



*For All Your Assurance Needs*



**Internal Audit Report**  
**Payroll Interim Audit 2018/19**  
**Date: November 2018**

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### Background and Context

Payroll and the supporting HR Administration function are key financial systems subject to annual audit review - as a minimum though testing of key controls. Payroll delivery is managed by the Council through LCC People Management.

The issues encountered with Payroll since the implementation of Agresso in April 2015 are well known. We have completed a number of in depth audit reviews that have focussed on detailed substantive testing as the control framework has been weak. In June 2018 we were able to issue an audit report with an assurance level of Limited as the combination of system configuration fixes and improved processes demonstrated a positive direction of travel. This mid-year payroll audit has focussed on transactions for the period April to August 2018 to provide an update on progress with actions to strengthen and embed the developing framework of internal controls.

In October 2018 the Council took the decision to extend Serco's contract for support services including HR Administration and Payroll post March 2020 for a further two years. Work on future delivery of services has now moved to implementation of the Agresso programme which has a governance structure chaired by the Chief Executive. The programme includes a number of key developments that are designed to deliver significant improvements for the payroll function including:

- rebuild of the organisational structure – this is the 'backbone' of the Agresso system and will support workflow improvements which provide authorisation control, better reporting for managers and the use of 'proxy' access to give greater flexibility around the entry of variable pay data, a particular benefit for services such as Fire & Rescue
- rebuild of absence processing – to move to the 'standard' module – improved automation of processing and reliability over calculation will reduce the amount of manual intervention needed reducing the risk of error and the time needed for checking
- rebuild of payslips - to meet statutory requirements and make it easier for employees to check their pay and deductions are correct
- data cleansing & mandatory fields – to establish the 'mandatory' fields in Agresso, that information is held in the right place and validate that complete and accurate information is held for employees.

## Background and Scope

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- review of payment and deduction (P&D codes) to reduce the number in use, improve the descriptors and remove those that do not add value to pay calculations.

In conjunction with LCC Serco is working on redesign of e-forms – improving the quality and completeness of information provided and making it easier for managers to complete forms.

In parallel to the Agresso programme work, LCC People Management has a plan of service improvement activities and projects for HR and Payroll services which will further strengthen client oversight arrangements including Payroll service definition and payroll specification documents.

### Scope of Work

The audit reviewed HR Administration and Payroll processes to confirm the controls in place are adequate, including the workarounds / detective controls designed to identify and address known issues. We have undertaken sample testing over transactions to confirm the application and evidencing of controls, and that transactions are bona fide, complete and accurate.

The following areas were included:

- Starters, Pay Changes & Leavers
- Pay & Expense Claims
- Maternity & Sickness Pay
- Exception Reporting & payroll checking arrangements
- Manual 'Workaround' work instructions & evidence
- Payroll payment runs
- Management of overpayments
- Learning from Pay Statements project

## Background and Scope

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We have also followed up progress with other management actions from the 2017/18 Internal Audit report not covered by the activities listed above.

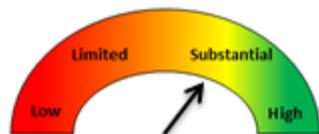
In seeking to provide assurance we have considered the following potential risks:

- Payments are fraudulent or incorrect
- The Council / schools employ unsuitable staff
- Regulatory requirements are not complied with
- Ledger postings are incorrect / incomplete
- Payment runs have not actually been processed or processing is incomplete
- Exception reporting to detect errors is not effective
- Overpayment calculations are inaccurate or records are incomplete
- Access to payroll information or processing is inappropriate

Our review has not included detailed review around processes to provide information to Pension bodies. We are aware of ongoing meetings in this area involving Scheme representatives, Serco and LCC People Management to resolve historic issues and backlogs.

Counter fraud data analysis work is underway to review payroll standing data and payment transactions in 2017/18 and 2018/19. The results of this work will be reported to management and the Audit Committee at the end of the financial year.

