


Internal Audit Report

Transformation and Change – Payroll System 2017/18

Plymouth City Council

December 2017

Audit Opinion	Direction of travel
High Standard: The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.	

Introduction

Plymouth City Council provides payroll services to PCC employees and external bodies including Schools, Academies and alternative service delivery vehicles.

Payroll services are administered by the HR Business Services Team within the Service Centre, using the iTrent system.




iTrent is a combined Payroll and HR system, operated and utilised by both Payroll and HR staff to make payments totalling approximately £200m a year (PCC @ £140m and @ £60m across 24 external body payrolls) in accordance with their contract of employment, legislation and HM Revenue & Customs obligations.

Executive Summary

Overall the controls operating within the Council's Payroll system is of a High Standard. Consistent application of internal controls has ensured that PCC employees have been paid accurately, on time and in accordance with their contract of employment.

Amendments to payroll data are input by employees using the employee self-serve module and approved by their designated Managers through the manager self-service module, access to which is controlled through strict user access profiles driven by the organisational structure. Payroll operations implement a robust process of control and agreement to ensure the accuracy and completeness of payroll expenditure.

The Payroll system has benefited from a high degree of operational stability with highly evolved existing internal working procedures and robust systems of internal control. There is a continuous drive to challenge current working practices and further develop systems, such as exploring the use of Firmstep to improve workflow, the risks and opportunities of which are well managed by the Business Services Team.

Assurance Opinion on Risks or Areas Covered - key concerns or unmitigated risks	Level of Assurance	Direction of travel
Regulatory requirements, performance targets and best practice expectations not met: - There are no areas of material concern.	High Standard	
Unauthorised or inaccurate amendments to the payroll or to the MAS: - There are no areas of material concern.	High Standard	
Unauthorised or inaccurate payments made or not recovered: - There are no areas of material concern	High Standard	
<i>These areas / risks combine to provide the overall audit assurance opinion. Definitions of the assurance opinion ratings can be found in the Appendices. The observations and findings in relation to each of these areas has been discussed with management, see the "Detailed Audit Observations and Action Plan" appendix A. This appendix records the action plan agreed by management to enhance the internal control framework and mitigate identified risks where agreed</i>		

Recent system penetration testing has identified some fundamental weaknesses that may put the system at risk of inappropriate access and this has prevented the rollout of Midland iTrent to schools, this along with ongoing system performance issues continue to cause concern as this impacts the Payroll service's ability to develop capacity, create efficiencies and generate savings. Management continue to liaise with Midland to endeavour to resolve these issues and maximise system functionality. Although this issue sits outside the assurance opinion in respect of this review we consider that for completeness reference should be made to it.

Issues for the Annual Governance Statement

The evidence obtained in internal audit reviews can identify issues in respect of risk management, systems and controls that may be relevant to the Annual Governance Statement. In terms of this review we are able to report that there are no issues arising that warrant inclusion in the Annual Governance Statement.

Acknowledgements

We would like to express our thanks and appreciation to all those who provided support and assistance during the course of this audit.

Written responses should be returned to Louise Clapton (louise.clapton@devonaudit.gov.uk). Alternatively a meeting to discuss the report and agree the action plan should be arranged with the named auditors.

Robert Hutchins
Head of Partnership

Detailed Audit Observations and Action Plan

1. Risk Area: Regulatory requirements, performance targets and best practice expectations not met.

Level of Assurance

High Standard

Opinion Statement:

Comprehensive iTrent system manuals are accessible online via Midland iTrent Service Desk and these are kept up to date with new user guides that are made available when major updates to the system are implemented. Copies of the documented payroll processes, users manuals, relevant to the iTrent release currently in use, are held on the s drive accessible to all payroll staff.

Clear guidance and associated forms are available on the document library for use by all staff. In addition the Employment Information section of the Council's intranet, Staffroom, clearly communicates which forms to use and when for all routine payroll processes.

Ongoing training needs of Human Resource staff will be identified during business as usual or through the Corporate appraisal process. Information updates are developed where changes to processes have occurred; these are communicated to Team Leaders for cascading through teams. If major changes occur consideration will be given to providing a specific training session.

All new users of the iTrent system or the self-service modules are given training appropriate to their role and this will continue to be delivered as required.

A quick reference and essentials guide has been developed and is available to users of the Self Service, training will be provided to users if necessary.

Measurement of performance is defined by the achievements of deadlines and completion of the monthly payroll cycle checklist. The number of corrections to pay is also subject to review and this is monitored and reported along with a number of Human Resource and Organisational Development measures through the balanced scorecard performance report. This forms part of the overall Transformation and Change balanced scorecard performance reporting.

The Council has performance targets in relation to sickness. Monthly reports are made to Co-operative Scrutiny that covers establishment figures and changes as well as sickness levels. The provision of this performance information enables Members and Senior Management to monitor key information about the authority's main expenditure area, staff.

No observations and recommendations recorded.

2. Risk Area: Unauthorised or inaccurate amendments to the payroll or to the MAS.

Level of Assurance

High Standard

Opinion Statement:

Directors are responsible for their area of the establishment ensuring that appropriate staff resources are in place to deliver services in line with budget constraints. Through budget monitoring processes and information available through manager self-service, budget holders are responsible for ensuring that their area of the establishment is correct. In addition monthly Corporate and Directorate establishment reports are made available on Staffroom

The accuracy and completeness of the establishment structure was confirmed as part of the move to a hierarchical structure in iTrent. Managers are required to ensure the accuracy and completeness of their area of the organisational structure, using the manager self-serve module as part of day to day management tasks. Employees are also asked routinely to check the accuracy and completeness of the data held about them and can do this by accessing employee self-serve.

