

Report to Audit Committee

Joint Report of the Head of Internal Audit and Assistant Director of HR & Organisational Development on the 2022/23 Fundamental Financial Systems Audit Outcomes and Action Plan in respect of the Council's Payroll Service

Portfolio Holders: Councillor Abdul Jabbar MBE, Cabinet Member for Finance and Corporate Resources

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Reason for Decision

4.4.2 The Audit Committee shall:

***a) be responsible for oversight of the Council's Internal Audit arrangements and will;
(ii) review summary findings and the main issues arising from internal audit reports and seek assurance that management action has been taken where necessary;***

This joint report is to advise Members of the Audit Committee of the outcome of the 2022/23 Fundamental Financial Systems (FFS) Audit Review of the Council's Payroll Service and the agreed actions that the Service has taken to address the recommendations made in that report.

This report will assist the Committee in discharging its responsibilities as set out in the Audit Committee's Terms of Reference, which form part of the Council's Constitution alongside:

- progress reports on Q1 to Q4 for 2023/24 to be provided to the Committee; and,
- the Head of Audit and Counter Fraud's Annual Report and Opinion for the year 2023/24.

Executive Summary

The Council's Payroll audit received an audit opinion of 'Inadequate' in each of the 3 years from 2018/19 to 2020/21. During 2021/22 the Service implemented the iTrent Payroll system which addressed a number of system weaknesses and the audit opinion in that year was upgraded to 'Adequate'. Following this improved opinion the Service experienced significant turnover in staff in key roles leading to a weakening in control and a subsequent downgrading of the audit opinion in 2022/23 back to 'Inadequate'.

This report sets out the agreed actions for the Payroll Service to take forward to address the recommendations made in the latest 2022/23 FFS Audit Report, and their progress to date.

Recommendations

Members are requested to:

- 1) Note the the outcome of the most recent 2022/23 Fundamental Financial Systems Audit Review of Payroll.
- 2) Note the agreed actions for the Service to take forward to address the recommendations made in that report, and progress against these actions to date.

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1. Background

- 1.1 The Council's Payroll Service was, until April 2022, provided as part of the package of services delivered by the Unity Partnership. In April 2022 the Service transferred back in-house and is now delivered directly by the Council itself.
- 1.2 Audit Opinions on the Council's Payroll system from 2015/16 to 2022/23 are shown in the table below

| 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---------|---------|---------|------------|------------|------------|----------|------------|
| Weak | Weak | Weak | Inadequate | Inadequate | Inadequate | Adequate | Inadequate |

During 2021/22 the Service implemented the iTrent Payroll system. This addressed a number of system weaknesses and the audit opinion in that year was upgraded to 'Adequate'. Following this improved opinion the Service experienced significant turnover in staff in key roles leading to a weakening in control and a subsequent downgrading of the audit opinion in 2022/23 back to 'Inadequate'.

2 2022/23 Audit Opinion

- 2.1 The final audit report for 2021/22 contained five recommendations for improvement, two High, two Medium and one Low priority, and recognised the progress made during that year by the Service in addressing longstanding control issues. Our opinion for 2021/22 was, therefore, raised to adequate.
- 2.2 The final report for 2022/23 contains 14 recommendations, ten High, three Medium and one Low priority, and re-iterates all five of the recommendations made in 2021/22 which were found to be partially complete.
- 2.3 The Service suffered from the loss of a number of staff in key roles following the 2021/22 review and this is the primary reason for the service falling behind in the progress they had previously made. The Service has since been successful in recruiting to some posts, and continues to try to recruit appropriately skilled and experienced staff to fill remaining vacant roles.
- 2.4 The recruitment and retention of suitable staff is crucial to the service once again being able to make progress in the areas identified for improvement and address the overriding control weakness within the Service in relation to staffing.
- 2.5 In light of the above, the 2022/23 Audit Assessment was that the systems and controls in connection with the payroll system were Inadequate.
- 2.6 Appendix 1 to this report sets out the agreed actions for the Payroll Service to take forward to address the recommendations made in the latest 2022/23 FFS Audit Report, and progress to date as reported by the Service.

3. **Options/Alternatives**

3.1 The Audit Committee can either choose to:

- a) accept and note the contents of this report, or
- b) not accept and note the contents of this report and suggest an alternative approach.