## Executive Summary



### Substantial Assurance

Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.

There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.

Risk	Rating (R-A-G)	Recommendations	
		High	Medium
Payments are fraudulent or incorrect	Medium	0	6
The Council / schools employ unsuitable staff	Low	0	0
Regulatory requirements are not complied with	Medium	1	2
Ledger postings are incorrect / incomplete	Low	0	0
Payment runs have not actually been processed / processing is incomplete or incorrect	Low	0	2
Exception reporting to detect payroll errors is not effective	Medium	0	5
Overpayments calculations are inaccurate or records are incomplete	Medium	1	1
Access to payroll information or processing is inappropriate	Low	0	2
<b>TOTAL</b>		<b>2</b>	<b>18</b>

## Executive Summary

### Key Messages



Work completed in our audit for 2017/18 highlighted the developing system and process improvements made by the Serco HR Administration and Payroll teams to begin to address the control issues and errors evident since the implementation of Agresso in April 2015. We are pleased to be able to confirm that these improvements have continued and are becoming embedded in 'business as usual' processes with evidence available to support the controls applied. Of the 25 recommendations made in the previous audit report, 18 are now fully or almost complete and those remaining were of medium priority. Whilst we have identified thirty potential payment errors for further checking by the Serco teams, these are significantly fewer than in the past and reflect a normal level of error. Around a 3<sup>rd</sup> of these were caused by how information has been entered into Agresso by schools and Council officers.

We have therefore moved our assessment of assurance to **Substantial**.

There remain areas where processes and controls need to be further enhanced and strengthened to maintain this positive direction of travel and these are detailed within this report. In some areas this is about ensuring consistency going forward, particularly in fully evidencing the application of controls (e.g. signing off all exception reports). Whilst a number of system configuration changes have been made, ensuring correct payment and deductions in certain elements of payroll such as absence and pensions still involves manual intervention and 'workarounds'. To deliver these consistently, accurately and timely requires adequate resource and skill. It is essential that these resources and checks are maintained whilst development work is continuing through the Agresso programme to rebuild the Agresso system and make the changes that ensure reliable calculation and minimise the manual intervention required.

In summary key areas where we have been able to evidence improvement and sound controls are described below and further detail is included in the next section of the report.

## Executive Summary

### Key Messages



**Starters / Changes / Leavers :** Our review included a 'walkthrough' of the processes to add or amend employee standing data and payment information on Agresso and testing of a total sample of 82 employee records. Supporting information demonstrates manager approval and we confirmed employee details had been entered correctly on the system, and all records had the correct pension scheme applied. Monthly starters, movers, changes and leavers reports are generated by the HR Administration team and used by the Payroll team to check the accuracy and completeness of input.

In September 2018 a Business Support team was set up to support managers in the completion of the forms submitted to Serco HR Administration to set up or amend employee information. This is designed to make the process more efficient by ensuring Serco receive complete and accurate details 'first time' and educate managers on the information needed and where this can be found on Agresso. Going forward, Serco has a project underway to produce electronic forms that will better guide managers on completion by streamlining the information they can select from and making fields on the forms mandatory. The work is being completed in consultation with the Council and will be subject to standard governance approval processes that ensure information is secure and developments subject to change control.

**Pay and Travel expense claims:** Through the variable payments working group the number of claims received for input by the payroll team has been reduced. We were provided with supporting documents for the sample reviewed and our testing confirmed accurate payment and where relevant correct pension deductions.

**Exception Reporting:** this is the most significant control in ensuring payroll accuracy by detecting potential errors before payment is made. A comprehensive set of exception reports are now in place and we have confirmed that the reports are retained and there is clear evidence of the checks completed

## Executive Summary

### Key Messages



and the member of staff completing the check.

These reports are supported by evidenced spot checks on a sample of manual input such as claim forms, unpaid leave, sickness and maternities. Manual calculation of payments and deductions are also completed on five randomly selected payslips for each payroll each month.

