



NOTTINGHAM CITY HOMES

## REVIEW OF THE PAYROLL ARRANGEMENTS

<b>Report issued:</b>	May 2009
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<b>Audit Plan:</b>	2009/10
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The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

Business Assurance

# Review of the Payroll Arrangements

## - EXECUTIVE SUMMARY -

### INTRODUCTION

1. TIAA has reviewed the Payroll arrangements at Nottingham City Homes. The review was carried out in (April 2009 as part of the planned internal audit work for 2009/10.

### SUMMARY

2. Two Key Risk Control Objectives were identified and tested and based on the findings from this work an overall evaluation of the overall adequacy of the internal controls was established (figure 1 below).

*Figure 1 - Evaluation of the Effectiveness of the Internal Controls*

System	Evaluation
Payroll	Limited Assurance

### KEY FINDINGS

3. The following significant matters were identified which need to be addressed in order to strengthen the control environment.
  - There are no documented procedures in place for the payroll processes.
  - The payroll department at NCC do not hold a list of authorised signatories for mileage claims.
  - Severance packages awarded within the previous 12 months were due to the Company restructure. There was no separate authorisation in place for the granting of these packages.
  - Analysis of the user access rights to the Payroll system showed that there are seven employees who have left the Company and one employee who is on secondment from the Human Resources Department to the Windows Project Team who still have active payroll user ID's set up.

### OPERATIONAL EFFECTIVENESS MATTERS

4. The principal purpose of the review was to assess the effectiveness of the internal control arrangements in mitigating against risk. No Operational Effectiveness action points were identified.

### MANAGEMENT RESPONSES

5. Effective implementation by management of the recommendations made in this report is important for the maintenance of a reliable internal control system. Recommendations for improvements should be assessed by the Organisation for their full impact before they are implemented. Management responses have been received for all the recommendations made in this review.



**MANAGEMENT ACTION PLAN**

Para. Ref.	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
19.2	A full review of access rights to the payroll system be undertaken.	1	<i>A review of access rights is currently being undertaken.</i>	<i>End July 2009</i>	<i>Mary Mayes – Head of HR</i>
16.3	The payroll procedures relating to Nottingham City Homes processes be documented.	2	<i>Starter/Leaver and Variations to contract will be a priority. Other procedures such as system, establishment and annual pay/incremental increases will follow. Draft to be available by end August 2009.</i>	<i>End of December 2009</i>	<i>Mary Mayes – Head of HR</i>
16.6	The Payroll department at Nottingham City Council be provided with a list of authorised signatories for mileage claims.	2	<b>COMPLETE.</b> <i>Authorised Signatories for all NCH officers (i.e. those included in the Financial Regulations – FAM - 8.2.5) are provided to the City Council annually and as and when new starters join the Company.</i>	<i>N/A</i>	<i>Darren Phillips – Head of Finance (Company)</i>
16.7	All future severance packages be authorised in line with the Financial Regulations.	2	<i>Agreed.</i>	<i>Immediate</i>	<i>Mary Mayes – Head of HR</i>

