

Regulatory and Other Committee

Open Report on behalf of Debbie Barnes, Executive Director of Children's Services and People Management

Report to:	Audit Committee
Date:	21 November 2016
Subject:	Internal Audit Progress Report

Summary:

This report gives an update on the actions being taken to address and rectify the issues identified in both the Payroll and Pensions Audits.

Recommendation(s):

That the Committee notes the approach and progress made with the audit actions and identifies any further actions it requires.

Background

This report provides an update on the management actions which have been implemented, following the Internal Audit recommendations made as a result of the audit work during the period 9th July to 12th September 2016.

Overall progress is summarised in the table below. This relates to the key actions in the Payroll and Pension Audit Action Log (which sets out the progress and status on all improvement actions being managed by Serco.) Progress against the Action Log is monitored by LCC People Management on a twice monthly basis, with evidence requested to provide the required assurance.

	Completed	Partially Completed	Monitor	Not implemented	Green	Amber	Red
Initial Payroll Audit	10	1	1	0	11	1	0
Payroll Audit	27	19	0	1	29	18	0
Pensions Audit	26	16	11	0	29	24	0
Total	63	36	12	1	69	43	0

Since presenting to the Audit Committee in September 2016, a significant amount of work has taken place within Serco to further improve the performance of payroll and pensions.

Improvements include the following:

Internal Controls:

- Audit Log Function is enabled. This means that any manual changes to the payroll are recorded and can be analysed and reviewed when required.
- Full review of System Administration roles completed to ensure access is sufficiently restricted and controlled.
- Logs are in place for all starters, movers and leavers to ensure all changes are reflected in the payroll.
- Starter checklists are in place for Corporate payrolls and being launched for Schools in December 2016.
- Further development and training on all housekeeping reports for payroll and pensions undertaken, to ensure that any errors are identified prior to payroll run.

Resources and Personnel:

- Training completed for Payroll and HR Administration Staff on the high volume activities and House Keeping reports.
- Two additional Agresso Experts recruited by Serco to support operational Payroll and Pensions teams, with a particular focus on reviewing 2015/16 payroll and the development of exceptions reports to support payroll checking.
- Skills matrix for the Payroll and Pension service completed, and 1-2-1 meetings to agree Personal Development Plans have taken place with all of the team. This includes identifying specific training required, and any staff retention risks.
- A Communications lead has been appointed by Serco and is developing a plan for re-engaging employees in the Council and the benefits and use of Agresso

Performance Monitoring:

- The overpayments tracker is shared with the Council on a weekly basis to enable officers to monitor progress with identifying and recovering any overpayments in line with Council policy.
- Bi-weekly monitoring of Audit Actions are undertaken by Serco with any exceptions being reported to the Monthly Service Review (Contract) Meeting, and if required, escalated to the Partnership Operations Board.

- New Service Level Agreement agreed with the Council that includes more detailed measures on Payroll and Pension performance. This will be baselined from December 2016 and fully implemented from April 2017.

Summary

These improvements will take time to embed, but there was a reduction in the number of pay advances in October payroll as a result of the improved controls.

Serco have also started to complete 1% spot checks on Corporate Payroll, and there were zero errors in October. The revised KPI's include that a spot check of 1% of the payroll records for each payroll each month will be undertaken. The spot check and other records in addition to self-reporting will be part of the performance verification. The timing of the checks will be as part of the payroll payment cycle so that errors can be picked up proactively.

The Audit work has also highlighted significant areas for improvement leading up to the data arriving in the payroll system. To improve these processes, Serco are undertaking a thorough review of the Starter, Mover and Leaver process, and in September and October have produced a full set of process maps and workflows that detail the exact process flow required within Agresso. Serco are currently developing the 'to be' process and designs in the next 4-6 weeks.

There are a number of Audit Actions due dates that have moved to either end of January 2017 or end of March 2017. These actions all relate to the completion of the Price Waterhouse Cooper's Review of Payroll and Pensions and the production of Employee Pay Statements for 2015/16. A commitment was originally given by Serco to send out pay statements for 2015/16 to all staff by end of October 2016, however this has been delayed in agreement with the Council.

Serco have examined 164,000 payslips as well as reviewing the system to ensure the Pay and Deduction Codes are configured correctly. They have made good progress and have identified both the areas where Agresso is operating correctly and those where further exploration is required. They have also been fixing the system as the review has progressed.

Serco are now in the final stages of completing the investigation and they will then be able to write out to every employee with a pay statement for 2015/16. These letters will be sent out from 30th November through to early 2017. This letter will confirm that an employees pay and their pension contributions are correct for 2015/16 or identify where there are any anomalies that need to be resolved.

Council Contract Management

The Committee requested that costings of the additional time required by the Council to manage the contract be provided. Due to time recording against projects/activities not being in place, this is not possible to provide. However two part time interim HR consultants have been employed to provide capacity needed

to cover for Council officers who are required to spend additional time managing the contract, which was not anticipated. These additional costs are being coded to the Serco service credits.

Conclusion

Members should seek assurance that the control environment of the Payroll and Pensions systems has improved with Internal Audit recommendations being implemented. It is important to acknowledge, however, that there is still significant work to complete, and the improvement in internal controls has been from a low base. The conclusion from the LCC Client is that the financial control environment in respect of payroll remains weak, but it is improving.

Two key areas where action is currently being taken, over and above the audit actions, which will further improve the financial control environment, include the provision of detailed reports to enable LCC to authorise payrolls on a monthly basis and ensuring correct coding of payroll costs into the general ledger.

Consultation

a) Policy Proofing Actions Required

N/A

Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Document title	Where the document can be viewed
Internal Audit Progress Report	

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