Appendix 6

Oldham Council
Audit and Counter Fraud Team

2025/26 Fundamental Financial Systems

Payroll

Audit Report

19 June 2026

Prepared by:

Senior Auditor

Reviewed by:

John Miller — Head of Internal Audit and Counter Fraud

Issued to:

Fiona Greenway	Executive Director of Resources
Lee Walsh	Director of Finance (S151)
Eleanor Devlin	Assistant Director of Workforce & Organisational Culture
Andy Collinge	Head of Education Support Services
	Finance Manager (Financial Systems)
	Head of Operational HR
	HR Employment Services Manager
	Payroll and Pensions Lead

Oldham Council

2025/26 Fundamental Financial Systems
Payroll

1. Background

1.1 In line with the Annual Audit Plan a review of the Council's Payroll systems has taken place. The agreed audit programme for each financial system reflects key risks, internal controls, and is delivered in accordance with Public Sector Internal Audit Standards.

1.2 In September 2025, a HR & OD Rebuild Plan was drafted to address the long-term change required to ensure the HR & OD service is providing an adequate service to clients. This forward plan is intended to, over time, assist in strengthening internal controls and address a number of the recommendations highlighted in previous audit reports and in Section 6 of this report.

2 Objectives and Scope

2.1 The objective of the audit is to review and test the operation of the system, including controls, to ensure that appropriate procedures and controls are in place and operating effectively. This review has been conducted in accordance with the Global Internal Audit Standards (GIAS) 2024, and the Chartered Institute of Public Finance (CIPFA) Local Government Application Note (LGAN) 2024.

2.2 Key areas examined include:

- starters, leavers and variations to pay;
- amendments to global data (pay awards, NI & tax rates, pension contributions, etc.);
- error reports and warnings;
- adherence to established payroll processes and controls;
- appropriate segregation of duties;
- payroll to general ledger reconciliations (including gross pay, net pay, deductions employer contributions and balance sheet codes);
- payment of employer and employee pension contributions and provision of data to GMPF.
- bank reconciliations.
- review of members allowances

2.3 Our approach involved:

- Walkthrough testing to ensure that the processes and controls are operating as expected.
- Compliance testing of key controls

3 2025/26 Audit Opinion

3.1 Progress has been made over the last six months to address the actions set out in the Service's improvement plan (including staff development and training), and previous audit recommendations, and staff have now been recruited to key posts within the service.

3.2 The report for 2024/25 contained eleven recommendations: six high, four medium and one low priority. This report contains thirteen recommendations, five high and eight medium priority. Seven of the eleven recommendations made in our 2024/25 payroll report are re-iterated in this report. Six new recommendations have been added.

3.3 Whilst recent progress has been made and some improvements seen during 2025/26, in some areas the changes made will take time to translate into improved outcomes. We anticipate that, provided the service continues in pursuit of its Rebuild Plan, that these improvements will become apparent going forward into our next review in 2026/27.

3.4 However, from the outcomes of our most recent work our opinion remains that for 2025/26 Limited Assurance can be obtained, primarily in the back-office areas of record keeping and demonstration of management oversight controls. Areas identified during the review for 2025/26 where improvements can be made are discussed in the sections below.

4 Findings

4.1 Error Suspense Account

Payroll account errors are held in a suspense account. Management should review the current procedures in relation to the suspense account and ensure that these are updated to include the following:

- A process for investigating long term un-allocated balances.
- Escalation arrangements.
- An audit trail to support all work undertaken in respect of suspense account payments and transfers.

Management should also review and update the current arrangements to ensure that these include additional checks to verify the accuracy of the accounts to which transfers are made.

Insufficient explanations for unreconciled items at the time of transactions, means it is not possible to understand what actions have been taken and/or if items have been reconciled. The absence of a standardised method for addressing unreconciled items complicates issues, resulting in unresolved discrepancies. It was noted at the end of the audit process this issue was being addressed.

Please refer to Recommendation 1 in section 5 below.

4.2 Exception Reporting - Variation Report

Exception reports are run monthly both after the “dummy” payroll run and before the “live” payroll run, which detail all variations in payments that have been made since the last month. Exception reports (net to net) are consistently being produced, and monthly checks are being conducted. However, it is recommended that management document that variation checks have been carried out, and that no issues have been noted. This will provide further assurance in the exception reporting process. It has been agreed that a confirmation note will be recorded each time this task has been completed.

Please refer to Recommendation 2 in section 5 below.

4.3 Authorised Signatory List

Our review indicated that there is no up-to-date authorised signatory list of officers authorised to approve BACS payments. It is advised that a list is drawn up and stored in the appropriate Payroll BACS folders.

The failure to have an up-to-date list of authorised signatories in place may result in payroll transactions being approved by officers without the appropriate authority.