**PRIORITY GRADINGS**

1	URGENT	fundamental control issue on which action should be taken immediately.
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2	IMPORTANT	control issue on which action should be taken at the earliest opportunity.
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3	ROUTINE	control issue on which action should be taken.
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Para. Ref.	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
16.1	A Payroll Policy, which is cross-referenced to the Finance business plan and Finance risk register, be adopted.	3	<b>COMPLETE.</b> <i>Addressed in the Company's new Payroll Policy which has been communicated to key officers and made available to all staff on the Intranet.</i>	<i>End of July 2009</i>	<i>Darren Phillips – Head of Finance (Company)</i>
16.2	The risks of the failure or delay in paying staff, failure to eliminate leavers and of bogus employees be considered at the next review of the risk register.	3	<i>Not Agreed.</i> <i>Adequate and effective controls, actions and procedures are in place to mitigate these risks and no weaknesses have been identified, internally or by the Company's internal or external auditors, to suggest they require monitoring in risks registers.</i>	<i>N/A</i>	<i>N/A</i>
16.4	An ongoing training programme for staff involved in payroll be introduced to ensure staff keep abreast of the organisation's procedures and any changes in legislation.	3	<i>Payroll/Finance will need to inform HR of any legislative changes which will impact on HR procedures.</i> <i>HR Administrators currently being recruited to, training will commence as soon as practicable once employment commences.</i>	<i>End of November 2009</i>	<i>Mary Mayes – Head of HR</i>
16.5	Car mileage claim forms be amended to make reference to Nottingham City Homes and not Nottingham City Council.	3	<b>COMPLETE.</b> <i>Form has been updated and amended on the Company's Intranet site.</i>	<i>Immediate</i>	<i>Darren Philips Head of Finance (Company)</i>

PRIORITY GRADINGS

1	URGENT	fundamental control issue on which action should be taken immediately.
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3	ROUTINE	control issue on which action should be taken.
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Para. Ref.	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
16.8	Rules be established in relation to a maximum time after which a travel and subsistence claim will not be processed.	3	<b>COMPLETE.</b> <i>This has been included in both the Company's new Payroll Policy and draft Employee Expenses Policy.</i>	August 2009	<i>Darren Philips Head of Finance (Company)</i>
19.1	It be reinforced to employees to record whether they are an essential/casual/occasional car user on mileage claim forms and for mileometer readings to be recorded.	3	<b>COMPLETE.</b> <i>This has been included in the draft Employee Expenses Policy.</i>	August 2009	<i>Darren Philips Head of Finance (Company)</i>

PRIORITY GRADINGS

1	URGENT	fundamental control issue on which action should be taken immediately.
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**OPERATIONAL EFFECTIVENESS MATTERS**

Para. Ref.	Item	Management Comments
	<b>No Operational Effectiveness Matters were raised.</b>	

ADVISORY NOTE

Operational Effectiveness Matters need to be considered as part of management review of procedures, rather than on a one-by-one basis

## SCOPE AND LIMITATIONS OF THE REVIEW

6. The objective of the review was to assess the effectiveness of the key risk controls which provide assurance that the Payroll system is operated in accordance with the organisation's requirement.
7. The review considers the creation, amendment and deletion of payroll records; payment of allowances and pay awards; and payment of salaries. The scope of the review does not include determination of salary scales, appointment and removal of staff, severance payments or reimbursement of travel and subsistence expenses, or pension arrangements.
8. The responsibility for a sound system of internal controls rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that may exist. Neither should internal audit work be relied upon to identify all circumstances of fraud or irregularity, should there be any, although the audit procedures have been designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control may not be proof against collusive fraud.
9. For the purposes of this review reliance was placed on management to provide internal audit with full access to staff and to accounting records and transactions and to ensure the authenticity of these documents.

## ASSESSMENTS OF THE KEY RISK CONTROL OBJECTIVES

10. Details of the two Key Risk Control Objectives that were reviewed and the individual assessments of the effectiveness of the control arrangements are shown below (figure 2 below).

*Figure 2 - Summary of the Evaluations of the Key Risk Control Objectives*

Risk	Control	Assurance Assessment
Failure to direct the process through approved policy & procedures.	Arrangements in place provide for compliance with established policies, procedures, laws and regulations.	<b>Limited Assurance</b>
Losses arising from unauthorised action by staff.	Arrangements in place provide for safeguarding the organisation's assets and interests from avoidable losses.	<b>Limited Assurance</b>

11. This review identified and tested the controls that are being operated by the Organisation and an assessment of the combined effectiveness of the controls in meeting each of the Key Risk Control Objectives is provided. Internal controls can only provide reasonable and not absolute assurance against misstatement or loss. The limitations on assurance include the possibility of one or more of the following situations, control activities being circumvented by the collusion of two or more persons, human error, or the overriding of controls by management. Additionally, no assurance can be provided that the internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks that may arise in future. The assessments, which are based solely on the audit carried out are:

**Substantial Assurance**      robust series of internal controls in place which should ensure continuous and effective achievement of the control objective.

