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Draft Internal Audit Report
Finance Systems - Payroll
Reconciliation

Date: February 2024

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Background and Context

Financial and accountancy services of the South and East Lincolnshire Councils Partnership (SELCP) are provided by Public Sector Partnership Services Ltd, using the Unit4 Business World system (Unit 4).

Key control testing is undertaken each year on finance systems and processes to enable the Head of Internal Audit to form an opinion on the Council's financial control environment and to help External Audit's control evaluation.

The key control testing of accounting services across the partnership was carried out in 2022/23 which resulted in eight findings with five related to payroll control account reconciliations in the report issued to management. Due to the significant number of issues identified in the area of the payroll control account reconciliation i.e. Lack of regular reconciliation,

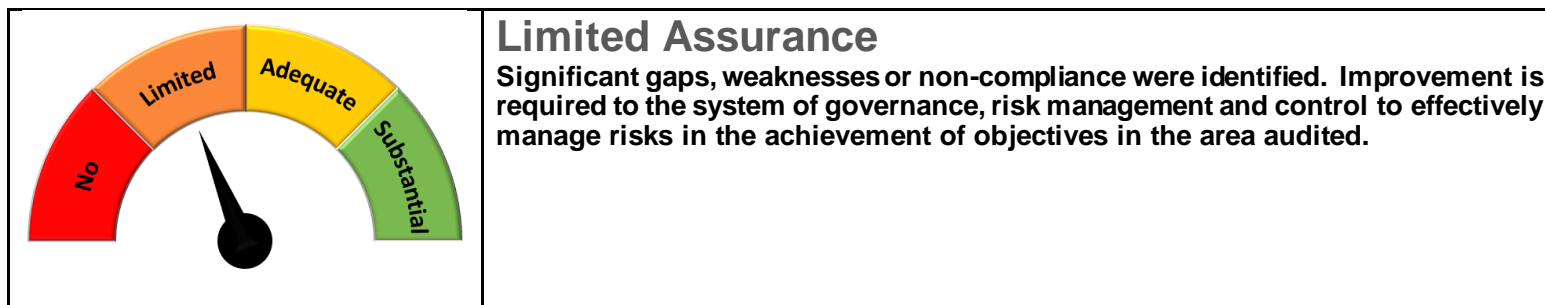
significant variances identified, timeliness of corrections etc, a Limited assurance opinion was issued.

Recommendations were proffered to address the control deviations and strengthen the control environment. To address this, management responded with comments and target implementation dates for the implementation of the recommendations which are all due for follow-up.

Scope

The focus of our audit review for 2023/24 was to follow up evidence and evaluate the implementation of management actions on outstanding recommendations from the audit report issued in July 2023.

Executive Summary



Risk	Rating (R-A-G)	Recommendations			
		Critical	High	Medium	Low
Payroll control account reconciliations have not been completed on a regular monthly basis.	High	0	2	0	0
Coding errors between the payroll system and financial system leading to variances and inaccurate financial reporting.	Medium	0	0	1	0
No formal process in place to ensure that significant issues or unresolved queries are escalated to senior officers.	Medium	0	0	1	0
No reconciliation between payroll runs and up-to-date establishment reports.	Medium	0	0	1	0
TOTAL		0	2	3	0

Key Messages



Our focus for this follow up audit was on the recommendations relating to payroll control account reconciliations that were raised from the previous year's audit on key controls. We checked the implementation status of the recommendations by reviewing the payroll reconciliation process in the current financial year specifically April-September 2023. Below are the recommendations from the previous audit and their implementation status.

