

Cumbria Shared Internal Audit Service

Internal Audit Report for Cumbria Constabulary & OPCC



Audit of Payroll

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Audit Resources

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Audit Report Distribution

For Action:	Ann Dobinson, Head of Central Services Alison Hunter, Payroll and Transactional Services Manager
For Information:	Michelle Bellis, Deputy Chief Finance Officer Roger Marshall, Joint Chief Finance Officer Stephen Kirkpatrick, Director of Corporate Support
Audit Committee	The Joint Audit & Standards Committee, which is due to be held on 20 th March 2019, will receive the report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Audit Manager.

Cumbria Shared Internal Audit Service

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Executive Summary

1. Background

- 1.1. This report summarises the findings from the audit of Cumbria Constabulary and Office of the Police Crime Commissioner's (OPCC) payroll. This was a planned audit assignment which was undertaken in accordance with the 2018/19 Audit Plan.
- 1.2. The payroll processing function is undertaken by the Central Services Department (CSD). The department currently administers the monthly salaries of approximately 1960 Constabulary officers and staff and 18 OPCC staff.

2. Audit Approach

2.1. Audit Objectives and Methodology

- 2.1.1. Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems. A risk based audit approach has been applied which aligns to the five key audit control objectives which are outlined in section 4; detailed findings and recommendations are reported within section 5 of this report.

2.2. Audit Scope and Limitations

- 2.2.1. The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsor for this review was the Head of Central Services. The agreed scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control in the following areas:
 - Monthly reconciliation processes;
 - Processes around the payment of Unsocial Hours and TOIL.

This audit focused on the work undertaken by the Central Services Department from the point at which records are passed to them for processing. It did not look at the Duty Management System or the role of Finance in verifying TOIL information prior to authorisation.

2.2.2. There were no instances whereby the audit work undertaken was impaired by the availability of information.

3. Assurance Opinion

3.1. Each audit review is given an assurance opinion and these are intended to assist Members and Officers in their assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A**.

3.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within Cumbria Constabulary and OPCC payroll provide **substantial** assurance.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4. Summary of Recommendations, Audit Findings and Report Distribution

4.1. There are three levels of audit recommendation; the definition for each level is explained in **Appendix B**.

4.2. There is **one** audit recommendation arising from this audit review and this can be summarised as follows:

Control Objective	No. of recommendations		
	High	Medium	Advisory
1. Management - achievement of the organisation's strategic objectives	-	-	-
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts (see section 5.1)	-	-	1
3. Information - reliability and integrity of financial and operational information (see section 5.2)	-	-	-
4. Security - safeguarding of assets	-	-	-
5. Value - effectiveness and efficiency of operations and programmes	-	-	-
Total Number of Recommendations	-	-	1

4.3. **Strengths:** The following areas of good practice were identified during the course of the audit:

- Monthly payroll deadlines have been established, communicated to all staff and are adhered to.
- The Team Leader monthly checklist has hyperlinks to completion procedures / guidance.
- Monthly payroll reports received from Midland Trent are checked to the monthly reconciliation spreadsheet prior to the reports being authorised and returned to Midland for processing.
- BACS authorisation reports received from Midland are signed by the Payroll & Transactional Services Manager or the Employee Services Team Leader as evidence of checking and payment authorisation.
- Procedures for processing Unsocial Hours and TOIL payments have been written and are available to all staff.
- Unsocial hours report is downloaded monthly from the Duty Management System (DMS) and hours paid the month after they were earned. In addition, the report is re-run the following month to check for any adjustments. Any under or over payments are then made and are clearly shown on the employees monthly payslip.
- Checks on payment eligibility for claims made by an Officer above the rank of Sergeant are undertaken and manually input to ensure the correct hourly rate is paid.

4.4. **Areas for development:** Improvements in the following areas are necessary in order to strengthen existing control arrangements:

4.4.1. *High priority issues:* None identified.

4.4.2. *Medium priority issues:* None identified.

4.4.3. *Advisory issues:*

- The Monthly Payroll Tasks check list does not clearly identify tasks which require a second check

Comment from the Director of Corporate Support & Joint Chief Finance Officer

I am delighted that the 2018 review of the Payroll function has again provided Substantial assurance and that there is only one advisory level recommendation made. The audit has again provided reassurance that the Constabulary has an excellent approach to the provision of Payroll services which effectively supports and enables the organisation to provide robust, reliable and effective remuneration for all employees.

The audit identified numerous areas of good practice, which is a credit to all staff involved in the Payroll function. I am pleased that the audit

highlighted the strong governance and oversight of the procedures and systems in place, specifically around the areas of TOIL and unsocial hours etc. The one advisory recommendation of updating the check list to clearly identify tasks that need a second check has now been addressed.

The findings of this audit are extremely encouraging and recognise the excellent work undertaken regarding Payroll services, specifically within the Central Services Department.

Stephen Kirkpatrick – Director of Corporate Support

I am pleased to note the very positive results of the internal audit review of payroll. This is a critical function, which often doesn't get recognition, but has been consistently managed well over a number of years. It is a testament to the diligent work of Ann Dobinson and her team that the service continues to perform well and internal audit are able to provide a conclusion of substantial assurance in the recent audit. Thanks to all involved.

Roger Marshall – Joint Chief Finance Officer

Management Action Plan

5. Matters Arising / Agreed Action Plan

5.1. Regulatory - compliance with laws, regulations, policies, procedures and contracts

● **Advisory issue**

Audit finding	Management response
<p>(a) Monthly Payroll Tasks Checklist</p> <p>Admin Officers complete a 'monthly payroll tasks checklist' to show when tasks have been completed and by whom. The checklist includes a column for 'payslips checked'. We were advised that only certain tasks on the checklist require a payslip check to be undertaken by a second member of staff. However, it is not clear which tasks require this additional check.</p>	<p>Agreed management action:</p> <p>The monthly checklist has been amended to clearly identify which tasks do not require a payslip check as part of the payroll process. There are some processes that do not directly affect the payslip or are as a result of a file upload, these have their own individual process checks. Payroll staff were aware of which checks are required, the amendment to checklist now provides greater clarity for audit purpose.</p>
<p>Recommendation 1:</p> <p>The monthly payroll tasks checklist should clearly show which tasks must be second checked.</p>	<p>This action was implemented following the audit visit.</p>
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> Checks required are not carried out. 	<p>Responsible manager for implementing: Payroll & Transactional Services Manager Date to be implemented: Dec 2018</p>

Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The controls tested are being consistently applied and no weaknesses were identified.</p> <p>Recommendations, if any, are of an advisory nature in context of the systems and operating controls & management of risks.</p>
Reasonable	There is a reasonable system of internal control in place which should ensure that system objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed.</p> <p>Recommendations are no greater than medium priority.</p>
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.	<p>There is an unsatisfactory level of internal control in place as controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>Recommendations may include high and medium priority matters for address.</p>
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist. Recommendations will include high priority matters for address. Some medium priority matters may also be present.</p>

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below.

		Definition:
High	●	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	●	Some risk exposure identified from a weakness in the system of internal control
Advisory	●	Minor risk exposure / suggested improvement to enhance the system of control

Recommendation Follow Up Arrangements:

- High priority recommendations will be formally followed up by Internal Audit and reported within the defined follow up timescales. This follow up work may include additional audit verification and testing to ensure the agreed actions have been effectively implemented.
- Medium priority recommendations will be followed with the responsible officer within the defined timescales.
- Advisory issues are for management consideration.