Auditor: Amber Ahmed, Ext 3280

Final Internal Audit Report

to

- **Chief Executive**
- **All Directors**
- **All Heads of Service**
- **Business Services Manager**
- **Employment and Reward Manager**
- **Business Applications Manager**

on

Payroll

21 November 2018

1 Introduction

1.1 The purpose of this audit was to review the adequacy of the control framework over starters and leavers within Midlothian Council.

2 Audit Scope

2.1 The scope of this audit was to examine and evaluate the following areas:

- checks undertaken before an employee is offered a contract. This included checking work permits, personal identification, references, Protecting Vulnerable Groups (PVG), any monies due to the Council, and any other checks relevant for the job role;

- data entered into the payroll system is supported by appropriate, authorised documentation which has been validated;

- employee data is processed appropriately; and

- documentation is submitted timeously and in a consistent way e.g. employment contracts, exit arrangements.

3 Management Summary

3.1 The Council operates three main payrolls. These are the monthly payroll (661), the four-weekly payroll (Lunar Payroll) (662), and the Teachers' payroll (671). Additionally, there is a separate payroll run for Election workers. Midlothian Council uses Midland's HR iTrent system to process and control its payroll services which is managed and prepared by the Employment and Reward team. Payments are processed via BACS which is undertaken by the Financial Services Team. Documents are scanned and saved on the Council's Document Management system, CS10. System management and software updates of the iTrent system are controlled by the Business Applications team. Upgrades and backups to the iTrent and CS10 system are carried out on a frequent basis.

3.2 For the purposes of IR35 reporting, Service Managers across the Council are required to inform the Employment and Reward team of agency workers who are working in their area for more than 1 week. Agency workers are registered on the 'on/off payroll system' via iTrent but are not paid through the payroll system.

3.3 Internal Audit testing was performed on a judgemental sample basis and focused on all areas across the Council to assess the adequacy and effectiveness of new starts and leavers processed during the financial year 2017/18. 1,040 new starts and 812 leavers were recorded on the iTrent system (this also included permanent and temporary changes). A sample of 27 new starts and 20 leavers were selected and the results of the testing undertaken are stated in section 4 of this report.

3.4   The following examples of good practice were found:

- recruitment and leaver guidance is available on the Council's Intranet;
- a 'New Post Authorisation Form' is used by Senior Management to authorise a new post;
- where a PVG check is required, this is clearly stated in the recruitment requirements;
- a recruitment checklist is used by Employment and Reward officers for the creation of new starts; and
- the old iTrent leaver form has been replaced with a new online form on CS10 which reaches Employment and Reward team instantly when it is submitted by the Service Manager. The online electronic workflow forms were launched to corporate-based managers and the intention is to replace the online word form with similar workflows to managers based in schools in the near future.

3.5   Improvements are required for: ensuring Services submit information to the Employment and Reward team on a timely basis to avoid an overpayment for a leaver and to ensure appropriate recruitment checks are undertaken before an employee starts working for the Council or changes status; documenting the practice for dealing with appeals of an overpayment of salary; ensuring complete documentation for leavers and starters; and enhancing the quality assurance checking of data input into the iTrent system.

3.6   Internal Audit considers that the level of assurance we are able to give is Substantial Assurance.

3.7   The Internal Audit function conforms with the professional standards as set out in the Public Sector Internal Audit Standards (2017), including the production of this report to communicate the results of the review.

3.8   We would like to thank those officers who assisted us during our review.

4 Findings

Risk	Expected Control	Results	Effectiveness of Actual Control	Rec. Ref No
4.1 Risk of financial loss or reputation damage if the Council employs an individual who is barred from doing a type of regulated work or doesn't have the necessary qualifications / experience required for the role.	Adequate controls are in place to ensure checks are undertaken before an individual is offered a contract of employment and data is processed appropriately.	**Recruitment checks** From a sample of 27 new starts tested, adequate controls over the pre-employment checks required were found to be in place with the exception of 4 cases. For these cases, issues were noted such as: 2 where employment commenced prior to Disclosure Scotland checks being completed (it has been advised that in these instances a risk assessment should be completed and approval from the Lead Signatory should be sought – this was not evidenced for these cases), 1 where the Employment and Reward Team (ERT) were advised of a new start after employment had commenced and 2 where references were not submitted to ERT. A new process is in place when an employee changes status from a casual post into a fixed term or permanent post and further controls will be considered to reduce potential errors that may arise. **PVG Policy and Procedure** A comprehensive PVG policy and procedure is available on the Intranet. Roles can change between recruitment exercises both in remit and structure which can change the disclosure requirement. ERT advise managers of requirements needed for the post before it is advertised. **Authorised Signatory System** From our sample of 27 new starts, forms were approved by the appropriate manager with the exception of 3 new start forms. A review of authorised signatories is underway arising from another audit which will include the authority to process new starts and leavers. **System Data** From our 27 new starts sample, 26 employee details were correctly entered on the iTrent system and corresponded with the forms with the exception of 1 case where a date of birth was entered incorrectly. The system has since been updated with the correct details. We found 1 employee had been entered into the iTrent system as a casual worker in May 2017 but has never worked for the Council.	Satisfactory with a few exceptions Good Good Satisfactory Satisfactory subject to data quality checking and regular cleanse	5.1 5.2