4. **Preferred Option**

4.1 The preferred option is that the Audit Committee accepts and notes the Report.

5. **Consultation**

5.1 N/A.

6. **Financial Implications**

6.1 N/A.

7. **Legal Services Comments**

7.1 N/A.

8. **Cooperative Agenda**

8.1 N/A.

9. **Human Resources Comments**

9.1 N/A.

10. **Risk Assessments**

10.1 N/A

11. **IT Implications**

11.1 N/A.

12. **Property Implications**

12.1 N/A.

13. **Procurement Implications**

13.1 N/A.

14. **Environmental and Health & Safety Implications**

14.1 N/A.

15. **Equity, Community Cohesion and Crime Implication**

15.1 N/A.

16. **Equality Impact Assessment Completed**

16.1 No.

17. **Forward Plan Reference**

17.1 N/A.

18. **Key Decision**

18.1 No.

19. **Background Papers**

19.1 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 included as Appendix 1
Officer Name: John Miller

20. **Appendices**

20.1 The following Appendices are available to support this Report:

- **Appendix 1: 2022/23 Payroll FFS Audit Review Action Plan.**

2022/23 Payroll FFS Audit Review Action Plan

- High Priority** - Significant risk to the Council or Service, the recommendation is essential for sound or effective control.
- Medium Priority** - Moderate risk to the Service it is important that the recommendation is completed
- Low Priority** - Small risk to the Service it would improve control if the recommendation were to be completed.

| No | Recommendation | Priority | Management Comments | Responsibility | Implementation Date |
|----|---|----------|--|--|---------------------|
| 1 | <p><u>Payroll Reconciliations</u></p> <p>Monthly Payroll Reconciliations should be carried out in a timely manner. The review noted that there were delays.</p> <p>The working group already established should continue to take steps to address the issues identified in connection with the payroll to General Ledger reconciliation process.</p> <p>This recommendation has been assessed as partially incomplete.</p> <p>Brought forward from 2021/22</p> | High | <p><u>Agreed</u></p> <p><u>HR Employment Service Manager</u></p> <p>02/08/2023 – A meeting between Payroll and HR was held to discuss on-going issues. It was reported that there are particular issues with statutory payments and shared cost AVC's. Examples of errors from the costing reports were provided that need investigating with Midland HR.</p> <p>03/08/2023 initial discussions with Finance were held, further meetings to discuss on-going issues to be arranged in the near future.</p> <p>02/10/2023 - fortnightly meetings have been set up with Finance to discuss on-going issues.</p> <p><u>Finance Manager (Corporate Control)</u></p> <p>Issues are still ongoing despite the workaround activities identified</p> | <p>HR Employment Services Manager</p> <p>Finance Manager (Corporate Control)</p> | 31 January 2024 |

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| | | | above. This is still leading to issues and delays in the Corporate Control Teams ability to undertake meaningful payroll reconciliations. | | |
| 2 | <p><u>Pre-employment and Right to Work Checklist-Schools</u></p> <p>The Payroll Service should liaise with the Head of Education Support Services and HR colleagues to agree a procedure for the collection and storage of a central record of statutory pre-employment and DBS checks.</p> <p>The review has noted that this action has not progressed as expected and steps need to be taken around storage of supporting information around pre-employment checks.</p> <p>This recommendation has been assessed as incomplete.</p> <p>Brought forward from 2021/22</p> | High | <p><u>Agreed</u></p> <p>Full review of process to be undertaken and a meeting to be arranged between HR/OD and Head of Education Support Services to review current process and agree future actions and responsibilities.</p> | HR Employment Services Manager | 31 January 2024 |
| 3 | <p><u>CHAPS Payments</u></p> <p>A full review of CHAPS payment request should be analysed in order to identify any common system or process issues, which can be addressed and rectified to reduce the number of CHAPS requests.</p> <p>Brought forward from 2021/22</p> | High | <p><u>Agreed</u></p> <p>An analysis of the number of CHAPS payments processed needs to be undertaken and the reasons surrounding the processing of CHAPS payments.</p> | HR Employment Services Manager | 31 January 2024 |

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| 4 | <p><u>Payroll global uplifts</u></p> <p>A robust quality assurance process should be in place in respect of uplifts. This should ensure that adequate time is allowed to review all uplifts prior to processing via iTrent.</p> <p>This is a new recommendation for 2022/23</p> | Medium | <p><u>Agreed</u></p> <p>Additional work is now undertaken to determine who is in scope so that the Payroll Team can perform additional checks to ensure that deductions and payment of arrears are processed accurately.</p> | HR Employment Services Manager | Complete |
| 5 | <p><u>Starters</u></p> <p>All supporting documentation should be retained in the central drive in respect of starter details, including salary details, to ensure they are processed accurately and to ensure accurate data can be obtained should any future queries arise. The starters forms should be signed and dated by the appropriate line manager.</p> <p>This recommendation has been assessed as partially incomplete.</p> <p>Brought forward from 2021/22</p> | Medium | <p><u>Agreed</u></p> <p>New starters forms are currently saved in individual personal files. The personal files do hold all relevant data such as salary details, references and application forms etc. As part of the current process the Transactional and Recruitment teams do return incomplete form back to the manager and will not process the forms until all relevant fields have been completed. Teams have been reminded that all parts of the current process is to be followed at all times.</p> | HR Employment Services Manager | Complete |
| 6 | <p><u>Overpayments -Communications to Managers</u></p> <p>Communication should be sent to all Managers responsible for staff to reiterate the importance of submitting leavers forms in a timely manner to prevent overpayments.</p> <p>This is a new recommendation for 2022/23</p> | High | <p><u>Agreed</u></p> <p>A quarterly communication will be produced to the Heads of Service, providing them with the number and amounts of overpayments for their Service areas.</p> | HR Employment Services Manager | 31 January 2024 |
| 7 | <p><u>Resilience</u></p> | High | <p><u>Agreed</u></p> | HR Employment | Complete |

