



NOTTINGHAM CITY HOMES

REVIEW OF THE CONTRACT SERVICES PAYROLL ARRANGEMENTS

Report issued:	October 2009
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Audit Plan:	2008/09
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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 Contract Services Payroll arrangements at Nottingham City Homes. The review was carried out in February 2009 as part of the planned internal audit work for 2008/09.

SUMMARY

2. One Key Risk Control Objective was 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.
 - No documented authority could be found for the severance packages awarded to contract services staff in the previous 12 months.
 - There are no documented procedures in place for the input, checking and processing of the weekly timesheets.
 - No confirmation is obtained of the continuing entitlement to ongoing allowances by the operatives.

OPERATIONAL EFFECTIVENESS MATTERS

4. The principal purpose of the review was to assess the effectiveness of the internal control arrangements in mitigating against risk. Operational Effectiveness action points were identified and opportunities for enhancements to the current arrangements are set out in the Operational Effective management action plan.

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 Company 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	The documented authority for the severance packages be found and retained with the minutes of the appropriate committee.	1	<i>Agreed.</i>	<i>Immediate</i>	<i>Mary Mayes – Head of HR</i>
19.3	The payroll department at NCC be provided with a list of authorised signatories for travel and subsistence claims.	2	COMPLETE. <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>
16.1	A Contract Services payroll policy, which is cross-referenced to the Finance business plan and Finance risk register, be adopted.	2	COMPLETE. <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</i>	<i>Simon Martin – Head of Finance (Property)</i>
16.2	The Contract Services payroll procedures be documented.	2	<i>Agreed.</i>	<i>End of March 2010</i>	<i>Simon Martin – Head of Finance (Property)</i>
19.1	Confirmation should be obtained on an annual basis of continuing entitlement to ongoing allowances.	2	<i>Agreed.</i>	<i>End of September 2009</i>	<i>Jenefer Irving – Payroll Supervisor</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	issue on which action should be taken.
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OPERATIONAL EFFECTIVENESS MATTERS

Para. Ref.	Item	Management Comments
	No Operational Effectiveness Matters were identified.	

ADVISORY NOTE

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

- DETAILED REPORT -

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 Company'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.	Reasonable Assurance
Losses arising from unauthorised action by staff.	Arrangements in place provide for safeguarding the organisation's assets and interests from avoidable losses.	Limited Assurance

11. This review identified and tested the controls that are being operated by the Company 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. The actual spend on Property Services payroll in the current year is £15,840,808 against a revised forecast of £15,540,466. There were 500 employees on the Property Services payroll run for w/e 18th January 2009.

RELEASE OF REPORT

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

Date draft report issued:	24 th March 2009
Date revised draft report issued:	16 th September 2009
Date management responses recd:	2 nd October 2009
Date final report issued:	2 nd October 2009

- DETAILED REPORT -

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

15. The following matters were identified in reviewing the Key Risk Control Objective:
- 15.1 There is no payroll policy in place for the Company. (Recommendation 16.1 refers).
 - 15.2 The Financial Regulations dated May 2008 make reference to the fact that the Director of Finance, ICT and Governance is responsible for the payment of wages and salaries.
 - 15.3 Works order tickets are scanned into the system, which generates a temporary wage sheet for the operatives based on the schedule of rates for the works orders completed. This is compared to the manual timesheets that are completed by the operatives and authorised by the team leaders. The amount of wages paid is based on the items recorded on the timesheet. Any reasons for lost time, non-productive time, sickness, holidays, meetings, etc. are recorded on the timesheet. Any differences identified are reported back to the operatives to investigate. The Payroll Supervisor of Finance Assistants can make subsequent amendments to wages.
 - 15.4 The Payroll Supervisor, who is supported by two Finance Assistants, manages the input and checking of the timesheets for the weekly paid Contract Services operatives. There are no documented procedures in place relating to the processing of weekly timesheets of the Contract Services operatives. (Recommendation 16.2 refers).
 - 15.5 The Company's risk register does not make reference to the risks relating to: -
 - Failure or delay in paying staff
 - Failure to eliminate leavers
 - Bogus Employees

This had been raised during the previous Payroll audit completed by TIAA. The management response to this recommendation was that "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".
 - 15.6 No reporting or KPIs have been agreed with the Board/Committee for the Contract Services payroll service. Discussions with the Head of Finance (Company) identified that the SLA in place with NCC refers to completing payroll transactions on time,

making pay-overs to HMRC on time and completing/compiling information required for year-end reporting.

