

# Brentwood Borough Council

## INTERNAL AUDIT REPORT

Payroll System

Audit 10.2015

LEVEL OF ASSURANCE	
Design	Operational Effectiveness
Limited	Limited



# CONTENTS

Executive Summary	3
Detailed Findings and Recommendations	4
Appendices:	
I Staff Interviewed	7
II Definitions	8
III Terms of Reference	9

REPORT STATUS	
Auditors:	Richard Haynes Leon Penwill
Dates work performed:	January 2015 - March 2015
Final Meeting Date:	16 April 2015
Draft report issued:	22 April 2015
Final report issued:	14 July 2015

DISTRIBUTION LIST	
Christopher Leslie	Interim S151 Officer
Phil Ruck	Business Development Manager

## Restrictions of use

The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

# EXECUTIVE SUMMARY

## CLIENT STRATEGIC RISKS

Risk	1	Finance pressures <ul style="list-style-type: none"> <li>Unplanned expenditure</li> <li>Expenditure incurred where no budgetary provision exists</li> </ul>
------	---	---

## LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS)

Design	Limited	System of internal controls is weakened with system objectives at risk of not being achieved.
Effectiveness	Limited	Evidence of non compliance with some controls, that may put some of the system objectives at risk.

## SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II)

High  2

Medium  2

Low  1

**Total number of recommendations: 5**

## OVERVIEW

From April 2014 the Council's payroll function was outsourced to Midland HR and from January 2015 the full outsourcing of the Council's HR functions was also transferred to Midland HR. The contract runs until 2017 and is managed by the Business Development Manager. Brentwood employs approximately 350 staff at a cost of circa £11m per year.

Our review found the following areas of good practice:

- We reviewed the controls that were in place to manage the transfer of payroll data between the old payroll system and the Midland HR system. There was evidence of one control where a dummy payroll run was made alongside the February 2014 payroll run, with minor reconciling differences. This was signed by the project manager authorising the implementation of the system. However there was little evidence of further controls ensuring the whole data transfer was successful. No significant issues have been noted from our work suggesting no significant problems in the process. We were unable to perform our own detailed testing as reports from Midland HR were not available.
- We tested two months payroll BACS reports, these were either approved by the Acting Chief Executive or Business Development Manager prior to being paid. The reports pack includes a variance analysis comparing the current month payroll expenditure to the prior month, which is scrutinised prior to the payment run being approved.

We also some areas for improvement or development:

- We were unable to test the leavers processes and controls as the Council were unable to produce a report of leavers at the time of the audit. We discussed the leavers process with both the Business Development Manager and the Systems Accountant, and noted that the current process was disjointed and may result in necessary actions not being completed for every leaver, such as revocation of systems access. Following discussions with management a quarterly establishment list check has been implemented from March 2015 and a new leavers process has been implemented. (High recommendations)
- Through discussions with the Business Development Manager it was apparent that the contract KPIs agreed as part of the contract were not providing the Council sufficient information to adequately monitor the contract performance of Midland HR, predominantly on the HR side. We have noted the Business Development Manager is already involved in discussions with Midland HR to improve the KPIs and reporting. (Medium Recommendation)
- We were unable to test the effectiveness of key controls in the following areas due to a lack of supporting information being available from Midland HR; authorisation of vacancies by the Acting Chief Executive, authorisation of new starters by Heads of Service, authorisation of expenses and overtime payments by Managers and Heads of Service, and leaver notifications. We have recommended that management request reports from Midland HR providing assurance over key controls operating at Midland HR. (Medium Recommendation)

Overall the new system has the potential to streamline processes and improve accountability of Managers and Heads of Service for the payroll costs incurred in their departments, however there were weaknesses in the design of the controls at the Council. These weaknesses have started to be addressed since the audit work was completed.

# DETAILED FINDINGS AND RECOMMENDATIONS

Contract Monitoring and Reporting			
Ref.	Finding	Sig.	Recommendation
0.A	<p>Through discussions with the Business Development Manager it was apparent that the contract KPIs agreed as part of the contract were not providing the Council sufficient information to adequately monitor the contract performance of Midland HR for the HR side of the contract.</p> <p>There was adequate KPI data available for payroll.</p> <p>We are aware that the Business Development Manager is already undertaking discussions with Midland HR around improving the KPIs such that the contract can be monitored effectively, including data around the number of enquiries and the response times.</p>	M	<p>Review the KPIs in place with Midland HR and hold discussions around how improvements can be made in the types of KPIs being reported.</p> <p>We are happy to discuss the agreement of improved KPIs further with management.</p>
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
Agreed.		<p><i>Responsible Officer: Phil Ruck</i>  <i>Implementation Date: 31 July 2015</i></p>	
0.B	<p>The lack of availability of documentation and audit trail for key controls at Midland HR was discussed with the Business Development Manager.</p> <p>We were informed there was the capacity for the Council to request reports detailing the operational effectiveness of controls operating at Midland HR.</p> <p>At the time of the audit the council had not received data around the effectiveness of key controls operating at Midland HR.</p>	M	<p>The Council should request reporting of operational effectiveness of key controls at Midland HR.</p>
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
<p>This is an issue of access within a system and availability of review during the audit and does not represent a lack of controls within the process - which is agreed were not made visible during the review.</p>		<p><i>Responsible Officer: Phil Ruck</i>  <i>Implementation Date: 31 March 2016</i></p>	