**Reasonable Assurance**      reasonable number of internal controls in place. however may

not be operated all the time.

**Limited Assurance**

the controls in place are not sufficient to ensure the continuous and effective achievement of the control objective.

**No Assurance**

fundamental breakdown or absence of core internal controls.

**MATERIALITY**

12. There were 799 non Contract Services employees on the payroll system at the time of the audit review.

**RELEASE OF REPORT**

13. The table below sets out the history of this report.

Date draft report issued:	15 <sup>th</sup> May 2009
Date management responses recd:	14 <sup>th</sup> August 2009
Date final report issued:	19 <sup>th</sup> August 2009

- DETAILED REPORT -

<b>14. Risk</b>	Failure to direct the process through approved policy & procedures.		
<b>Risk Control Objective</b>	Arrangements in place provide for compliance with established policies, procedures, laws and regulations.	<b>Evaluation</b>	From the review of the documentation and tests carried out the Control Evaluation is:  <b><u>Limited Assurance</u></b>

15. The following matters were identified in reviewing the Key Risk Control Objective:
- 15.1 There is currently no Payroll Policy in place. (Recommendation 16.1 refers).
  - 15.2 Financial Regulations dated May 2008 make reference to the responsibilities for payroll.
  - 15.3 The risks specifically relating to Payroll have not been included within the Company's risk register. (Recommendation 16.2 refers).
  - 15.4 The setting up of payroll records is performed by Nottingham City Homes Human Resources department and the preparation and release of the payroll is performed by Nottingham City Council.
  - 15.5 The day to day management of the payroll process is currently performed by the Management Information Officer. This is an interim measure and the duties are to be passed over to Human Resources Administrator whose job description makes reference to the notification to Payroll Services of all new starters, leavers and variations to contract, sickness absence etc which require payroll action. There are no documented procedures in place for the payroll processes. (Recommendation 16.3 refers).
  - 15.6 There is currently no training program in place for the payroll processes. (Recommendation 16.4 refers).
  - 15.7 A full reconciliation is completed monthly by the Management Information Officer of the employees on the payroll report to those held in the HR database. The payroll procedures and computer systems programs do not permit payment to any employee unless an authorised post is recorded.
  - 15.8 Honorariums are authorised by the Director of the Service, the Head or Director of Finance and the Human Resources Manager and are reviewed every three months. There is no requirement for any other allowances to be periodically reviewed.
  - 15.9 Standard forms are used for claiming car mileage expenses, which are available on the Company's intranet site. A clear statement that the claim is for expenses/mileage actually carried out and also that it is in accordance with the approved scheme/rates is on the claim form, which has to be signed by the claimant. It was noted that three slightly different claim forms were in use by Company employees and all make reference to the Council (NCC) rather than the Company (NCH). (Recommendation 16.5 refers).
  - 15.10 Mileage claims are sent to the Payroll department at NCC who process the claim and pay through the payroll system. The mileage rates were last reviewed in December 2008. The payroll department at NCC have not been provided with a list of authorised signatories for mileage claims. (Recommendation 16.6 refers).