- 15.7 There is no separate payroll complaints register in place. Any formal complaints would be dealt with by a grievance through the Human Resources departments. Discussions with the HR Administrations manager identified that there have been no grievances placed which related to payroll issues.

16. Recommendations:	Priority
16.1 A Contract Services payroll strategy, which is cross-referenced to the business plan and risk strategy be adopted.	2
16.2 The Contract Services payroll procedures be documented.	2

17. Risk	Losses arising from unauthorised action by staff.		
Risk Control Objective	Arrangements in place provide for safeguarding the organisation's assets and interests from avoidable losses.	Evaluation	From the review of the documentation and tests carried out the Control Evaluation is: <u>Limited Assurance</u>

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 A listing was obtained of all operatives who were processed on the payroll for 13th February 2009. This showed that there were 425 operatives on the payroll system, which reconciled to the list supplied by Human Resources. All posts have a personal employee number recorded.
- 18.2 All changes made to payroll details are supported by an e-mail or letter from the employee or by a signed mandate for payment of wages/salary form.
- 18.3 The Human Resources Management Information Officer performs the setting up of payroll records. The Human Resources department request a payroll number from the Contract Services Payroll Supervisor. A starter form is sent to and retained by the Payroll Supervisor.

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

- 18.4 Weekly paid employees are paid on the Friday relating to the week two weeks prior. This information must be received by NCC payroll by Tuesday to be paid on the Friday.
- 18.5 Various allowances are paid dependant on the trade of the operative. These include tool allowances, multi skilled allowances and extra responsibilities. Contract Services payroll do not obtain confirmation on at least an annual basis that the staff in receipt of ongoing allowances are still entitled to them. (Recommendation 19.1 refers).
- 18.6 The Payroll Manager at Nottingham City Council 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.
- 18.7 All tax and NI deductions are performed by the Delphi payroll system.
- 18.8 Severance packages were awarded to 24 members of staff in the 12 months to February 2009. Reference has been made to the business case for these redundancies in the minutes of various EMT meetings between May and July 2008 but no formal approval has been provided. (Recommendation 19.2 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.

- 18.9 Delphi is the combined Human resources and payroll system in use by the Company. Access is restricted to Human Resources and Payroll staff at Nottingham City Council.

Risk: Incorrect payments are made or payments are made to the wrong person.

- 18.10 All staff are paid by BACS direct into their bank accounts.
- 18.11 Payslips for operatives are sent out by courier to the Contract Services departments, where they are collected by the operatives.
- 18.12 The Team Leader of the Payroll Technical Team at NCC completes year-end procedures.
- 18.13 Errors are shown on the bank statements, which are reviewed by the Technical Team Assistant. The Payroll Manager of Nottingham City Council or the Service Manager signs this off in his absence.
- 18.14 Payments of deductions to the unions, pensions trust and PAYE are made to the relevant organisations at the same frequency that they are deducted from the wages. All approved by the NCC Payroll Manager or the Service Manager in his absence.
- 18.15 Year end procedures are completed by the Team Leader of the Payroll Technical Team at NCC.



19.	Recommendations:	Priority
19.1	Confirmation should be obtained on an annual basis of continuing entitlement to ongoing allowances.	2
19.2	The documented authority for the severance packages be found and retained with the minutes of the appropriate committee.	1
19.3	The payroll department at NCC be provided with a list of authorised signatories for travel and subsistence claims.	2
