



Committee and Date
Audit Committee –
24th November 2022

Item

PAYROLL AUDIT 2021/22

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1. Synopsis

1.1 This report provides an update on the actions to address the recommendations arising out of the Payroll Audit for 2021/22.

2. Executive Summary

2.1 This report sets out the actions taken so far to address the recommendations arising out of the Payroll Audit and what further interventions are planned.

2.2 The Audit resulted in an Unsatisfactory level of assurance. The period of time that the audit covered was during the Covid 19 pandemic where additional pressures were placed on the team, as well as delays to planned improvements to the payroll system.

2.3 The risks within the Payroll Operational Risk Register identified a number of issues that have been highlighted in the audit:

- Line manager understanding of processes and actions within ERP and the impact that this has on Payroll.
- The ERP system functionality leading to manual work arounds, delays and additional administration.

2.4 A total of 29 recommendations were made and a summary of progress against these can be seen in the table below:

Recommendation Type	Total	Fully Completed	Outstanding
Fundamental	1	0	1
Significant	19	6	13
Requires Attention	9	3	6

2.5 In response to these recommendations, a detailed Improvement Plan is in now in place. Actions have been taken to address the recommendations, with 9 being completed (6 significant, 3 requires

attention), but given the complexities involved, the deadline of December 2022 for the Fundamental recommendation will not be achieved.

- 2.6 Robust contract management with the supplier is now in place with regular meetings taking place and clear deadlines for resolution of issues. Additional consultancy is being sought to upskill and increase knowledge of members of the payroll and systems admin teams.
- 2.7 It is not yet possible to provide Audit Committee with full management assurance that all recommendations have been addressed and independently verified. Management assurance can be provided that all recommendations are accepted and have been actioned and completed or are actively being worked upon ahead of the next Internal Audit review.

3. Recommendations

- 3.1 Members of the committee are asked to note the contents of the report and the progress made to date to address the audit recommendations.

REPORT

4. Risk Assessment and Opportunities Appraisal

- 4.1 The failure to resolve the issues identified and to develop a system/process that is fit for purpose increases the use of manual work-arounds, places additional demands on staff and has the potential to jeopardise the accuracy of the payments made, figures used in both statutory accounts and returns to the Pension Fund.
- 4.2 This could subsequently lead to loss of confidence in, as well as reputation of the organisation.
- 4.3 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and there are no direct environmental or equalities consequences.

5. Financial Implications

- 5.1 Failure to have an effective and efficient payroll which ensures payment to individuals in a timely and accurate manner could potentially leave the Council exposed to external challenge and financial ramifications.
- 5.2 There are no financial implications associated with this report. Actions in relation to the recommendations arising from the audit are being managed within existing resources.

6. Climate Change Appraisal

- 6.1. The information contained within this report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting or mitigation; or on climate change adaptation.
- 6.2. The ERP system is designed around a self-service, electronic model and therefore reduces the impact on the climate due reduced paper based processes. In addition, the system sits within the cloud (Software as a Service) therefore reduces overheads from an on-premise system.

7. Background

- 7.1. The council uses an Enterprise Resource Planner System (ERP) which is an integrated HR/Payroll/Finance/Procurement System. The system has been in place since 2019 and replaced two separate HR/Payroll and Finance systems (Resourcelink Zellis and SAMIS).
- 7.2. Many of the recommendations relate to the payroll specific functionality of the ERP system. It should be noted however, that the system does work well for finance related processes. Risks have been raised and mitigations put in place within the operational risk register although many of these are manual work-arounds which do not provide the required level of assurance.
- 7.3. Despite the system being implemented in 2019 a number of issues from go-live remain outstanding as well as elements of the system, from a payroll perspective, that are not currently compliant with legislation without manual work-arounds being in place. These manual work-arounds pose additional risk to the accuracy of the running of payrolls as, inevitably, there will be human error.
- 7.4. The system was designed and built with self-service as the key driver, although many processes are not functioning or working as expected. Therefore, a review of the Council's original requirements is being undertaken, to determine if the original position of self-service still applies to many processes and subsequent decisions taken.

8. Actions against recommendations

- 8.1. The audit of Payroll identified a total of 29 recommendations, of which 1 fundamental, 19 significant and 9 requires attention.
- 8.2. A total of 9 have been completed within the timescales (6 significant, 3 requires attention) with the following actions in place:
 - Provision of quarterly reports to identify annual leave entitlements and hours taken to be monitored by Senior Managers.

