

ABERDEEN CITY COUNCIL

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| COMMITTEE | Audit, Risk and Scrutiny Committee |
| DATE | 27 September 2022 |
| EXEMPT | No |
| CONFIDENTIAL | No |
| REPORT TITLE | Internal Audit Report AC2214 - Payroll and HR System Amendments |
| REPORT NUMBER | IA/AC2214 |
| DIRECTOR | N/A |
| REPORT AUTHOR | Jamie Dale |
| TERMS OF REFERENCE | 2.2 |

1. PURPOSE OF REPORT

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

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 Payroll and HR System Amendments.

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

| Assessment | Outcome |
|----------------------------------|---|
| Impact Assessment | 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. |
| Privacy Impact Assessment | Not required |

9. APPENDICES

- 9.1 Internal Audit Report AC2214 - Payroll and HR System Amendments

10. REPORT AUTHOR DETAILS

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Internal Audit Report

Cross Service

Payroll and HR system amendments

Issued to:

Steven Whyte, Director of Resources
Andy Macdonald, Director of Customer
Jacqui McKenzie, Chief Officer, Customer Experience
Isla Newcombe, Chief Officer, People and Organisational Development
Jonathan Belford, Chief Officer – Finance
Vikki Cuthbert, Interim Chief Officer – Governance
Neil Yacamini, HR & Payroll Service Centre Manager

EXECUTIVE SUMMARY

Background

Aberdeen City Council employs over 5,000 full time equivalent employees, excluding teaching staff (reviewed separately in Internal Audit report AC2115, June 2021). In the financial year 2021/22, over £234 million was paid in gross salary and wages payments excluding employer's national insurance and superannuation contributions.

Payroll payments are administered by the Payroll Team in the Human Resources and Payroll Service Centre (HR&PSC), which is part of the Customer Function, using the corporate payroll and employee management system. The HR&PSC also manages issuing contracts and administration of the personal data held within the Council's payroll and employee management system; support and management of the contract process, including advertising vacancies, facilitating the recruitment process; and managing changes of grades, roles, and hours for existing staff. The HR&PSC enters new starts, makes changes to staff employment and leavers on the system.

Objective

The objective of this review was to obtain assurance over the accuracy and completeness of the payroll as a result of changes to the workforce. This included review of processes and a sample of cases relating to new starts, changes of circumstance, and leavers.

Assurance

In general the payroll is being updated correctly following changes to the workforce. A small number of overpayments were identified, and these have been corrected.

Recommendations for improvements to controls to reduce potential fraud risk, reputational risks, and to enhance efficiency and effectiveness have been made.

Findings and Recommendations

Internal Audit identified two overpayments in a sample of 30 payroll changes (7%). The potential for error is more prevalent where part-year (typically school-term) workers changes are involved, as the process is reliant on various sources of data and calculations completed outside of the payroll system. A recommendation graded Significant within audited area was made to implement periodic sample checks on changes applied to the payroll.

Filing of supporting documentation for changes to pay varied and was not always sufficiently comprehensive to clearly demonstrate appropriate payments had been made for more complex cases. In two cases, changes had been applied, increased and backdated without evidence on file of Chief Officer approvals on the relevant forms. A recommendation graded Significant within audited area was made to ensure that payments are only made or changed following official documented authorisation.

In each case where a signature was required from a Chief Officer to document approval under delegated authority, a scanned signature was included in the form. Whilst printing and signing forms is likely to be inefficient, it provides a permanent record that the signature and authorisation have come from the relevant Officer and that the details pertaining to that authorisation have not changed since. Electronic documents with scanned signatures do not show a clear link between the owner of the signature and content of the document. A recommendation graded Significant within audited area was

made to ensure that documented approvals are retained and clearly evidence timing, content and ownership.

Whilst the Service encourages employees to use self-service options for amending their details on the employee management system, system records indicate that around 50% of bank detail changes are processed by the HR&PSC on their behalf. In a sample of 30 of these, only 50% had documentation in personnel files supporting the change. Although HR&PSC staff are required to confirm specific details with the employee, and confirm the changes by email, there is no guarantee that this will always take place. Payroll mandate fraud is a significant risk in the public sector. A recommendation graded Significant within audited area has been made to implement secondary checks of bank detail changes.

For 2021/22 the annual pay award for local government employees was not agreed until late 2021 and was backdated to January 2021. This was calculated and automatically paid to employees in post in January 2022 for all hours worked and salary earned during the 2021 calendar year. Employees who had left the Council during 2021 have not been automatically paid their arrears of salary earned at the 2021/22 rate but paid at 2020/21 rates. Those affected have to request that the Council pays it to them retrospectively, although this is not made clear in policies, procedures or as part of leavers' documentation. A recommendation graded Significant within audited area was made to ensure this is clarified.