Please refer to Recommendation 3 in section 5 below.

4.5 Pre-employment and Right to Work Checklist - Schools

Five Schools starters' personnel files were sampled. One did not have evidence of pre-employment and right to work checks and/or a complete personnel file.

It is acknowledged that 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 also continues to bear a significant risk as the employer should harm occur following failure to complete appropriate checks.

We recommend that a fully completed starters form is retained for all Council employees, including employees in maintained schools.

Please refer to Recommendation 4 in section 5 below.

4.6 Pay Policies and Procedures

Having detailed, up to date and regularly reviewed procedures helps to ensure that consistent and up to date procedures are being followed by all staff.

Whilst we confirmed the availability of My HR procedures for the processing of Payroll transaction our review indicated a lack of local formally documented payroll procedures specifically for the use of staff within the Payroll Team.

Please refer to Recommendation 5 in section 5 below.

4.7 Employee Personnel Files

During the review it was noted that for one decision to approve a staff Honorarium the supporting documentation was looked for in the HR file, however these are filed in a separate approved Workforce Approvals Form folder and was provided to us from there.

In accordance with the Payroll Rebuild Plan, management previously commenced an employee personnel file audit which highlighted any gaps in record keeping, this audit was completed. The Service also started standardising some filing within the Payroll and HR R: Drive. However, the standardised filing is not yet complete.

The review requires progressing in order to ensure all supporting documents are maintained for all council employees in the agreed standardised filing system.

Please refer to Recommendation 6 in section 5 below.

4.8 CHAPS Payments Review

CHAPS payments are raised in instances of payroll processing delays, late notification and errors A sample of five payments were reviewed. We were unable to locate supporting documentation in the filing location expected for one payment at the time of our review; however, the documentation was later located by the Payroll Team after completing our review. One other payment had an incomplete CHAPS form with no management sign off in the file reviewed. This CHAPS form was also later located.

The Payroll Service introduced a KPI tracker in October 2025 to identify keys areas of service improvement. The introduction of the tracker provides additional management information on why CHAPS payments are being made and how the service can seek to minimise the payments.

The testing period for this FFS Payroll Audit was from April 2025 to December 2025. As such there is limited KPI data available to understand the root cause of pay anomalies with the aim to reduce the number of CHAPS payments made. The recommendation, therefore, remains in place as this is relatively new process, it will be reviewed again once it has been in place long enough to evaluate its effectiveness.

Please refer to Recommendation 7 in section 5 below.

4.10 Exceptional Payment Agreements

Testing identified one exceptional payment.

The authority to override established system controls and calculation should be signed off by appropriate management and retained on file for transparency and audit purposes.

Please refer to Recommendation 8 in section 5 below

4.11 Salary Overpayment

Salary overpayments may occur for several reasons including late notification to payroll of a leaver/change of contract; excess annual leave being taken; an employee not returning from maternity leave; payroll error etc. It was identified through the leavers testing that overpayments are not being consistently recovered as per the policy. The policy states that, in the event of a single pay period overpayment, any overpayment will be recovered, in full, from the next pay period. For example, if the overpayment is identified in May but it is too late to correct, the employee will be notified, and the payment recovered in June.

It is recommended that:

- Data in respect of the number and value of the overpayments is reported to senior management as part of the monthly performance reporting process (including ex-employees/historic debt)
- The Payroll Team liaise with the Debt Recovery Team to consider producing a monthly report to management on the status of outstanding overpayments from current and ex-employees.
- All relevant supporting documentation in relation to payroll transactions are properly retained in the employee file including overpayment agreements.

Please refer to Recommendation 9 in section 5 below.

4.12 Overpayments - Communications to Managers

During the testing of leavers four of the fifteen leavers sampled had been overpaid due to a late leavers form being submitted by service management. This creates additional administrative work for the Payroll section. Furthermore, there is a risk the overpayments may not be recovered.

Regular communications should continue to be sent out to all managers about the importance of submitting starters, leavers and sickness dates in a timely manner to prevent overpayments being created, and additional workflows added to the payroll service when items are not actioned in time

The Payroll Service introduced a KPI tracker in October 2025 to identify keys areas of service improvement. The introduction of the tracker will provide additional management information on performance going forward. The testing period for the FFS Payroll Audit is April 2025 to December 2025. As a result, there is currently limited data available to demonstrate improvement. The recommendation, therefore, remains in place as this is relatively new process and be reviewed again once it has been in place long enough to demonstrate the service is doing all it can to communicate these messages to managers.

Please refer to Recommendation 10 in section 5 below

4.13 Employee Contracts

A sample of 20 new Starters from Schools and Directorates was selected. One employee contract could not be located in the employee's personnel file. Although in place for most files checked the service needs to ensure that signed contracts and other communications are retained within employees' files. Failure to provide employees with a written statement of the terms of employment means the Council may be at risk should there be any contractual disputes.

