

TAYSIDE FIRE AND RESCUE BOARD**Performance Monitoring Sub-Committee – 29 June 2009****INTERNAL AUDIT REPORT – PAYROLL AND PENSIONS****Report by the Chief Internal Auditor****ABSTRACT**

This report draws attention to the attached internal audit report, containing the action plan, which has been issued to management.

1. RECOMMENDATIONS

The Performance Monitoring Sub-Committee is asked to:

- (i) note the contents of this report; and
- (ii) consider the contents of the attached paper.

2. BACKGROUND

Perth & Kinross Council's Internal Audit undertakes planned audits for Tayside Fire & Rescue Board in line with the approved Service Level Agreement covering 2007/08 to 2009/10. The Internal Audit Reports contain action plans which were agreed with management at the conclusion of the audit and include timescales for the completion of the actions.

As part of the audit plan for 2008/09, the Performance Monitoring Sub Committee is asked to consider the internal audit report 08/049 Payroll & Pensions.

3. PROPOSALS

It is recommended that the Performance Monitoring Sub-Committee notes the findings, agreed actions and timescales within the attached reports.

4. CONSULTATION

The Treasurer of Tayside Fire & Rescue Board has been consulted in the preparation of this report.

5. RESOURCE IMPLICATIONS

There are no resource implications arising from this report.

6. CONCLUSION

This report draws attention to the attached internal audit report.

K WOOLARD
Chief Internal Auditor

Note: No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

Contact Officer: Jackie Clark, Ext. No. 75522, jclark@pkc.gov.uk
Address of Service: Council Building, 2 High Street, PERTH, PH1 5PH
Date: June 2009

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Council Text Phone Number 01738 442573

Internal Audit Report



Internal Audit Report
Tayside Fire and Rescue Board
08/049 & 08/050: Payroll and Pensions
March 2009

Final Report

Corporate Services
Perth & Kinross Council
2 High Street
Perth PH1 5PH

Background and Introduction

This audit was carried out as part of the approved audit plan for 2008/09.

The purpose of the audit was to ensure that Tayside Fire & Rescue Board (TFRB) maintain adequate and appropriate systems and controls in respect of the management of payroll and pensions.

The provision of payroll processing services to TFRB is carried out by Dundee City Council (DCC) under a Service Level Agreement (SLA). The provision of pension services is also provided by DCC, although no SLA is held for this service.

During March 2008, in conjunction with DCC, TFRB replaced their payroll software package to the 'ResourceLink' Payroll module.

In order to arrive at an opinion of the control objectives, the audit included visits to TFRB Headquarters, Blackness Road, Dundee. Interviews were held with relevant staff and the appropriate procedures were tested as appropriate.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of the TFRB Finance Coordinator based at Blackness Road, Dundee during this audit.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A 'control objective' is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective: To ensure that payments of salaries and related costs and deductions from them, are calculated accurately and paid in a timely manner to current employees with deductions paid to the correct organisations.	
Auditor's Comments: Payments in respect of salaries, related costs and deductions are calculated in a timely manner. Salary recharges, including deductions, are reconciled by TFRB to payroll information produced by DCC. DCC are responsible for remitting payments in respect of deductions to the relevant organisations.	
Payroll procedures need some updating in respect of changes made to the payroll software package in March 2008.	
Strength of Internal Controls:	Moderate

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Control Objective: To ensure that the addition and removal of new employees to payroll and pension systems are appropriately authorised and actioned in a timely manner.	
Auditor's Comments: New employee and leaver details are being processed by Finance staff in a timely manner; however the authorisation date on the sampled new start forms were either undated or dated 7 days after employment had commenced. 'Headcount' reconciliations have not been carried out since March 2008 when the new HR module was introduced. Headcount limits could be exceeded or 'ghost employee' records set up if headcount information is not promptly reconciled and checked to supporting evidence. Pension administration is carried out by DCC, but no pension recharge breakdown is provided, nor is there a SLA or procedures for this process.	
Strength of Internal Controls:	Weak

Control Objective: To ensure that all pay and pension records are adequately protected from loss or unauthorised access.	
Auditor's Comments: Good controls were evidenced over the access to pay and pension records. Controls could be improved in relation to monitoring changes to employee bank account details.	
Strength of Internal Controls:	Moderately Strong

Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The

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completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Feedback

Internal Audit welcomes feedback from management, in connection with this audit or with the Internal Audit service in general.