1. Ensure Payroll Control Account reconciliations are carried out monthly, with adequate resources made available throughout the year- **Not implemented.**
2. Payroll reconciliation spreadsheets to be signed and dated by both the preparer and reviewer- **Implemented.**
3. Responsibility for Payroll Control Account reconciliations to be formally assigned-**Implemented in June 2023 and then reassigned in September 2023 due to resource changes.**
4. Review of guidance notes for the reconciliation exercise to be completed to ensure full comprehensive details of the reconciliation process are included.-**Implemented.**
5. Review of the CIPHR report to be completed to ensure all mapping requirements are correctly identified. Any corrective action required to be addressed promptly-**Not implemented**
6. Coding errors to be corrected promptly in future, with advice sought from the system providers as necessary to ensure full understanding of the impact of corrections-**Partially implemented** .
7. A formal process to be introduced to ensure senior management at PSPS and key officers at the Partnership are informed of significant issues affecting payroll reconciliation. Required actions to be taken promptly within agreed timescales, and completion of actions formally notified-**Not implemented.**

Executive Summary

8. Key issues that may impact on the effectiveness of budget reporting and monitoring to be notified promptly to relevant officers within the Partnership-**Not implemented** (This is said to be discussed at monthly meetings, but evidence couldn't be provided)
9. Queries raised to be resolved as soon as possible, enabling corrective action/journals to be undertaken. Where timely responses are not received, issues should be escalated to an appropriate officer(s). **-Not implemented**

We found that overall, several key management actions, arising from the previous audit review have not been implemented at the time of the audit. This means the risks and control gaps identified previously have remained and the Council has remained exposed to error and a lack of timely payroll reconciliation.

Our testing and review of the previous recommendations revealed some gaps in the areas of prompt payroll reconciliations, independent review of reconciliations, formal process to escalate critical issues affecting reconciliations to management of PPSL and persistence of account coding issues between the payroll systems and financial systems.

Whilst the delay in preparing reconciliations can be attributed to staff capacity, this issue has overlapped from the previous accounting period and the remediation timeline was not achieved. Independent review of reconciliations by a senior officer was also not addressed from the previous period which led to a re-occurrence of the issue.

The payroll process will benefit from a formal process to address unavailability of staff for extended periods and escalations of significant issues to management, so they are kept aware of key issues.

Executive Summary



Efficiency in recruiting personnel to address staff exit will also have a positive impact in delivering accurate and timely management reports.

Executive Summary

Areas of Good Practice



There is a step-by -step effective guidance note which is self-explanatory for the reconciliation activity.

Managing your risks



Good risk management, including maintaining risk registers, helps you to identify, understand and reduce the chance of risks having a negative impact on achievement of your objectives.

- Inadequate resources to carry out regular reconciliations.
- Account mapping errors between interfacing systems leading to inaccurate financial information.

Management Response

Management Response



Improvement and development works continue with the preparation and review of the payroll control account reconciliation. There were changes in the team and this has resulted in a new officer being in the team from September 2023, they have been focused on enhancing the process and ensuring reconciliations are up to date.


It is disappointing that the audit fieldwork focused on a period of time when the initial report had not long been issued and didn't reflect the work that has occurred in the last few months in fetching the reconciliations up to date and improving the processes and engagement with other services.

I would like to thank the officers involved in this audit and also the auditors for the discussion in relation to the findings thorough this audit.

Samantha Knowles – CFO PSPSL

28th February 2024

Management Response



Disappointed that this follow up audit has had further challenges. Regular reconciliation is a key control and processes need to be embedded within the organisation to ensure that non-compliance is escalated and dealt with promptly.

Christine Marshall - Section 151 officer
February 2024

Action plan

1.	Risk Description	Current Rating	Target Rating
	Payroll control account reconciliations have not been completed on a regular monthly basis.	High	Low
Findings			
<p>Payroll reconciliations are required to be carried out on a monthly basis to ensure variances between the payroll systems and general ledger are identified timely, corrected, explained and accurate financial reports are produced. The review of three months reconciliations for July, August and September 2023 across the partnership revealed that the exercise was not carried out in the respective accounting periods. The reconciliations for the three months were all carried out in September 2023 due to staff capacity.</p> <p>Discussions with the PSPSL finance team tasked with the reconciliation activity indicated that the officer responsible for preparing the reconciliations took up her post in September 2023. The position was previously vacant.</p>			
Implications			
<ul style="list-style-type: none"> · Irregular reconciliations will lead to inaccurate staff cost assertion in financial reports. · Preparation of reconciliations for multiple accounting periods in a single month will be overwhelming for the responsible staff and may lead to significant errors not identified or overlooked. 			
Recommendation			
<p>1.1 Payroll account reconciliations should be carried out on a monthly basis.</p> <p>1.2 Provision should be made to formally handover the responsibility for preparing reconciliations to other members of staff in case the staff assigned with the function exits the organization or embarks on leave.</p>			High

