

Report to Audit Committee

Update on Payroll Matters

Portfolio Holder: Councillor Abdul Jabbar MBE, Deputy Leader and Cabinet Member Finance and Low Carbon

Officer Contact: Mark Stenson – Assistant Director of Corporate Governance and Strategic Financial Management

Report Author: Mark Stenson – Assistant Director of Corporate Governance and Strategic Financial Management

Ext. 4783

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Reason for Decision

To provide Members with an update on Payroll issues previously identified as requiring action and improvement.

Executive Summary

This report summarises the findings of the most recent Interim Payroll Fundamental Financial Systems (FFS) review, and progress against recommendations previously made.

The most recent review found that good progress has been made on a number of fronts. So much so that the latest audit review opinion is that system improvements and processes now in place are adequate to address the majority of control risks faced by the service.

This represents a significant increase in assurance level as Members have been advised for many years that the audit opinion was either inadequate or weak and that the Council's payroll arrangements required considerable improvement and development. The report highlights areas of improvement and, where further improvements have been recommended, these are summarised at Section 3.

Recommendation

Members are requested to note the contents of this update report.

Payroll Update Report**1. Background**

- 1.1 The Council's Payroll processes and procedures have been an area of weakness identified in a number of past Annual Governance Statements. The Committee has requested an update report to ensure that progress is made in addressing control weaknesses that have been identified.
- 1.2 Following a procurement exercise in April 2019 the Council agreed to implement iTrent, a leading HR and Payroll software package provided by Midland HR (MHR) which is used in many Local Authorities. The iTrent system replaced the Agresso payroll system (previously used for the Council and MioCare payroll) and the Selima system (previously used for Oldham Schools and Academies payroll). The implementation of the iTrent system took place on a phased basis starting in January 2021 with the Council and MioCare payrolls, February 2021 for Schools and Academies and March 2021 for time and expenses functionality. Therefore, 2021/22 will be the first full financial year the Council has operated this system.

The main content of the report is structured as follows:

- Section 2: Areas of good practice noted.
- Section 3: Summary of current recommendations for further improvement.
- Section 4: Way forward.

2. Areas of good practice noted

- 2.1 The implementation of the iTrent system, as with all new systems, has been challenging for the Payroll Team. Not least due to the timing of the implementation during the pandemic. A number of issues have arisen over the past 12 months. By and large these have been gradually, and successfully, resolved by the team over time.
- 2.2 Our review did not highlight concerns in connection with areas we would consider to be fundamental payroll weaknesses, e.g. failure to pay employees on time, or large numbers of incorrect payments.
- 2.3 Other areas of good practice noted during the review included the following:
 - Auto-enrolment of new starters into a pension scheme takes place in line with policy and regulations.
 - Records are retained to show the quality assurance and review of payroll transactions, and the subsequent approval of the salary payments by the HR, Payroll and Pensions Operations Manager.
 - Errors and warnings reports are produced before each pay run to identify payments that are significantly different from expected.
 - BACS and CHAPS payments made outside of the normal monthly payroll cycle are approved and can be verified to supporting documentation.
 - Expenses are processed in a timely manner.

3. Summary of current recommendations for further improvement.

- 3.1 As noted above, the implementation of new IT systems seldom runs completely smoothly. The Payroll Team has managed the implementation gradually and successfully over the
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last 12 months and continues to do so. There is continued system development and improvement going forward as issues come to light. This is normal in any system.

- 3.2 The ongoing issues noted below are summarised by type. The payroll team is confident that they will continue to incrementally address, strengthen and improve controls in the areas highlighted. As noted above, none of the issues identified are considered to represent a fundamental payroll system weakness. Areas for further improvement are discussed below.

Reconciliation between the payroll system and the ledger

- 3.3 Reasons for a number of imbalances between these systems have been investigated and resolved over the last 12 months. There remain some outstanding causes of imbalance each month requiring manual intervention to correct. The Payroll team are currently investigating the possibility of a more efficient system based solution to this issue. However, the current manual intervention represents an acceptable control mechanism in the absence of this system improvement.

Supporting records for starters, leavers and variations to pay

- 3.4 Some supporting documentation in relation to these areas was found to either not have been retained or filed incorrectly. The service has already issued reminders and changed processes in most cases. No incorrect payments were identified as a result of misplaced or misfiled records.

Pre-employment and Right to Work Checklist – Schools

- 3.5 Responsibility for conducting pre-employment checks lies with school Governing Bodies. However, in the case of maintained schools, the Council remains the employer of school staff, not the Governing Body. In addition to the child protection concerns, which these checks are intended to mitigate, the Council bears a risk as the employer should harm occur following failure to complete appropriate checks. The payroll team will liaise with the Director of Education to discuss central retention of these records going forward.

Payroll processing timetable

- 3.6 The payroll team have agreed to introduce a formal timetable for the monthly payroll run.

4. Way forward

- 4.1 The Audit and Counter Fraud team will continue to work and liaise closely with the Payroll Team to monitor and report on further developments and performance going forward.

5 Options/Alternatives

- 5.1 The Audit Committee can either:
- a) choose to accept and note the update report; or
 - b) decline to accept and note the update report and suggest an alternative approach.

6 Preferred Option

- 6.1 The preferred option is that the Audit Committee accepts and notes the update report.

7 Consultation

- 7.1 There has been consultation with the Payroll Team in the preparation of this report.
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- 8 **Financial Implications**
 - 8.1 N/A.
 - 9 **Legal Services Comments**
 - 9.1 N/A.
 - 10 **Cooperative Agenda**
 - 10.1 N/A.
 - 11 **Human Resources Comments**
 - 11.1 N/A.
 - 12 **Risk Assessments**
 - 12.1 N/A
 - 13 **IT Implications**
 - 13.1 N/A.
 - 14 **Property Implications**
 - 14.1 N/A.
 - 15 **Procurement Implications**
 - 15.1 N/A.
 - 16 **Environmental and Health & Safety Implications**
 - 16.1 N/A.
 - 17 **Equity, Community Cohesion and Crime Implication**
 - 17.1 N/A.
 - 18 **Equality Impact Assessment Completed**
 - 18.1 No.
 - 19 **Forward Plan Reference**
 - 19.1 N/A.
 - 20 **Key Decision**
 - 20.1 No.
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21 **Background Papers**

21.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref: Background papers are reports included in Annual Governance reports presented to the Audit Committee

Officer Name: John Miller

Contact: john.miller@oldham.gov.uk

22 **Appendices**

22.1 N/A