Distribution

This report has been distributed to:

S Hunter, Chief Fire Officer;

J Iannetta, Head of Corporate Services;

J Symon, Treasurer to the Board;

B Hammond, Finance Manager;

L Brown, Committee Officer;

External Audit;

Copy to M Stewart, Head of Finance, Dundee City Council (For Information)

Authorisation

The auditor for this assignment was D McCreadie.

The supervising auditor was D Farquhar.

This report is authorised for issue:

K Woolard
Chief Internal Auditor
Date: 24 March 2009

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Payroll Procedures	Medium
2	Headcount Reconciliation	Medium
3	Changes to Employee Bank Details	Medium
4	Payroll Reconciliation	Low
5	New Start Forms	Medium
6	Pension Administration	Medium
7	Reconciliation of Pension Recharge	Medium
8	Sickness Records	Low

Appendix 2: Action Plan

Action Point 1 - Payroll Procedures

New payroll procedures have been introduced to reflect the needs of the new payroll package which was implemented in March 2008, but the old procedures within the Finance Manual have not been formally superseded.

The documented procedures do not include the need to check supporting documentation before carrying out tasks, for example checking new start forms prior to processing entries. In addition, they lack detail regarding roles and responsibilities, such as stating the job title of the officer responsible for a task. The documented procedures also omit details of their author or their date of approval.

Management Action Plan

TFRB will update the payroll procedures held within the Finance Manual to reflect the needs of the new payroll software package.

The payroll procedures in the Finance Manual will detail the need to check supporting documentation prior to processing entries. The procedures will detail the roles and responsibilities of staff such as stating the job title of the officer responsible for a task.

The procedures will also be dated and identify their author.

Importance:	Medium
Responsible Officer(s):	A Milne, Finance Section Co-ordinator
Lead Service:	TFRB Corporate Services
Date for Completion (Month / Year):	September 2009
Required Evidence of Completion:	Copy of new procedures

Auditor's Comments

Satisfactory

Action Point 2 - Headcount Reconciliation

Reports that facilitate the checking and reconciliation of bona fide employees details against those actually paid had not been produced since the introduction of the new 'Resourcelink' payroll system. This increases the risk that headcount limits could be exceeded and/or 'ghost employee' records could be set up.

The Finance Coordinator at TFRB was able to demonstrate that progress had been made in developing an internal system which will allow headcount reconciliation.

Management Action Plan

TFRB contacted Dundee City Council on 27 November 2008 requesting that a new report be produced which details the information required to allow the checking and reconciliation of headcount. This report is currently being developed.

Once developed, the report will be reconciled by Finance Section staff with supporting documentary evidence.

Importance:	Medium
Responsible Officer(s):	A Milne, Finance Section Co-ordinator
Lead Service:	TFRB Corporate Services
Date for Completion (Month / Year):	March 2009
Required Evidence of Completion:	Sample of actioned reconciliation report

Auditor's Comments

Satisfactory

Action Point 3 - Changes to Employee Bank Details

TFRB payroll systems do not produce an 'exception report' that highlights changes made by TFRB Finance Section staff to the bank account details used to credit an employee's salary.

Without such an exception report there is a risk that salary credits can be incorrectly or fraudulently amended with money paid to the incorrect bank account.

Management Action Plan

TFRB will pursue the development of an exception report that will facilitate the checking of changes made to any employee's bank account details.

As an interim solution, monthly sample checks will be carried out on employees' bank details.

Importance:	Medium
Responsible Officer(s):	A Milne, Finance Section Co-ordinator
Lead Service:	TFRB Corporate Services
Date for Completion (Month / Year):	March 2009
Required Evidence of Completion:	Copy of exception report

Auditor's Comments

Satisfactory

Action Point 4 - Payroll Reconciliation

DCC produce a payroll certificate at the end of every payroll run. This certificate details information such as net salaries, third party deductions and pension deductions.

