week as both additional hours and overtime hours resulting in a small overpayment.
- The claiming of public holiday double time by a member of staff who receives a 25% allowance on all pay in lieu of claiming the Non-Standard Working Week Allowance, resulting in payment of two allowances on the same hours – overpaid as should only receive one (the highest) allowance.

2.9.2 Each of the above issues was addressed as appropriate during the course of the audit. The Council plans to introduce electronic timesheets which will help resolve any underlying issues.

AUDITOR: D Hughes

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.