Action plan

Agreed Action	Responsibility	Implementation date
<p>1.1 The monthly reconciliations were not carried out monthly for the first half of the year due to resourcing. Officer was appointed in September 2023 and reconciliations are now up to date and are being completed monthly. We will introduce a process to escalate to PSPSL senior management if reconciliations have not been completed for two months and further escalation after three months to the SELCP S151 Officer.</p>	<p>Deputy Chief Finance Officer Corporate</p>	<p>31/07/24</p>
<p>1.2 Resourcing will remain a risk to the organisation in the future. Mitigating action is taking place to train other members of the team in the payroll reconciliation process.</p>	<p>Deputy Chief Finance Officer Corporate</p>	<p>31/07/24</p>

Action plan

2.	Risk Description	Current Rating	Target Rating
	Payroll control account reconciliations have not been completed on a regular monthly basis.	High	Low
Findings			
<p>The audit action from the previous audit Key Control testing-Accountancy services stated that payroll control account reconciliations should be dated and signed by both the preparer and the reviewer when completed.</p> <p>The process currently requires the Business Partner - Corporate Officer to prepare the reconciliation while the Deputy Chief Financial Officer reviews. During our review of the reconciliations for July-September 2023 for the partnership, we noted significant delays in the review of the reconciliations. The delay in review ranged from between 43-61 days after preparation.</p> <p>The Finance team in PSPSL explained that the staff responsible for the review was on maternity leave and dedicated one of her keeping in touch days when she was in the office to review the reconciliations.</p>			
Implications			
<ul style="list-style-type: none"> · Delays in authorizing adjustments of payroll and GL accounts when errors are noted. · Reviewing reconciliations for multiple periods in a single month can be overwhelming leading to poor quality review. · Inaccurate financial reports are presented to senior management. 			
Recommendation			
<p>2.1 A timeline in a formal process document should be set for the review of monthly reconciliations which shouldn't exceed 10 working days after the reconciliation is prepared.</p> <p>2.2 Provision should be made to formally handover the responsibility for reviewing reconciliations to other members of staff in case the staff assigned with the function is not available.</p>			High

Action plan

Agreed Action	Responsibility	Implementation date
<p>2.1 We will add commentary to our written procedural notes that our target for review of reconciliations will be 10 days after they have been completed.</p> <p>2.2 Delay in review of payroll reconciliation was due to responsible officer being on maternity leave. Responsibility for review has now been allocated to another officer and reviews are taking place monthly. Other members of the team will be trained to take over the responsibility for review of reconciliations if the staff primarily assigned with the task is not available.</p>	<p>Deputy Chief Finance Officer Corporate</p> <p>Deputy Chief Finance Officer Corporate</p>	<p>31/03/24</p> <p>31/03/24</p>

Action plan

	Risk Description	Current Rating	Target Rating
3.	No formal process in place to ensure that significant issues or unresolved queries are escalated to senior officers.	Medium	Low
Findings			
<p>A recommendation from the previous audit of the payroll activity required a formal process to be developed to address escalation of significant issues affecting the reconciliation process to senior management at PSPS. Senior management were unaware of issues encountered in the past such as variances due to mapping/coding errors, delays in the preparation of reconciliations. However, the process has not been developed formally.</p> <p>It is understood that the need to escalate issues encountered in the reconciliation process was communicated to members of staff verbally and issues are also discussed in monthly meetings, but this could not be validated.</p>			
Implications			
Lack of a formal process document indicates lack of accountability as there's no documented line of communication when issues arise, significant issues are not defined and timeline for communication not stated.			
Recommendation			
3.1 A formal process should be introduced to ensure senior management at PSPS and key officers at the Partnership are informed of significant issues affecting payroll reconciliation. A clear and specific line of communication of issues should be stated and timeline for escalation of issues should also be clearly stated.			Medium