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Payroll data has not been transferred accurately and completely to the Midland HR system			
Ref.	Finding	Sig.	Recommendation
1.A	<p>Through discussions with the Business Development Manager there were several controls that were implemented around ensuring the data transfer between the two systems was successful, including the reconciliation of a parallel dummy payroll run and review of employee data reports from both systems.</p> <p>Due to a change in personnel it was not possible to locate evidence for all the controls that were implemented, except for the final approval of the implementation of the new system following the successful dummy payroll run in February 2014.</p> <p>From discussions with officers and work carried out around the reconciliation of payroll to the ledger, there have not been any apparent significant issues with payroll following the transfer of payroll.</p> <p>We were unable to complete further work as reports from the Midland HR system at the time of the transfer of data were not available.</p>	N/A	N/A
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
N/A		N/A	

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Payments are made to employees that do not exist or that are no longer employed by the council

Ref.	Finding	Sig.	Recommendation
2.A	<p>At the time of the audit work there was no formal monitoring of new employees added to the payroll, or controls to ensure that all leavers have been removed from payroll that should have been.</p> <p>This could result in employees that do not exist or leavers that remain on the payroll after the leaving date not being detected.</p> <p>Following discussions with management, a hierarchy report was circulated for March 2015, requiring positive agreement from Heads of Service. It is intended that this will be circulated on a quarterly basis.</p> <p>At the time of writing the report all bar two responses had been received for the March 2015 report.</p> <p>In addition to the hierarchy control, management have also begun circulating reports of starters and leavers to Heads of Service on a monthly basis.</p>	H	<p>Ensure that the hierarchy report is circulated on a quarterly basis and remind Heads of Services the importance of positively confirming the accuracy of these.</p> <p>Ensure that reports of starters and leavers are circulated on a monthly basis.</p> <p>We will follow up to ensure all responses are received for March 2015 and that the control has been completed for quarter one of the 2015/16 year.</p>
<b>MANAGEMENT RESPONSE</b>			<b>RESPONSIBILITY AND IMPLEMENTATION DATE</b>
Noted.			<p><i>Responsible Officer: Phil Ruck</i>  <i>Implementation Date: 31 July 2015</i></p>

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Payments are made to employees that do not exist or that are no longer employed by the council

Ref.	Finding	Sig.	Recommendation
2.B	<p>We were unable to test the leavers process as the Council were unable to produce a report of leavers.</p> <p>We discussed the leavers process with both the Business Development Manager and the Systems Accountant, and noted that the current process was disjointed and may result in necessary actions not being completed for every leaver, such as revocation of systems access.</p> <p>This could result in officers not being removed from the payroll on a timely basis or inappropriate access to the Council's key IT systems.</p> <p>Following discussions with management as part of the audit, a new starters and leavers process has been designed, which includes a form which is completed by Midland HR for leavers. The form is automatically sent to Comms and Assets on completion.</p> <p>At the leaving date an email is sent to IT, the Contact Centre and Corporate Support to complete a checklist confirming the close down of IT and phone access. Emails are repeated daily until the tasks are cleared.</p> <p>At the final stage following completion of the above tasks, a prompt is sent to IT to close down the leavers email, this alert is repeated every seven days until complete.</p>	H	<p>Continue to embed the new starters and leavers process which has recently been implemented.</p> <p>We will follow up to ensure this process has been implemented.</p>
<b>MANAGEMENT RESPONSE</b>			<b>RESPONSIBILITY AND IMPLEMENTATION DATE</b>
Agreed. We have put in place a new process since the inception of this report			<p><i>Responsible Officer: Phil Ruck</i></p> <p><i>Implementation Date: 31 July 2015</i></p>

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Payroll expenditure is not accurately recorded on the ledger			
Ref.	Finding	Sig.	Recommendation
6.A	<p>We reviewed a sample of three payroll reconciliations to the ledger.</p> <p>In all three cases the reconciliation had not been completed within a month of month end, additionally none of the reconciliations showed evidence of review.</p> <p>This could result in payroll expenditure not being accurately recorded on the ledger, or issues not being identified and dealt with on a timely basis.</p> <p>Through discussions with the HRA accountant we identified that there had been some issues with the coding of payroll expenditure from Midland HR, resulting in some reconciling differences . These had mostly been resolved by year end, but some issues remained with the smaller areas such as staff receiving maternity pay.</p>	L	<p>We recommend that the payroll control account reconciliation is undertaken within one month of month end.</p> <p>The reconciliation should be initialled and dated by the reviewer to evidence review.</p> <p>The finance team should continue to work with Midland HR to resolve the remaining coding issues.</p>
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
Agreed		<p><i>Responsible Officer: Phil Ruck</i></p> <p><i>Implementation Date: 30 September 2015</i></p>	



# APPENDIX I - STAFF INTERVIEWED

NAME	JOB TITLE
Phil Ruck	Business Development Manager
Phoebe Barnes	HRA Accountant
Chris Houghton	Systems Accountant
Danielle Blayney	Project Management Administrator
Victoria Banerji	Project Management Administrator
Caroline McCaffrey	Planning Development Management
Gary O'Shea	Principle Licensing Officer
David Carter	Environmental Health Manager
Carol Tatton-Bennett	Electoral Services Manager

BDO LLP appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and cooperation.