Further recommendations graded as Important within audited area have been made to standardise change and leavers' data to promote consistency and accuracy, and to improve reports sent to budget holders to improve efficiency of management review of payroll changes.

Management Response

The Service is satisfied that the controls that are in place provide the assurance over the accuracy and completeness of payroll and welcomes the improvements identified.

The Service is satisfied that all payments have been made correctly based on the instructions received from Clusters. In light of potential errors identified in those instructions, a quarterly sample checking process will be introduced. A sample checking process will also be implemented to provide additional assurance over bank detail changes.

In addition, updates to the authorisation process and leavers procedure will be undertaken and leavers holiday entitlement and other documentation will be retained.

Whilst we appreciate Internal Audit's identification of the use of electronic signatures and proposed improvements to monthly staffing reports, the services are satisfied that the level of risk is sufficiently low and therefore do not consider that there is a need to change existing working practices.

11. INTRODUCTION

- 11.1 Aberdeen City Council employs over 5,000 full time equivalent employees, excluding teaching staff (reviewed separately in Internal Audit report AC2115, June 2021).
- 11.2 In the financial year 2021/22, over £234 million was paid in gross salary and wages payments excluding employer's national insurance and superannuation contributions.
- 11.3 Payroll payments are administered by the Payroll Team in the Human Resources and Payroll Service Centre (HR&PSC), which is part of the Customer Function, using the corporate payroll and employee management system. The HR&PSC also manages issuing contracts and administration of the personal data held within the Council's payroll and employee management system; support and management of the contract process, including advertising vacancies, facilitating the recruitment process; and managing changes of grades, roles, and hours for existing staff. The HR&PSC enters new starts, makes changes to staff employment and leavers on the system.
- 11.4 The objective of this audit was to obtain assurance over the accuracy and completeness of the payroll as a result of changes to the workforce. This included review of processes and a sample of cases relating to new starts, changes of circumstance, and leavers
- 11.5 The factual accuracy of this report and action to be taken have been agreed with Jacqui McKenzie, Chief Officer - Customer Experience; Isla Newcombe, Chief Officer - People & Organisational Development; Neil Yacamini, HR & Payroll Service Centre Manager; and Andrea Garden, Team Leader - Payroll.

12. FINDINGS AND RECOMMENDATIONS

12.1 Written Procedures

- 12.1.1 Comprehensive written procedures that are easily accessible by all members of staff within the Human Resources and Payroll Service Centre (HR&PSC) 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, particularly in the event of an experienced employee being absent or leaving. Guidance should be available to all and should reflect current systems and adhere to any regulatory requirements.
- 12.1.2 Procedures are available on the Council's intranet for managers relevant to recruitment and management of staff, and on People Anytime. HR&PSC has written procedures and training videos in place for its staff contained within separate SharePoint sites to differentiate payroll and HR procedures. These sites are then split into task sub folders.

12.2 New Starts

- 12.2.1 All potential new recruits enter the Council via applying for a job through the recruitment portal (TalentLink or through the RECRUIT scheme), with processes supported by P&OD and the HR&PSC. If successful at interview, a letter is sent to the candidate to advise that they are the preferred candidate subject to verification checks. HR&PSC set up a file for the recruit and follow a list of tasks on a new recruit checklist. Once pre-employment checks are complete, managers are sent a new start memo which provides key information to the HR&PSC including job grade, hours and start date. Key documents are collected, such as the HMRC starter bank details are collected, and the person's identity is checked to ensure the recruit has a right to work in the UK.
- 12.2.2 Once a start date is agreed, the HR&PSC take the new start on the employee management system and record the details on a spreadsheet, which is updated and checked daily for new recruits. HR&PSC then can amend the corporate payroll and employee management system to process the recruit. A contract of employment is generated, reviewed and sent to the individual for agreement. Calculations may be required for part year worker (PYW) roles to proportionally adjust the first month's salary. In these cases a test payslip is created and calculations checked outside of the system.
- 12.2.3 A sample of ten new starts was reviewed and, in all cases, a new start memo was completed, the salary grading was recorded correctly, and HMRC starter checklist information was on file. Bank mandates had been correctly input and details in the Payroll System matched those recorded in the employee's contract. All new starts were paid promptly.
- 12.2.4 In one of ten cases reviewed (10%) an error was identified in the calculation of the new employee's first salary payment. This arose due to the employing Function inadvertently including an additional day within the part-year worker's data provided to HR&PSC, which had not been identified prior to processing. Internal Audit requested clarification of the calculation, as a result of which the HR&PSC identified an overpayment of £59.40 had resulted, which has been recovered. The Service has highlighted that the payroll section is reliant on the quality of information passed from the HR&PSC; the payment had been correctly processed in line with this information, which was subsequently found to be incorrect.
- 12.2.5 Part-year worker calculations are required for term-time workers (e.g. School cleaners, Pupil Support Assistants) and are based on the number of weeks in the year for which staff are contracted to work, plus a standard allowance for annual leave. The number of