In April 2018 the payroll team actioned a number of 'workarounds', essentially a set of reports to identify employee payments where known issues cause errors. The team has maintained a record of the number of employees affected and corrections made, and whilst we had some difficulty in identifying supporting information for the early months, information for July to September was more comprehensive. One of the most significant reports was to detect incorrect Teachers' pension employee deductions where the scheme requirements were not being applied correctly (around the % banding to be applied where there is backpay or a reduction in pensionable pay due to sickness or maternity absence). Our testing has confirmed that this issue is now being addressed and deductions are manually adjusted. Whilst this 'workaround' was not in place for April, the Payroll Pensions team has reviewed records back to this date and made corrections for the current financial year.

**Payroll processing and payment:** Schedules that document the timetable for and completion of all tasks in the end to end payroll input, processing and payment process each month are in place and retained. All lines are being signed off by the appropriate Senior Payroll, HR Administration, Pension and Control Administrators. Reports showing a breakdown of the payments and deductions to be made on each payroll are signed off by Senior Payroll Administrators, the Payroll Lead and by LCC Treasury staff.

**Sickness payments:** The proactive approach taken since February 2018 to check long term absences

### Key Messages



utilising the Absence Transfer report continues to be evident and sickness cases are manually calculated and adjusted as needed. These calculations take into account the specific entitlement rules of different schemes and the Council's approach to calculating SSP payment. Late entry of sickness information which increases the risk of error and overpayment is still evident. The Council and Serco need to continue work on reminding managers and schools of the importance of entering absence information promptly.

**Pension reporting & payslips:** We previously reported that the Pensions contributions report provided to West Yorkshire Pension Fund on the Local Government Pension scheme each month required significant manual intervention to complete. An Agresso consultant has been revising this report and we understand that the latest version tested (September) was returning figures exactly as expected for employees processed through the payroll. The report is now due to go through the formal governance and approval process for use in the live system. Work is also in progress to review and make the necessary changes to employee payslips so that the Council complies with HMRC requirements by April 2019. This includes breaking down payments for an employee's individual jobs making the payslip much easier to understand.

Our work has identified some areas where actions remain outstanding or further work is required to ensure payments are correct, make additional control improvements and help maintain positive assurance:

**Management of overpayments:** the payroll team maintains a tracker of overpayments to assist in monitoring recovery action and for reporting progress to LCC People Management. We looked at the sheet for overpayments identified in the current financial year and identified that the information recorded against each overpayment is not always complete. This makes it difficult to assess the status

## Executive Summary

### Key Messages



and progress with recovery action, the reasons for the overpayment occurring and the period over which the error occurred. We understand the People Services Manager and Payroll & HR Administration Lead are currently in the process of reviewing all details on the tracker covering the period 2015/16 to date. We recommend that priority is given to reviewing and updating the current financial year first as prompt action is needed to maximise the chances of recovery for more recent overpayments. The process for previous years should reconcile to work now completed through the 'Pay Statement' project, closing down entries where recovery is finished.

It is also important to ensure the steps needed to start recovery action are completed on a timely basis, our testing and discussion identified examples where this had been delayed. Additional reconciliation checks recently introduced between payroll and the overpayment tracker should help to identify where recording of overpayments and recovery action are not completed promptly.

**Maternity payments:** we previously reported that employees on maternity leave have not been receiving the increases to Statutory and Occupational payments that they are entitled to when there is a pay increase due to a pay award or increment when they are on maternity leave. This has also been the case for the sample of maternity cases examined that have been in payment during 2018/19. In some cases these individuals have received backpay as if they were at work - an error also identified in 2017/18. Management need to ensure that staff responsible for calculating and checking maternity payments fully understand application of the 'Alabaster' rule and that all maternity cases are reviewed and corrections made to ensure employees have been paid correctly. There needs to be ongoing oversight by the Payroll & HR Administration Lead to ensure review is completed each time annual pay awards are processed.