# APPENDIX II - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
<b>Substantial</b>	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
<b>Moderate</b>	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
<b>Limited</b>	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
<b>No</b>	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

Recommendation Significance	
<b>High</b>	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
<b>Medium</b>	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
<b>Low</b>	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

# APPENDIX III - TERMS OF REFERENCE

## BACKGROUND

From April 2014 the Council's payroll function was outsourced to Midland HR. Since then the supporting HR services have been steadily transferred to Midland HR, and this is expected to be fully transferred by January 2015.

The contract runs until 2017 and is managed by the Contract and Corporate Projects Manager.

## PURPOSE OF REVIEW

The purpose of the review is to ensure there is sufficient levels of control within the payroll and expenses processes, whilst also ensuring the process is efficient and not over controlled.

Our review will also consider the processes and controls in place over the transfer of data to the midland HR systems, and the budgetary reporting of payroll costs.

## KEY RISKS

Based upon the risk assessment undertaken during the development of the internal audit operational plan, through discussions with management, and our collective audit knowledge and understanding, the key risks associated with the area under review are:

- Payroll data has not been transferred accurately and completely to the Midland HR system
- Payments are made to employees that do not exist or that are no longer employed by the council
- Unauthorised changes or temporary adjustments are made to payroll standing data
- Expenses paid are unauthorised or inappropriate
- Deductions are made at the incorrect rates
- Payroll expenditure is not accurately recorded on the ledger
- Costs are not allocated to the correct budget holder or reporting of expenditure is incomplete.

# APPENDIX III - TERMS OF REFERENCE

## SCOPE OF REVIEW

The review will consider the following areas:

- The controls and processes in place to transfer payroll data to Midland HR
- The controls over starters and leavers, as well as any establishment controls
- The processes and authorisation controls over changes to standing payroll data, also covering temporary changes such as overtime
- Controls over the authorisation of employee expenses
- Controls in place to ensure deductions to payroll such as income tax are calculated correctly
- The importing and reconciling payroll expenditure to the main financial system
- The processes for allocating and reporting employee time and cost to budget holders.

## EXCLUSIONS

Our work will be restricted to the areas of consideration within our scope of the review.

## APPROACH

Our approach will be to conduct interviews to establish the controls in operation for each of our areas of audit work. We will then seek documentary evidence that these controls are designed as described. We will evaluate these controls to identify whether they adequately address the risks. Testing of the effectiveness of controls will be carried out where appropriate.

## MANAGEMENT COMMENTS

No management comments have been raised regarding the areas under review.

## LOCATIONS

Fieldwork will be performed exclusively at Brentwood Borough Council offices.

# APPENDIX III - TERMS OF REFERENCE

## DOCUMENTATION REQUEST

Please provide the following documents in advance of our review (where possible):

- Current payroll process reference material for the midland HR system
- Report of officers' job titles and authorisation levels
- Access to approval for delegated authority
- Documentation on the process for allocating and reporting payroll expenditure to budget holders.

Any documents provided will assist the timely completion of our fieldwork, however we may need to request further documentation and evidence as we progress through the review process.


## KEY CONTACTS

### BDO LLP

Greg Rubins	Audit Partner	e: Greg.Rubins@bdo.co.uk t: +44 (0)23 8088 1892
Liana Nicholson	Audit Manager	e: Liana.Nicholson@bdo.co.uk t: +44 (0)1473 320 715
Richard Haynes	Senior Auditor	e: Richard.Haynes@bdo.co.uk t: +44 (0)1473 320 794
Leon Penwill	Audit Assistant	e: Leon.Penwill@bdo.co.uk T: +44 (0)1473 320 739

### BRENTWOOD BOROUGH COUNCIL

Phil Ruck	Contract and Corporate Projects Manager	e: philip.ruck@brentwood.gov.uk t: +44 01277 312569
-----------	---	--



BDO LLP, a UK limited liability partnership registered in England and Wales under number OC305127, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. A list of members' names is open to inspection at our registered office, 55 Baker Street, London W1U 7EU. BDO LLP is authorised and regulated by the Financial Conduct Authority to conduct investment business.

BDO is the brand name of the BDO network and for each of the BDO Member Firms.

BDO Northern Ireland, a partnership formed in and under the laws of Northern Ireland, is licensed to operate within the international BDO network of independent member firms.

Copyright ©2015 BDO LLP. All rights reserved.

[www.bdo.co.uk](http://www.bdo.co.uk)