Audit testing confirmed that TFRB Finance staff verify and reconcile the amount shown on the DCC payroll certificate to their independent financial records. However, the reconciliation documents are not dated or signed to evidence timely reconciliation.

Management Action Plan

TFRB Finance Section will ensure the payroll reconciliation statement is initialled and dated to evidence timely reconciliation.

Importance:	Low
Responsible Officer(s):	B Hammond, Finance Manager
Lead Service:	TFRB Corporate Services
Date for Completion (Month / Year):	February 2009
Required Evidence of Completion:	Copy of an initialled reconciliation statement.

Auditor's Comments

Satisfactory

Action Point 5 - New Start Forms

New start forms include an authorisation section which is signed and dated by two officers independent of the Finance Section. Thirteen of 15 new start forms selected by the Auditor were dated by one of the officers 7 days after the employee commenced employment. In addition, 14 of the forms were undated by the second signatory.

There is a risk that a new employee’s details may be processed by payroll staff prior to the correct level of authorisation being obtained.

Management Action Plan

TFRB Corporate Services will issue a reminder to the relevant parties regarding the timely submission and authorisation of new start forms.

The Finance Section will monitor compliance, ensuring that new start forms are properly authorised and dated prior to the commencement of employment; further reminders will be issued if problems continue.

Importance:	Medium
Responsible Officer(s):	J Iannetta, Head of Corporate Services
Lead Service:	TFRB Corporate Services
Date for Completion (Month / Year):	March 2009
Required Evidence of Completion:	Copy of reminder to relevant parties.

Auditor’s Comments

Satisfactory

Action Point 6 - Pension Administration

The administration and payment of pensions is carried out by Dundee City Council on behalf of TFRB.

No SLA exists that details the agreed roles and responsibilities in relation to this service, such as the responsibilities for applying increases to pensions, ceasing pension payments for deceased pensioners and the maintenance of HM Revenues and Customs requirements. Without clear written procedures, misinterpretations and inconsistencies may occur.

Management Action Plan

TFRB advised that a template has already been developed for a SLA for Pensions Administration and will be agreed and signed shortly. The SLA will detail the roles and responsibilities in relation to this service, such as the responsibilities for applying increases to pensions, ceasing pension payments for deceased pensioners and the maintenance of HM Revenues and Customs requirements.

Importance:	Medium
Responsible Officer(s):	B Hammond, Finance Manager
Lead Service:	TFRB Corporate Services
Date for Completion (Month / Year):	June 2009
Required Evidence of Completion:	Copy of SLA which includes the responsibility for ceasing pensions for deceased pensioners.

Auditor's Comments

Satisfactory

Action Point 7 - Reconciliation of Pension Recharge

No analysis of pension recharges is provided by DCC. TFRB's Finance Manager maintains a monitoring spreadsheet which is used to check the recharge for reasonableness. As no analysis of the pension recharge is provided by DCC there is a risk that an incorrect recharge may be levied.

Management Action Plan

A control will be developed in conjunction with DCC Pensions Section which reports on the reasons for and values of increases and decreases in the pensions recharge figure.

Importance:	Medium
Responsible Officer(s):	B Hammond, Finance Manager
Lead Service:	TFRB Corporate Services
Date for Completion (Month / Year):	June 2009
Required Evidence of Completion:	Report on Pensions Recharge Changes

Auditor's Comments

Satisfactory

Action Point 8 - Sickness Records

Since the introduction of the 'Resourcelink' payroll system, computerised sickness records had not been updated for staff that were known to be taking a career break or known to be leaving the Service. The Finance Co-ordinator advised this was a business decision due to workload pressures caused by the implementation of the new payroll system. Manual sickness records were up to date and could be referred to in case of queries.

Management Action Plan

The sickness module in Resourcelink is now operational and is being used by TFRB staff to record and pay sickness. A problem remains with sickness records relating to Retained Firefighters and a solution to this is being worked out in conjunction with DCC staff.

Importance:	Low
Responsible Officer(s):	Finance Co-ordinator
Lead Service:	TFRB Corporate Services
Date for Completion (Month / Year):	June 2009
Required Evidence of Completion:	Extract from Resourcelink showing that sickness records updated.

Auditor's Comments

Satisfactory