Whilst there have been checks to confirm that details manually entered into Agresso to make individual

## Executive Summary

### Key Messages



monthly payments are correct, there is no evidence to show that the calculation of maternity payments is double checked prior to the start of payment. As a manual process we would advise this is the case, although our checking of 23 maternities confirmed the original calculations of SMP and OMP were correct.

**Guidance:** there remains a need to expand the written guidance available to team members, particularly to ensure processes and checks completed meet the standards expected and are consistent across the team. We recommend this includes the checks on starters, movers and leavers and exception reporting.

**Access review:** the LCC Strategic Finance Manager - Business World On is progressing work on 'Roles' within the system and system access. Review is designed to ensure users only have the access they need, this complies with Data Protection requirements and the number of 'Roles' in use is streamlined. Whilst to date this has not included the HR Administration and Payroll functions, discussion has confirmed that this is now a priority and review will consider adequate segregation of duties. This is particularly timely as restructure in the HR and Payroll teams may seek to introduce more cross over in work undertaken.

### Historic Issues

Many of the issues we have reported in previous audit reports impacted on employee pay and pension contributions. The 'Pay Statements' project has been ongoing to more fully identify and correct these errors. Significant progress has been made since June 2018 and current plans reflect that employee underpayments, overpayments and rectification through the ledger and with pension providers will be completed by the end of the financial year. The correction of these errors does not impact on assurance around current processes or the internal control framework.

## Executive Summary

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### Key Messages



We would like to thank the staff in Serco Payroll and HR Administration for their time and help with the audit.

## Executive Summary

### Areas of Good Practice



Further evidence of the improvements of processes and sound key controls include:

- Starters / Movers / Changes / Leavers
  - ✓ supporting documents were held on file and there is evidence of appropriate approval from managers either on the forms completed or by email
  - ✓ pay and employee details had been entered correctly onto Agresso
  - ✓ correct pension scheme details were present on all the records we reviewed
  - ✓ evidence is retained to confirm recruitment checks (such as Right to Work, Identity and DBS) have been completed, and copies of supporting documents are retained where appropriate
  - ✓ resignations are supported by letters from employees and there are evidenced checks that all leavers have P45s issued
  - ✓ postings to the general ledger are complete and driven within the system by the employee's post
  - ✓ the HR Administration team generate monthly reports listing Starters, Changes, Movers and Leavers which are used by the Payroll team to check employee records and evidence of this is being retained
  - ✓ team members were able to provide explanations to any queries we had on any anomalies between the information submitted and details on Agresso
- Exception reporting
  - ✓ the system Error & Warnings report is now better understood and the Senior Payroll Administrators check items listed each month
  - ✓ 'highs and lows' reports identify where net pay differences are 30% greater or less than the month before and reports also identify where net pay in the current or previous month was zero
  - ✓ explanations for the differences are recorded on each line of these reports and it is clear from discussion and review of a sample of entries that potential errors are being identified and amended
  - ✓ a number of pension reports highlight where pension information and deductions are missing or need

## Executive Summary

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### Areas of Good Practice



amendment

- Payovers to 3rd parties for deductions from pay continue to be recorded, made timely and reconciled to the ledger and postings in Accounts Payable. Whilst the issues with posting to the suspense account highlighted previously continue, this is now monitored and reconciled by Serco and the LCC Finance team so appropriate adjustments can be made to the accounts at year end.
- The Corporate Finance team reconciles payroll and the general ledger on a monthly basis and monitor other payroll control and suspense accounts.

## Executive Summary

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### Managing your risks



Good risk management, including maintaining risk registers, helps to identify, understand and reduce the chance of risks having a negative impact on the achievement of objectives. The People Management service maintains risk registers around HR and Payroll activities and this audit has not identified any new issues that we felt should be considered for inclusion.