working days may vary each year based on the school calendar. Two spreadsheets, one for the number of days and one for the pay element are used to arrive at the required payment, based on the data provided by the employing Function. As this takes place outside of the payroll system, there is an increased risk of human error, as in the case noted above. The opportunity for error is reduced through utilisation of a standard form and application of standard calculations within it, however key dates and the number of working days and annual leave entitlement are manually entered and may vary each year and with each case.

- 12.2.6 Internal Audit identified two overpayments in a sample of 30 payroll changes (7%) (see 2.2.4 and 2.3.2. More regular review of processing, on a sample basis, by the Payroll Team would help avoid further payment errors and could identify any areas in which further training or support may be necessary.

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| <u>Recommendation</u> | | |
| The Service should undertake periodic reviews of a sample of payroll changes to ensure changes made are accurate and adequately supported. | | |
| <u>Service Response / Action</u> | | |
| Agreed. A quarterly check will be undertaken of a sample of part-year worker changes passed to payroll. | | |
| <u>Implementation Date</u> | <u>Responsible Officer</u> | <u>Grading</u> |
| December 2022 | HR&PSC Manager | Significant within audited area |

- 12.2.7 The Council's salary grading scheme sets out grades for local government employees from G4 to G17, based on the skills and experience required for each job. Each grade has up to four scale points. Employees' salaries are incremented from one scale point to the next for each completed year of service, until they reach the top point on that grade. When an employee joins, a new start memo provided by HR&PSC to the recruiting manager details their hourly rate, grading and scale point. All contracts reviewed recorded the correct salary.

12.3 Changes

- 12.3.1 Permanent changes to grade are requested via P&OD and are authorised by Finance to confirm budget availability, and Chief Officers under delegated powers before HR&PSC is advised and the information is put onto a spreadsheet of changes. Staff are sent a variation of contract letter and management can review monthly staffing reports to review the accuracy of changes made. Temporary changes to grade are managed via authorisation of higher graded duties forms, which are different but processed in a similar manner. Changes are picked up and applied on the corporate payroll and employee management system by the HR&PSC.

- 12.3.2 Payments made were timely and accurate in as far as the HR&PSC was given information to action. In one case out of ten reviewed (10%) where an adjustment required to a part-year worker's salary, changing to a full-time position, resulted in an overpayment of £364.10. However, in contrast to the process for leavers (which includes a dedicated leavers' form), there is no control document for changes to document that all steps and data have been processed to apply the change from one role to another. There were no calculations on file to demonstrate how the amounts paid had been calculated. Internal Audit requested clarification of the calculation, as a result of which the HR&PSC identified the overpayment, which has been recovered through the payroll. The recommendation at 2.2.6 above refers.

- 12.3.3 In another case multiple changes were applied to a part year worker's pay to reflect their acting up into higher grade duties, and a change of hours, but were applied retrospectively three months after the change took place. The HR&PSC stated that delays in processing and correcting payments were due to delays and errors by the employing Function completing the appropriate paperwork to amend the hours, but this was ultimately paid correctly. However, the hours change processed via Forms and notified to payroll via spreadsheet, was applied but there was no record of the request and approval in the personnel file. Where a grade change is required, guidance on People Anytime states completion of a form entitled 'Request for Decision Under Delegated Powers Grade Change Only' is required, which is then forwarded to the Finance contact and P&OD Advisor for processing.
- 12.3.4 In one case where a grade increase was paid, the advice to HR&PSC was via a note on file rather than on the official form. Whilst a form was on file, including the Chief Officer's signature, variations to increase the starting scale point and move forward the start date were agreed separately between the P&OD Advisor and Service Manager with no documented reference back to the Chief Officer to amend the authorisation held on file. This indicates that authorisation controls are not being strictly applied, which could result in unauthorised changes to the payroll.