Please refer to Recommendation 11 in section 5 below

4.14 Members Allowances

The Local Authorities (Members' Allowances) (England) Regulations 2003 Part 3, Regulation 13 provides that a person may forgo all or part of any allowances to which they are entitled and must do so in writing. Five Councillors were sampled, of which one opted for a reduced rate on their members allowance. However, there was no evidence of a request for a reduced rate retained in their personnel file. It is recommended that Payroll and Constitutional Services both retain evidence of Councillors who forgo all or part of their member's allowance.

It is important that all documentation relating to allowances and special responsibilities is maintained in Councillor's personnel file to support payroll payments and amendments.

Please refer to Recommendation 12 in section 5 below

4.15 BACS Card Resilience

Currently there are two officers who have the facility to make payments via the BACS run. However, it is recommended that a senior officer should also have the access and authority to submit the payroll payments in emergency situations.

Please refer to Recommendation 13 in section 5 below

5 Way Forward

5.1 An Action Plan for recommendations arising from the audit is included in **Section 6** of this report. Progress against the agreed recommendations will be reviewed as part of an agreed timetable.

5.2 We would like to thank officers within the Service for their help in this review. In the meantime, once the report has been finalised, we would be grateful if you would complete the Customer Service Questionnaire so that we can continuously review our service delivery.

5.3 **Disclaimer**

This report is made solely as an internal management report to the Officers of the Council identified on the report distribution list as an aid to the effective management of Council resources, and for no other purpose. Our audit work has been undertaken in accordance with the Global Internal Audit Standards (GIAS) 2024, and the Chartered Institute of Public Finance (CIPFA) Local Government Application Note (LGAN) 2024. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than those

Officers for whom the report was produced, for our audit work, for this report, or for the opinions we have formed.

6. Action Plan 2025/26.

The table below shows the recommendations for the findings arising from our interim 2023/24 reviews. We have prioritised the recommendations to provide you with an indication of the importance for each nominated officer. If an officer disagrees with the prioritisation, they should discuss this with the auditor as part of the finalisation process.

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	Progress update June 2026
1	<u>Error/Suspense Account</u> It is recommended that Payroll in conjunction with Finance Colleagues implement a standardised process for promptly addressing and resolving discrepancies between GL and control and suspense account balances. This should include clear guidelines for identifying, documenting, and	**High**	Finance Manager - Financial Systems: Previous imbalances of the payroll interfaces have been investigated and the payroll element causing the issue has been identified, corrected and since December 2025, all files have been in balance. There will inherently be some items that end up in suspense due to incorrect cost centre, account code or payroll numbers being used and these are corrected as per the comments below. Finance Managers - Directorates and Schools: Following on from the above, any items that end up in suspense through the use of incorrect cost centres or payroll numbers are reviewed on a regular basis and re-allocated to the correct service areas.	Finance Manager (Systems) HR Employment Services Manager	Complete	Complete

	resolving discrepancies. This should be cleared as soon as possible. **New Recommendation for 2025/26**					
2	<u>Exception Reporting</u> Management should consider documenting the review around payments in the net to net exception report to provide further quality assurance in the exception reporting process. **New Recommendation for 2025/26**	**Medium**	This is considered in the net-to-net reports that are carried out each month. Any high percentage variation between the current and previous month are escalated and looked at. Net-to-net reports are located in cross payroll folders for each month. As standard these split between team members to ensure each pay record is fully checked. From April 26 these are filed in a separate folder so they should be easily identifiable. This will be evidence and signed off by a manager each time this is completed.	HR Employment Services Manager	Complete	Complete
3	<u>Authorised Signatory List</u> Management should consider creating an authorised signatory list to include all officers	**Medium**	Agreed This document will be drafted for disaster recovery. Risk level to be looked at and communicated to the relevant managers in events of emergency processing.	HR Employment Services Manager	30 June 2026	Complete

	with the authority to approve payroll transactions . The list should be retained in an accessible folder for all relevant Payroll staff. **New Recommendation for 2025/26**					
4	Pre-employment and Right to Work Checklist- Schools 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. The review has noted that this action has not progressed as expected and steps need to be taken around storage of	**High**	Agreed – The new process started January 2026 so will see improvement in next Audit.	Head of Schools HR Employment Services Manager	Complete	Monthly audits ongoing to check progress