## Management Response

### Management Response



#### **Serco Management Response:**

This is a fair audit and we thank you for your support to work in partnership to produce the action plan for the Internal Audit report. It is encouraging to see that the assurance has moved from "limited" to "substantial" in recognition of the improvements made. The aim is for the Council and Serco to continue to work in partnership to maintain and build on the "substantial" assurance opinion received, and we support the LCC Management response set out below.

#### **LCC Management Response**

The Council Management accepts the findings of the Audit Report and the recommendations for further improvement.

It remains essential that the Council and Serco continue to work in partnership to drive improvements in the payroll control environment. Sustaining high standards for accurate payroll provision remains the single highest priority for the People Management Service.

In line with recent changes: the Council now has full responsibility for the Agresso System as a key enabler to the Payroll and HR Administration Services. The responsibility for technical payroll expertise to deliver the Payroll Service lies with Serco. As such, continued joint partnership working is needed in relation to the remaining improvements required which depend on an integrated approach to people, process and technology.

The Council has recently established the Agresso Programme Board, sponsored by the Chief Executive. All the required system developments relating to Payroll improvements are included in the Programme Deliverables, prioritised into either Phase 1 to be completed by March 19, or into Phase 2 April 19 - March 2020.

## Management Response

### Management Response



The Programme includes a rebuild of the Agresso configuration and the associated business processes will be re-designed in line with the standard configuration. It will be assumed these are on "self-serve" principles wherever this provides more streamlined, efficient activity across the end to end business process. "Self-serve" will be actively promoted where it:

- reduces manual intervention or hand-off of information between people that adds no value to the business outcome.
- empowers the individual to be responsible for their own information and their business activities.
- provides built-in assurance that proper control and authorisation procedures are being followed.

Serco will lead on the development of the work instructions and documentation of all payroll processes and regular updating of these when processes change. Comprehensive training of staff and quality checking of work will continue to be in place to ensure these are understood and followed. The Council will continue to lead on the management of a joint action plan with Serco to progress all outstanding actions identified in this audit or previously.

Additional improvements being implemented by the Client Side include:

1. A review of the Lincolnshire Fire & Rescue Pay and HR processes based on the service requirement to achieve increased internal efficiency and ease of use for both Serco back office and LFR. The project team has been established and work will be carried out over the following months to document and improve process flow of information reduce double entering into multiple systems and assist in improving the knowledge of HR administration and payroll staff.
2. An interim solution has been put in place where the Business Support Team is supporting Managers in Corporate areas to ensure HR Forms are submitted to payroll accurately and on time. This will reduce pressure on the Serco service enabling the payroll team to focus on pay processing and

## Management Response

### Management Response



checks, and thereby reduce potential payroll errors. The Corporate Management Board is monitoring the direction of travel through monthly assessment of volumes of late and incorrect data submitted to Serco, to ensure the provision of targeted support and guidance to Managers. Ongoing analysis of the reasons for errors is enabling the Council to identify where more guidance needs to be provided for managers in how to correctly identify the data they are required to submit. It is recognised that the error rate will reduce as system and process improvements come on line, supported by training of managers.

3. Incorrect and late data continues to be a challenge in schools. There continues to be support provided to schools, regular reminders in the schools newsletter and working jointly with LCC Finance to provide support to Bursars. Serco are attending the next CFT (Current Financial Topics) with the LCC Finance Team to train and educate schools staff in processes and developments.
4. Development of a service definition covering the requirements of the Council and all parties, including Schools and Fire & Rescue Service. This will ensure a detailed understanding of requirements and responsibilities and will also assist in the understanding of third parties such as Pension Administrators.
5. Through the plan of service improvement activities and projects for HR and Payroll services, there will be a further strengthening of the intelligent client for payroll enabling a strengthening of client oversight and monitoring the effectiveness of service delivery.