- 15.11 There are no rules in place as to how frequently Travel and Subsistence claims can be submitted or a maximum time after which a claim will not be processed. (Recommendation 16.8 refers).
- 15.12 The payroll function is carried out by Nottingham City Council as part of the Finance Services SLA. This is currently under review and is to be reproduced as a separate Payroll SLA.
- 15.13 Changes to payroll records are requested by the Management Information Officer, HR Advisors and the Senior HR Advisor. These are entered onto the Payroll Manager Diary and are actioned by the Payroll Department at Nottingham City Council.
- 15.14 There are five BACS payments cards held by the Payroll section at Nottingham City Council, one by the Payroll Manager and four by the Technical Team. Access to the BACS system is password protected with each having an individual user ID.
- 15.15 The Payroll Manager at NCC checks and signs off the pay run before release. This check includes a comparison of the number of employees and the total value to the previous payroll.
- 15.16 Severance packages awarded within the previous 12 months were due to the Company restructure. There was no separate authorisation in place for the granting of the packages. The Financial Regulation state that "All amendments to weekly or to monthly pay and all information regarding appointments, terminations, resignations and other circumstances affecting the remuneration of employees shall be authorised by the Director of Organisational Development." There is now authorisation in place for any packages over £20,000. (Recommendation 16.7 refers).

16.	Recommendations:	Priority
16.1	<b>A Payroll Policy, which is cross-referenced to the Finance business plan and Finance risk register be adopted.</b>	3
16.2	<b>The risks of the failure or delay in paying staff, failure to eliminate leavers and of bogus employees be considered at the next review of the risk register.</b>	3
16.3	<b>The payroll procedures relating to Nottingham City Home processes be documented.</b>	2
16.4	<b>An ongoing training programme for staff involved in payroll be introduced to ensure staff keep abreast of the organisation's procedures and any changes in legislation.</b>	3
16.5	<b>Car mileage claim forms be amended to make reference to Nottingham City Homes and not Nottingham City Council.</b>	3
16.6	<b>The Payroll department at Nottingham City Council be provided with a list of authorised signatories for mileage claims.</b>	2
16.7	<b>All future severance packages be authorised in line with the Financial Regulations.</b>	2

<b>16.8 Rules be established in relation to a maximum time after which a travel and subsistence claim will not be processed.</b>	<b>3</b>
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<b>17. Risk</b>	Losses arising from unauthorised action by staff.		
<b>Risk Control Objective</b>	Arrangements in place provide for safeguarding the organisation's assets and interests from avoidable losses.	<b>Evaluation</b>	From the review of the documentation and tests carried out the Control Evaluation is:  <p style="text-align: center;"><u>Limited Assurance</u></p>

18. The following matters were identified in reviewing the Key Risk Control Objective:

**Risk: The payroll is not reconciled to personnel records which may result in unauthorised or incorrect payroll records being set up.**

18.1 At the time of the audit review there were no employees who did not have a National Insurance Number or had a temporary number.

18.2 The payroll runs before and after the last annual pay award were reviewed to ensure that the last pay award had been correctly implemented. All were found to have had the standard percentage increase applied.

18.3 The dates of all starters and leavers within the previous 12 months were confirmed between the HR and payroll systems.

**Risk: Changes to pay details are not independently checked and authorised which may lead to erroneous and/or unauthorised payments being made.**

18.4 Analysis of a sample of mileage claim forms showed that it is not always recorded whether the claimant is an essential/casual/occasional car user and that mileometer readings are not always recorded. (Recommendation 19.1 refers).

**Risk: Ineffective security and failure to review standard control reports may lead to unauthorised payments being made with consequential financial loss to the organisation.**

18.5 A list of system users who have access to the payroll system was obtained from IT Projects at Nottingham City Council. Analysis of this showed that there are seven employees who have left the Company and one employee who is on secondment from the Human Resources Department to the Windows Project Team who still have active payroll user ID's set up. The employees who have left are: - 1122780A, 3050198A, 3050227A, 3050292A, 3014629A. Also Ben Lavin and Nicola Bilton who were both agency staff. The employee who is secondment is 1104507A. (Recommendation 19.2 refers).



<b>19. Recommendations:</b>	<b>Priority</b>
<b>19.1 It be reinforced to employees to record whether they are an essential/casual/occasional car user on mileage claim forms and for mileometer readings to be recorded.</b>	<b>3</b>
<b>19.2 A full review of access rights to the payroll system be undertaken.</b>	<b>1</b>

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