	supporting information around pre-employment checks. The Council will continue to carry out pre-employment checks for all council employees. New Starter forms sent by maintained school's should also include the line from the Single Central Record (SCR) the includes the new starter details to demonstrate all pre-employment checks are completed. **Brought forward from 2024/25**					
5	<u>Policies and Procedures</u> Management should ensure the following: 1. That the documentation of payroll	**High**	Agreed - this action was delayed due to changes in personnel but is now underway with an estimated time of completion of September, so we anticipate this being completed by next Audit. Pay policy for 2026 was approved and is up to date.	HR Employment Services Manager	31 October 2026	Standard Operating Procedure project is on track for completion for 31 October 2026

	procedures for the use of staff within the Payroll Team is expedited. Once complete, they should be circulated to all relevant staff within the Team and training provided if necessary. 2. All policies and procedures including the Pay Policy and Procedures documentation should be regularly updated so that they remain relevant and refer to current systems. 3. Set out formally (in writing) the roles and responsibilities of staff within the Payroll Team. **Brought forward from 2025/26**					

6	<u>Employee Personnel Files</u> It is recommended that the exercise to cleanse and reorganise Payroll records is continued and a standardised approach is agreed as to which documentation should be retained in the Employee files and HR Advisory Files. **New Recommendation for 2025/26**	**Medium**	Agreed A project will be ongoing in order to ensure all personal files are stored and maintained adequately to ensure all key documentations are available.	HR Employment Services Manager	ongoing	Work is ongoing to maintain file discipline which is monitored through service audits
7	<u>CHAPS Payments – Review of Errors</u> KPI data should continue to be collected to analyse and identify any common system or process issues, which can be addressed and rectified to reduce the number of CHAPS requests.	**Medium**	Agreed CHAPS payments are approved by AD and under/overpayments are now kept as part of KPI report and reported through to Corporate Performance report. Pay anomalies and payroll accuracy have also been added onto Corporate Performance reporting, and the service have been reporting on this data from Q3 25/26.	HR Employment Services Manager	Complete	Complete

	All requests for CHAPS payments should be retained on file and signed off in accordance with the scheme of delegation. **Brought forward from 2025/26**					
8	<u>Exceptional Payment Agreements</u> Where exceptional payments are authorised by Services, Payroll Services should ensure that any decisions made outside the pay policy is authorised by the relevant Service Director. All supporting documentation should be retained on file for audit and transparency purposes.	**Medium**	Agreed Also Filing discipline – working with the team. Need to be clear where filing these. Payments only processed with full approval and any changes away from formal procedure should be also fully documented. This will fall under discipline and file mapping.	HR Employment Services Manager	31 October 2026	Complete
9	<u>Overpayments - Communications to Managers</u>	**Medium**	Agreed	HR Employment Services Manager	Complete – due to audit review timeframe	Complete

	Communication should continue to be sent to all Managers responsible for staff to reiterate the importance of submitting leavers forms in a timely manner to prevent overpayments. Good practice to continue to be re-enforced with the support of KPI performance data. This could be achieved through training / awareness campaign and/or targeted communications in cases of non-compliance. **Brought forward from 2024/25**		Specific teams have been contacted where learning is needed for example we did this with the customer team due to several late payments in one month. This will be documented and followed up if same service areas continue to delay processing information Payroll services. We are introducing new overpayment procedures, and overpayments policy being reviewed.			
10	Salary Overpayment Repayment Plans Relevant supporting documentation in relation to payroll	**Medium**	Agreed We are clear that Payroll are following policy but there is a review needed overall on overpayments and recovery.	HR Employment Services Manager	31 October 2026	Debt Recovery Group still in place and is working through a more robust progress for recording and tracking overpayments

	transactions are properly retained including overpayment agreements. It is advised that regular meetings with Debt Recovery are conducted as part of the performance reporting process. **This is a new recommendation for 2025/26**		There is now a working group focused on overpayments and debt recovery, which will strengthen overall recovery process..			
11	<u>Employee Contracts</u> Employees should be issued with employment contracts in 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.	**Medium**	Agreed One employment contract was missing from the sample. Root cause has been identified and addressed.	HR Employment Services Manager	31 July 2026	Monthly internal audit in place on contracts and variation letters

	Brought forward from 2024/25					
12	Councillors Allowance A review of all Members who wish to forgo their allowance should be conducted for 2025/26. Declaration forms should be completed and retained in their personnel files for completeness and continuity purposes. Robust communications should continue to be maintained between Constitutional Services and Payroll. **New Recommendation for 2025/26**	**High**	Agreed A more robust process will be followed between Constitutional Services and Payroll.	HR Employment Services Manager	31 October 2026	This is subject to ongoing conversations with constitutional services
13	BACS Card Resilience An additional member of staff within the Payroll	**Medium**	Agreed – underway currently.	HR Employment Services Manager	31 October 2026	Complete

	and HR service should have the facility to process the payroll payment by accessing their own BACS Card. **New Recommendation for 2025/26**					