- Appropriate evidence to support appointments is retained and uploaded.
- Payments are not to be made outside of the payroll system and any requests for urgent payments are in line with a new agreed process between the HR Admin & Payroll Manager and the Senior Manager.
- Reminders to Managers of checking all forms have been completed before approving the homeworking allowance and those identified in the audit have now been addressed.
- Changes to process for PRO1G reports to capture Officer details and date checked.
- Quarterly increment reports scheduled to identify any errors and action taken to rectify.
- Overpayments – further details including reason recorded on a separate spreadsheet.
- ERP is on a cloud Software as a Service (Saas) environment and assurance re business continuity contained in the contract.

8.3. The outstanding Fundamental recommendation relates to the overall functionality of the ERP System and ensuring that this is 'fit for purpose' to deliver the requirements of a local authority payroll. The subsequent recommendations are directly linked to this overarching one and cover the following areas:

- Previous audit recommendations have been implemented.
- Policies and procedures are in place which ensure compliance with legislation and internal regulations.
- Starters are appropriately authorised and set up in line with internal regulations.
- Employees are paid the correct amount each month to reflect contracted hours.
- There is a regular management review of the overpayments data and recoveries are appropriately controlled.
- Annual leave balances are correct.
- Transactions are processed to the ledger and reconciled on a regular basis.

8.4. Work is ongoing to address the recommendations made but they will not be fully met by the December 2022 deadline as originally proposed, due to the complexities of the system and processes.

8.5. A detailed Improvement Plan is in place, however, which will address the issues raised. Overarching actions to ensure that progress is made against actions include: an ERP Steering Group, chaired by the Executive Director of Resources; an ERP Delivery Group (with relevant stakeholders) is in place; contractual deadlines agreed with the supplier for addressing the outstanding project issues and robust contract management.

- 8.6. In addition, external consultancy support has been scoped and will be commissioned shortly to support the upskilling and knowledge transfer of the system to the Payroll and Systems Admin Teams.
- 8.7. Robust contract management is now in place to progress these issues to resolution in a timely manner with the supplier, and the improvement programme is in place to review current set up and business processes to ensure the system is operating correctly. Additional contractual penalty clauses are also in place in the event of failure to comply with requirements.
- 8.8. A review of all key processes and the system setup, including business decisions is being undertaken, to ensure the system is configured correctly and to ensure that business processes are aligned. In addition, initial business decisions and configuration decisions made at go-live need to be re-visited, to ensure that they are still valid, and remain fit for purpose.
- 8.9. There are significant knowledge and development gaps within the wider business including the level of digital skills, and these need to be addressed through additional training for managers and employees. Examples of these include:
- Managers not recording sickness absence accurately or in a timely manner;
 - Managers not submitting payroll related instructions in a timely manner (e.g. contractual changes, timesheets)
 - Managers not able to competently use other elements of the ERP
 - Lack of required level of technical knowledge of the ERP system by Payroll/Systems Admin.
- 8.10. Payroll are actively monitoring late work requests, and inaccurate form submissions and this is regularly reported to Senior Managers. Monitoring of repeat issues also enables Payroll to highlight and identify any additional training needs required.
- 8.11. As well as the above actions, an options appraisal is being carried out, aligned to the current contract period, to establish the needs of a payroll system in future and this will be used to inform future procurement processes.

9. Conclusions

- 9.1. A robust Improvement Plan and governance is in place to address the recommendations from the payroll audit, enhanced focus is being placed on these areas and robust account management/contract management is taking place to ensure the supplier can meet the needs of a local authority payroll.

- 9.2. Given the number of recommendations contained in the audit including one Fundamental Recommendation, it is not yet possible to provide Audit Committee with full management assurance that all have been addressed and independently verified. Management assurance can be provided that all recommendations are accepted and have been actioned and completed or are actively being worked upon ahead of the next Internal Audit review.
- 9.3. Timescales for the next Internal Audit review will be informed by management assurances on progress on existing recommendations over the next three months.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Internal Audit Performance Report 22/23 – Audit Committee 15th September 2022

1. <https://www.shropshire.gov.uk/committee-services/documents/s32320/09%20Internal%20Audit%20Performance%20Report%20approved.pdf>

Cabinet Member (Portfolio Holder)

Gwilym Butler, Portfolio Holder for Resources

Local Member

N/A

Appendices

N/A