#### **Other Payroll Improvements – Jointly Developed by LCC/Serco**

Additional to the above, a number of payroll improvement actions identified through earlier audits of payroll are continuing, and will be delivered in parallel with the Agresso programme work. The key

## Management Response

### Management Response



outputs which Serco and LCC will drive forward include:

1. Building revised and fully itemised payslips to comply with new legislative requirements and where applicable, apply best practice before April 2019. This is coupled with revisions to ensure more understandable descriptions of Payment and Deduction codes, so ensuring employees are able to confirm their payments and deductions (particularly for multiple jobs) are correct and data included is complete.
2. HR Forms to be improved and will be supported through the rebuild of the Agresso System. This will ensure a streamlined and more efficient process with significantly reduced errors as it relates to implementing improved electronic HR forms which have mandatory fields which are pre-populated from the system with the relevant employee data. There are still full requirements of Serco Payroll within the Starter, Mover and Leaver process, to act as gate-keeper and only act on appropriately authorised requests.
3. Review of expenses, allowances and other Payment and & Deduction codes. This review includes: removal of unused codes; relevance of the description; and ensuring no duplication of purpose with similar codes. This is to be acted upon immediately with the aim of having a reduced suite of codes available by end of the calendar year.
4. Cleansing of data within the system in order to ensure each field has relevant data added and secondary action to mandate fields to ensure greater control and ease of use of payroll system. The data cleanse activity is to be supported by all managers and employees when requests for information are made and gathered. It is planned that the cleansing of critical data, e.g. which impacts on employment status or pay, will be delivered in final quarter of 2018/19.
5. Working with the Agresso Programme to implement a range of associated process improvements to reduce manual workarounds, and achieve a more automated solution where the Agresso system does currently not automate processes. E.g. Remove custom absence process and introduce standard absence module.

## Management Response

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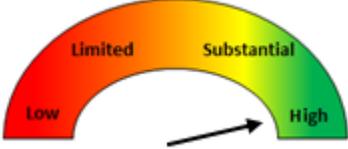
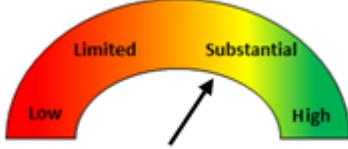
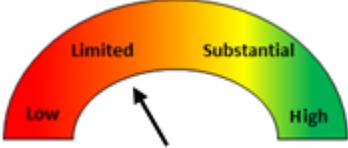
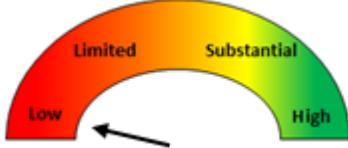
### Management Response



6. Resolution of historic issues. A review of the overpayment tracker is in place to ensure that recovery is tracked and repayments are closed off completely.

The Council Management is committed to ensuring resources are allocated to enable the necessary governance and oversight that the identified improvement actions in this report are implemented in a timely way. There continues to be a range of operational meetings and project working involving LCC and Serco Payroll and HR Administration colleagues and, where appropriate, managers from services, to ensure that all stakeholders are engaged in sustaining the improvements and maintaining substantial assurance of the payroll service.

## Appendix 1 - Assurance Definitions

High	Substantial
<p>Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.</p>  <p>The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.</p>	<p>Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.</p>  <p>There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.</p>
Limited	Low
<p>Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.</p>  <p>The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.</p>	<p>Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p>  <p>There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore, the risk of the activity not achieving its objectives is high.</p>

## Appendix 1 - Assurance Definitions

Action Priority	
<b>High</b>	Immediate management attention is required - an internal control or risk issue where there is a high certainty of: substantial loss / non-compliance with corporate strategies, policies or values / serious reputational damage / adverse regulatory impact and / or material fines (action taken usually within 3 months).
<b>Medium</b>	Timely management action is warranted - an internal control or risk issue that could lead to financial loss / reputational damage / adverse regulatory impact, public sanction and / or immaterial fines (action taken usually within 6 to 12 months).





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