Opportunities to further improve the efficiency of Payroll processes continue to be explored, such as the ability to utilise electronic forms via Firmstep, for those processes that can't be completed through the self-service modules. Through discussion and observation it was confirmed that sufficient investigation and challenge to potential changes is in place. Ongoing communication with Internal Audit will continue to ensure risks are mitigated.

There continues to be adequate separation of duty in place. The Recruitment, Workforce and Training Team are responsible for corporate establishment management whilst Payroll Operations prepare the payroll and Pensions and Control manage the payment of the payroll.

The payroll system is set up to identify for each individual a specific manager who is responsible for authorising any amendment to the individual's payroll. Self service provides managers with a complete view of their staff and enables online authorisation and recording of amendments to individual payroll records. Employee self-service functionality allows individual employees to view their personal information, make changes to their personal data online and submit time and expense claims.

All new starters, leavers, absences and adjustments to pay were found to be appropriately authorised and correctly entered onto the payroll system.

Changes to parameter data is managed through a formal change control request document. A change control log is maintained of all change control requests made. The process is well managed and sufficient testing, exception reporting and reconciliation processes provide assurance that parameter changes are made correctly and completely.

Changes to tax codes and student loan deductions are managed through Real Time Information controls direct with HMRC. Data is received from HMRC throughout the year and automatically updates payroll records, exception reports are produced highlighting where the system has been unable to update records. These are then investigated and action taken to resolve.

Incoming data received to iTrent via interface and outgoing data posted to the General Ledger and Cash Receipting system is subject to control and agreement. Exception reports and reconciliation processes provide the necessary assurance that data is complete and accurate.

No observations and recommendations recorded.

3. Risk Area: Unauthorised or inaccurate payments made or not recovered.

Level of Assurance

High Standard

Opinion Statement:

As part of the payroll cycle routine exception reports are produced, reviewed and actioned prior to the payroll being run. This ensures that mismatched, rejected data and/or unusual, large payments are promptly investigated. The iTrent system has standard reporting tools to enable the completeness, accuracy and validity of payroll data to be assessed.

Payments are independently reconciled to the payroll system and appropriately authorised prior to being made. The number and value of payments are also reconciled back to the payroll system after being made to ensure accuracy and completeness.

Transmission of BAC's is restricted to approved Financial System Team Officer's independent of the payroll function and is strictly controlled through the use of secure passwords and smartcards.

An additional pay run is scheduled approximately one week after the main run, this allows for any corrections or late forms (where undue hardship may be suffered) to

be processed. Advance payments are subject to the same level of control and agreement as the main pay run. Where appropriate, the advance is recovered through the next pay run with reconciliations undertaken to ensure the payment is recovered. Robust controls are in place to identify, record and recover amounts owed to PCC following advance payment, loans or overpayment.

Statutory data is routinely submitted to HMRC each month through the Real Time Information System. The submission of data to HMRC is managed through iTrent where in-built controls ensure complete, accurate and valid data is submitted in accordance with requirements. End of year submissions are managed through iTrent with similar controls to those in place for monthly submissions. The Council has submitted its statutory returns in accordance with requirements.

No observations and recommendations recorded.

Scope and Objectives

The scope and objective of this audit is to evaluate and provide the Council with an opinion on the adequacy and effectiveness of the key controls and procedures operating within the payroll system.

The key risks identified are:

- inappropriate access to the payroll system
- inappropriate or inaccurate amendments to the payroll system or to the MAS
- inappropriate or inaccurate payments made or not recovered

Although a number of external payrolls are also processed by the Council's payroll service, the scope of this audit will be limited to processes and controls relating to the Plymouth City Council's payroll only.

Inherent Limitations

The opinions and recommendations contained within this report are based on our examination of restricted samples of transactions / records and our discussions with officers responsible for the processes reviewed.

Definitions of Audit Assurance Opinion Levels

Definition of Recommendation Priority

Assurance	Definition		
High Standard	The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.	High	A significant finding. A key control is absent or is being compromised; if not acted upon this could result in high exposure to risk. Failure to address could result in internal or external responsibilities and obligations not being met.
Good Standard	The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.	Medium	Control arrangements not operating as required resulting in a moderate exposure to risk. This could result in minor disruption of service, undetected errors or inefficiencies in service provision. Important recommendations made to improve internal control arrangements and manage identified risks.
Improvements required	In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.	Low	Low risk issues, minor system compliance concerns or process inefficiencies where benefit would be gained from improving arrangements. Management should review, make changes if considered necessary or formally agree to accept the risks. These issues may be dealt with outside of the formal report during the course of the audit.
Fundamental Weaknesses Identified	The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.	Opportunity	A recommendation to drive operational improvement which may enable efficiency savings to be realised, capacity to be created, support opportunity for commercialisation / income generation or improve customer experience. These recommendations do not feed into the assurance control environment.

Confidentiality under the National Protective Marking Scheme

Marking	Definitions
Official	The majority of information that is created or processed by the public sector. This includes routine business operations and services, some of which could have damaging consequences if lost, stolen or published in the media, but are not subject to a heightened threat profile.
Secret	Very sensitive information that justifies heightened protective measures to defend against determined and highly capable threat actors. For example, where compromise could seriously damage military capabilities, international relations or the investigation of serious organised crime.
Top Secret	The most sensitive information requiring the highest levels of protection from the most serious threats. For example, where compromise could cause widespread loss of life or else threaten the security or economic wellbeing of the country or friendly nations.

Devon Audit Partnership

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The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at robert.hutchins@devonaudit.gov.uk.

Confidentiality and Disclosure Clause

This report is protectively marked in accordance with the National Protective Marking Scheme. It is accepted that issues raised may well need to be discussed with other officers within the Council, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies.

This report is prepared for the organisation's use. We can take no responsibility to any third party for any reliance they might place upon it.