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| | <p>The service should continue to take steps to recruit to key posts and roles currently vacant within the service to ensure key tasks are being administered effectively and in a timely manner and address resilience issues facing the service.</p> <p>This is a new recommendation for 2022/23</p> | | <p>A Payroll Manager and HR Employment Services Manager are now in post.</p> | <p>Services Manager</p> | |
| 8 | <p><u>TOIL and Overtime Payments</u></p> <p>Where TOIL and overtime payments are authorised by Services, Payroll Services should ensure it is line with policy. Any decisions made outside of the agreed policy should be authorised by the relevant Service Director through the relevant form with supporting documentation.</p> <p>This is a new recommendation for 2022/23</p> | <p>High</p> | <p><u>Agreed</u></p> <p>Communications will be reiterated to managers to follow the authorisation of toil and overtime through iTrent where practicable. In exceptional circumstances, managers will be required to complete the relevant paperwork, with appropriate sign off prior to payment.</p> | <p>HR Employment Services Manager</p> | <p>30 November 2023</p> |
| 9 | <p><u>Employee Contracts</u></p> <p>Employees should be issued with employment contracts within a timely manner. In the absence of an employment contract outlining terms and conditions of employment there is a risk that disputes may arise, and claims may be brought against the Authority.</p> <p>This is a new recommendation for 2022/23</p> | <p>High</p> | <p><u>Agreed</u></p> <p>Employment contracts are currently being sent out as part of the on-boarding process in a timely manner. The teams have been reminded that all contracts should be issued within the designated timescales.</p> | <p>HR Employment Services Manager Job Evaluation Advisor</p> | <p>Complete</p> |

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| 10 | <p><u>Exceptional Payments</u></p> <p>Where exceptional payments are authorised by Services, Payroll Services should ensure it is line with policy. Any decisions made outside the policy needs to be authorised by the relevant Service Director through the relevant form and supporting documentation. The documentation should be retained on the employees personnel file for audit and transparency purposes.</p> <p>This is a new recommendation for 2022/23</p> | High | <p>Agreed</p> <p>It has been agreed that in the case of exceptional payments a restricted password protected folder will be created in the relevant staff members e-file that can only be viewed by authorised personnel.</p> | <p>HR Employment Services Manager</p> | Complete |
| 11 | <p><u>Councillors - Leavers</u></p> <p>It is recommended that a leavers form is completed for Councillors who have retired, resigned and/or are unelected post-election; this will minimise the risk of salary overpayments.</p> <p>This is a new recommendation for 2022/23</p> | High | <p><u>Agreed</u></p> <p>A new process had been developed prior to the May 2023 election and closer relationships have been formed between HR Employment Services teams and Constitutional Services. A new spreadsheet has been developed in order to capture all newly elected Councillors, re-elected and non re-elected Councillors along with details of payments that should be paid and stopped. Further work still needs to be done to ensure that any mid year changes can be captured to avoid under/overpayments. Meeting to be set up between HR Employment Services and Constitutional Services to review current process and to agree future actions and responsibilities.</p> | <p>HR Employment Services Manager</p> <p>Job Evaluation Advisor</p> | Complete |

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| 12 | <p><u>External Consultant Managers file – Communication to Recruiting Managers</u></p> <p>Starters forms for External Consultant Managers should be completed prior to entering the individual in to the i-Trent system. A personnel file should be set up and should include (where appropriate) the recorded delegation decision demonstrating the appointment process and employee timesheets, including a copy of a REC1.</p> <p>Managers should be reminded that external consultant staff members will not be processed unless the relevant paperwork is present.</p> <p>This is a new recommendation for 2022/23</p> | High | <p><u>Agreed</u></p> <p>A new starter form is completed and sent to the Transactional team to input details on Itrent. The forms are then saved in a personal file. Further discussions regarding the recorded delegation decision, timesheets and REC 1's will need to take place between HR/OD and Audit.</p> | HR Employment Services Manager | 31 January 2024 |
| 13 | <p><u>Personnel E-Files</u></p> <p>Personnel paper files should be scanned into the employees E-file as soon as practicable to ensure all relevant contractual paperwork is available for review.</p> <p>This is a new recommendation for 2022/23</p> | Medium | <p><u>Agreed</u></p> <p>HR/OD currently working with Central Records on a project to scan/ archive relevant paper files.</p> | HR Employment Services Manager | 31 January 2024 |

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| 14 | <p><u>Leavers Documentation</u></p> <p>All supporting documentation should be retained in respect of leavers details and stored in the appropriate folder.</p> <p>This recommendation has been assessed as partially incomplete.</p> <p>Brought forward from 2021/22</p> | Low | <p><u>Agreed</u></p> <p>HR/OD currently working with Central Records on a project to scan/ archive relevant paper files.</p> | HR Employment Services Manager | Ongoing |
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