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| <u>Recommendation</u> | | |
| Changes and payments should not be processed without appropriate authorisation in the correct format. All changes should be supported with detail in the personnel file. | | |
| <u>Service Response / Action</u> | | |
| Agreed. Where there is a change that affects an approved Grade Change Form this will be revisited with the Chief Officer, and they will be asked to provide approval of this change which will be kept on file. In practice this will mean an updated and signed off Grade Change Form will be re-approved. | | |
| <u>Implementation Date</u> | <u>Responsible Officer</u> | <u>Grading</u> |
| Implemented | Organisation Change & Design Manager | Significant within audited area |

- 12.3.5 In each case where a signature was required from a Chief Officer to document approval under delegated authority, a scanned signature was included in the form. Whilst printing and signing forms is likely to be inefficient, it provides a permanent record that the signature and authorisation have come from the relevant Officer and that the details pertaining to that authorisation have not changed since. Electronic documents with scanned signatures do not show a clear link between the owner of the signature and content of the document. In the absence of another technical solution, email approval direct from the Officer's own mailbox would better demonstrate the timing, content and ownership of authorisations.

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| <u>Recommendation</u> |
| Required authorisations, or supporting email records, should be retained and clearly evidence timing, content and ownership. |
| <u>Service Response / Action</u> |
| Not agreed. We note the recommendation and are satisfied that the delegated business case process provides sufficient assurance. The Chief Officer is invariably the lead or most certainly clearly sighted on a delegated business case. There is ongoing engagement with the Chief Officer throughout. In addition, there is engagement with Trade Unions, People & Organisational Development, Legal and Finance, prior to final approval from the Chief Officer P&OD, Chief Officer Finance and the cluster Chief Officer. The risk is considered to be very low and therefore the existing working practices will |

remain.

Internal Audit Comment

Authorisation controls are critical in ensuring due process has been followed. The Service response and mitigations are noted.

Grading

Significant within audited area

12.3.6 Where employees are required to perform higher graded duties, guidance on the Council's People Anytime portal mandates completion of a form entitled 'Authorisation for Higher Graded Duties Payments' and forwarding to the Talent team within P&OD. As with permanent changes of grade, these forms must be authorised by a Chief Officer, and the recommendation at 2.3.6 also applies.

12.3.7 In one case, where higher grade duties were performed longer than six months, a member of staff's salary was correctly reduced after six months as the authorisation of higher graded duties form was not renewed as procedures require. However, a backdated payment for higher graded duties was later paid as those duties had continued. There is no automated notification to management (as there is for fixed term contract expiry for example) to highlight the imminent expiry of higher duty allowance presenting a risk that payments for duties carried out in good faith may be delayed pending an extension being processed. Reminders could enhance the efficiency and accuracy of the process and reduce the potential reputational risk.

Recommendation

The Service should review whether automated reminders of allowance end dates could be generated.

Service Response / Action

Agreed. The Service has reviewed the proposed option. Given that the effort and resource required to implement this outweigh the benefit and more significantly that Higher Graded Duties are consistently and accurately processed in line with the policy, it has been determined that the current working practice will remain.

Implementation Date

Implemented

Responsible Officer

HR&PSC Manager

Grading

Important within audited area

12.3.8 In the same instance, payments relating to a post grade change were back-dated by HR&PSC on the basis of a manager's email request: not on the basis of an appropriate form and dates specifically approved by the Talent team and the Chief Officer. The recommendation at 2.3.4 applies.

12.3.9 Employees are encouraged to use the self-service option to update their own bank details directly on the corporate payroll and employee management system where necessary. Verification and security are applied by the system. There remains an option for employees unable to access the system to contact the HR&PSC to request that changes are made on their behalf. Confirmation of various details is requested to confirm the employee's identity before making changes on the system. There are no secondary checks e.g. by another member of the Payroll team. Changes are confirmed to the employee by email from the HR&PSC team member processing the change on their behalf. Manual changes to bank details without segregation of duties or review present a serious fraud risk.

12.3.10 The system maintains audit trails of all user activity, including bank detail changes, but this is not routinely interrogated to ensure that requests are only processed following

receipt of a valid instruction from an employee. An extract from the payroll system for the period 1 April 2021 to 28 February 2022 detailed changes to 189 bank account numbers and 153 sort codes. The extract identified 101 and 77 respectively of the changes had been undertaken through the self service portal, leaving 88 (47%) account and 76 (50%) sort code changes processed by HR&PSC. A sample of 30 changes was reviewed, and in 15 cases (50%) there was no further information in the personnel file to show that the changes had been requested and processed correctly. Should bank details be changed incorrectly or inappropriately, this may not be identified until after a payment has been made and is missed by the intended recipient.