Risk	Expected Control	Results	Effectiveness of Actual Control	Rec. Ref No
4.2 Risk of financial loss or reputation damage if those exiting the Council are not processed promptly and adequately.	Data entered into the payroll system is supported by appropriate, authorised documentation which has been validated.	**Leaver Forms** From our sample of 20 leavers, forms were approved by the appropriate manager with the exception of 6 leaver forms which were not stored in the electronic employee file and thus could not be verified (payments for these employees have ceased and a contract end date is recorded on the iTrent system however an overpayment of £126 occurred for 1 of these cases).	Satisfactory subject to improving audit trails	5.3
		Documentation From the sample of 14 leavers' documentation that were available, 1 pension form was not copied to CS10, and only 6 cases had resignation letters/emails attached to the leaver forms (though it is noted that resignation is sometimes confirmed via phone call).	Satisfactory subject to improving audit trails	5.3
		Overpayments From the sample of leaver forms, 5 were sent to ERT outwith the timescales in the Leavers' Guidance though none of these 5 cases resulted in an overpayment. In our sample of 20 cases examined, 1 overpayment of salary (disputed account which occurred due to an error made by the Council) was reduced by the Employment and Reward Manager. It was advised that this was based on the practice for dealing with appeals of this nature (approved by the Director, Resources based on the common law Estoppel principle) however this was not documented and the Manager was not on the authorised signatory list for authorising credit notes. The External Audit 2017/18 report highlighted a control issue which resulted in an overpayment.	Satisfactory subject to documentation of process and update of signatory database	5.4
		Leavers' Report The modified leaver report was recommended in the Purchasing Card Internal Audit Report to ensure late leavers updated on the iTrent system by Services are captured on the Leavers' Report.	Satisfactory	Previous audit rec
		Processing From our sample of leaver forms, we found 5 cases when information was submitted by Services on time but leaver letters were sent out late by ERT though this did not result in an overpayment as payroll elements were updated on the iTrent system. There was a period due to resource issues that resulted in a backlog of leaver processing, though cross training involving a greater number of staff in ERT has since resolved this.	Satisfactory	

5   Recommendations

Rec. No	Recommendation	Rating	Management Response	Responsibility and Timescale
5.1	Services should be reminded by the Employment and Reward Manager that appropriate checks are undertaken in compliance with HR Guidance and documents for new starts and leavers are promptly submitted to the Employment and Reward Team.	**Medium**	A new Additional Services policy is due to be implemented and a leavers' process change introduced which will include updating forms and guidance for Managers to ensure forms are sent promptly.	Employment and Reward Manager, 31 December 2018
5.2	Quality assurance checking of data entered into the iTrent system and a periodic system review should be undertaken to ensure data is accurate and complete.	**Medium**	A percentage of random quality checking process within the Employment and Reward team will be implemented. An annual purge of the iTrent system is due to be undertaken. Employees will be requested to update personal data in 2019 to ensure GDPR regulations are complied with. The various control reports utilised by business areas will be updated to pick up late position/organisation leavers so system access can be removed and/or amended accordingly.	Employment and Reward Manager, 31 December 2018
5.3	All documents for starters and leavers should be available on CS10.	**Medium**	The Employment and Reward Operations Leader traced the missing leaver files. Half were VSER leavers which were deliberately saved in the "P" drive as agreed by the Project Board so they were accessible to those required to substantiate the business case (i.e. HR Business Partners, Accountants, Directors and Heads of Service). 1 was misfiled in the wrong folder of their employee e-file and 1 was held in a secure folder as the case was a disciplinary outcome.	Complete
5.4	The practice for dealing with appeals of an overpayment of salary (approved by the Director, Resources based on the common law Estoppel principle) should be formally documented and the authorised signatory database should be updated to reflect the authority limits of the Employment & Reward Manager.	**Medium**	The authorisation required for this process has been updated on the authorised signatory database and delegation to the Employment & Reward Manager to be properly documented.	Head of Finance and Integrated Service Support, 31 March 2019

Overall Audit Opinion level and definition

Comprehensive Assurance	Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas might be required.
Substantial Assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.
Limited Assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or misuse.
No Assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or misuse is unacceptable. Significant improvements are required.

Recommendation Ratings

Recommendations in Internal Audit Reports are suggested changes to existing procedures or processes, to improve the controls or to introduce controls where none exist. The rating of each recommendation reflects our risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact. The ratings are:

High	Significant weaknesses in existing controls, leaving the Council or Service open to error, fraud, financial loss or reputational damage, where the risk is sufficiently high to require immediate action within one month of formally raising the issue. The risk should be added by Management to the relevant Risk Register for control and monitoring purposes and included in the relevant Head of Service Annual Assurance Statement.
Medium	Substantial weaknesses in existing controls, leaving the Council or Service open to medium risk of error, fraud, financial loss or reputational damage requiring reasonably urgent action within three months of formally raising the issue.
Low	Moderate weaknesses in existing controls, leaving the Council or Service open to low risk of error, fraud, financial loss or reputational damage requiring action within six months of formally raising the issue to improve efficiency, effectiveness and economy of operations or which otherwise require to be brought to the attention of Senior Management.
Other	Minor administrative weaknesses posing little risk of error, fraud, financial loss or reputational damage.

The Action Plans in Internal Audit Reports address only Recommendations rated High, Medium or Low. Outwith the Internal Audit Report, we inform Service Management about Other Minor matters to improve internal control and governance.

The recommendations will be input to Pentana performance system to assist with Management tracking of implementation. If responsible owners are unable to achieve the standard timescales for actions please notify the Chief Internal Auditor with the reason for the delay in implementation and the revised timescales to assist with the implementation and follow-up of these recommendations to improve internal control and governance.

Jill Stacey
Chief Internal Auditor