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| <u>Recommendation</u> | | |
| Manual changes to bank details should be fully documented and subject to a review process. | | |
| <u>Service Response / Action</u> | | |
| Agreed. A sample check will be undertaken on a monthly basis for manual changes requested by employees. | | |
| <u>Implementation Date</u> | <u>Responsible Officer</u> | <u>Grading</u> |
| October 2022 | HR&PSC Manager | Significant within audited area |

12.4 Leavers

- 12.4.1 In cases where an employee signals their intention to leave their post, an official leavers' form is available to ensure relevant information is compiled prior to terminating contracts and calculating final pay. However, the HR&PSC are regularly notified directly by the employee or their manager by email, written letter, or through the employee management system. Further information therefore has to be sought if it has not been provided. The accuracy of final salary payments is reliant on information supplied to HR&PSC, therefore use of the form should be encouraged.

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| <u>Recommendation</u> | | |
| The control process for leavers should be reviewed, to ensure all documents are collated and final adjustments are correctly accounted for in the audit trail. | | |
| <u>Service Response / Action</u> | | |
| Agreed. The process for leavers has been reviewed and Managers and Employees can now resign through CoreHR in addition to resigning by email to AskHR. | | |
| <u>Implementation Date</u> | <u>Responsible Officer</u> | <u>Grading</u> |
| Implemented | HR&PSC Manager | Important within audited area |

- 12.4.2 Managers provide final verification, usually via email, to the HR&PSC of any holiday adjustments (leave due and not taken or leave taken in excess of the year to date allowance) that are needed. Whilst a yes / no is recorded by HR&PSC on the leavers' checklist to note that this was confirmed with management, records are not always held on file, for recording leave due and taken which the HR&PSC could use to confirm accuracy before processing.

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| <u>Recommendation</u> |
| Supporting records of leavers' holiday entitlement compared with that taken should be checked and retained. |

Service Response / Action

Agreed – The email confirmation from the manager will be retained and filed in the employee’s personal file.

Implementation Date

December 2022

Responsible Officer

HR&PSC Manager

Grading

Important within audited area

12.4.3 For 2021/22 the annual pay award for local government employees was not agreed until late 2021 and was backdated to January 2021. This was calculated and automatically paid to employees in post in January 2022 for all hours worked and salary earned during the 2021 calendar year.

12.4.4 Employees who had left the Council during 2021 have not been automatically paid their arrears of salary earned at the 2021/22 rate but paid at 2020/21 rates. Those affected have to request that the Council pays it to them retrospectively, although this is not made clear in policies, procedures or as part of leavers’ documentation. One such request (10%) was identified in the sample of ten leavers reviewed by Internal Audit.

Recommendation

The Service should ensure that there is clear communication for leavers in respect of their right to claim back-dated pay.

Service Response / Action

Agreed. Relevant wording will be added to the Leavers Procedure on the People Anytime Portal indicating that leavers can write to the Payroll Team to request payment of arrears they may be due in relation to a salary award.

Implementation Date

Implemented

Responsible Officer

Employee Relations and Wellbeing Manager

Grading

Significant within audited area

12.5 Monitoring

12.5.1 In addition to Finance budget reports, Services are provided with payroll monitoring reports monthly that show by cost centre and staff name, the amount paid to that member of staff and the hours they have worked that month. Whilst the payroll data is useful information, it relies on managers having their own records against which to compare the period’s results. A month to month or year to date comparison would aid in identifying patterns and potential variations which might warrant management attention. Alternatively, segregating data for employees affected by changes would help management prioritise information for review.

Recommendation

The Service should review the design of payroll monitoring reports in conjunction with users.

Service Response / Action

Not agreed. We note the recommendation and are satisfied that the information provided at this time within the monthly staffing reports, provides sufficient information for managers. A significant point to note is that these reports aren't considered in isolation, they form part of a much wider suite of management information available (e.g. managers portal, financial reports etc.). This holistic reporting provides managers with the information and insight to meet their requirements and identify if additional information is required.

Internal Audit Comment

Service response noted. More comprehensive data could enhance the efficiency and effectiveness of management review. It is acknowledged that the Service has considered and balanced the potential benefits against the resource required to develop and implement these.

Grading

Important within audited area

AUDITORS: J Dale
C Harvey
H Beecroft

Appendix 1 – Grading of Recommendations

| GRADE | DEFINITION |
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| 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. |