Action plan

Agreed Action	Responsibility	Implementation date
3.1 There is a process already in place as the payroll and finance teams meet monthly to discuss and resolve issues, but this is not currently documented. We shall document the process.	Business Partner Corporate	31/03/24

Action plan

4.	Risk Description	Current Rating	Target Rating
	Coding errors between the payroll system and financial system leading to variances and inaccurate financial reporting.	Medium	Low
Findings			
<p>The payroll system vendor, Accord, issued a report in the 2022/23 financial year identifying the mapping of account codes between the payroll system and financial systems. This was in response to coding errors between the two systems noted during the reconciliation exercise. The management of PSPSL committed to reviewing the report to ensure the completeness of all mapping requirements and revert to the vendor for any correction required. The review was due to be completed in time for the May 2023 reconciliation. However, the report has not been reviewed.</p> <p>We were further informed by the Business Corporate Officer responsible for the reconciliation that coding errors persists and are corrected on a monthly basis.</p>			
Implications			
<ul style="list-style-type: none"> • The reconciliation of payroll account may be delayed due to the need to correct coding issues on a regular basis. • The adjustments may be incorrect and erroneous if there's limited understanding of how the systems work. 			
Recommendation			
4.1 The CIPHR report should be reviewed for completeness and rectification of all mapping requirements. Coding issues that persist should be escalated to the vendor for corrections. Errors identified during the payroll reconciliation should be resolved before the next payroll run			Medium

Action plan

Agreed Action	Responsibility	Implementation date
<p>4.1 The correction of coding errors is an on-going exercise. We meet with the payroll team monthly to discuss coding issues and resolve them. We also notify CIPHR, the payroll system provider of the corrections that need actioning. When we complete the payroll reconciliation, we check the Gross Net Pay report to ensure the two reports match. To include testing on this as part of audits finance assurance testing programme for 2024/25.</p>	<p>Head of Finance (Client)</p>	<p>31/08/24</p>



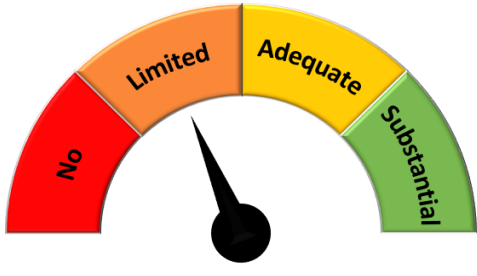

Action plan

5.	Risk Description	Current Rating	Target Rating
	No reconciliation between payroll runs and up-to-date establishment reports.	Medium	Low
Findings			
Best practice requires periodic reconciliation of payroll run to up-to-date establishment staff list to ensure that only appropriate and bonafide staff are remunerated for actual service to the organization. However, we have no evidence from our review that this activity is being carried out.			
Implications			
Fictitious and exited employees may be on the organization's payroll receiving compensation leading to financial loss.			
Recommendation			
5.1 Management of PSPSL should agree on a periodic interval to carry out the reconciliation of payroll run to the establishment list			Medium

Action plan

Agreed Action	Responsibility	Implementation date
<p>5.1 This activity is being carried out as part of the budget setting and monitoring process as we meet quarterly with budget managers to review their salary budgets and check if staff are being paid using the correct grade and hours. New members of staff are picked up as part of the payroll reconciliation and queries with AD's and budget managers. No new staff can be entered on to the payroll system without HR approval. Each payroll run is also sense checked against the previous months and any variances investigated. This will form part of our testing of the budget monitoring audit in 2024/25.</p>	<p>Budget Managers and PPS Finance Partners.</p>	<p>30/06/24</p>

Action plan

Substantial	Adequate
<p>A reliable system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.</p> 	<p>There is a generally reliable system of governance, risk management and control in place. Some issues non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.</p> 
Limited	No
<p>Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks in the achievement of objectives in the area audited.</p> 	<p>Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks in the achievement of the objectives for the area audited.</p> 

Appendix 1 - Assurance Definitions

Risk Ratings	
Current	Reflects the residual risk after assessing the controls in place.
Target	<p>Represents what level risk an organisation may wish to take, or what level of risk is considered acceptable. Where risk ratings are not at target levels, then recommendations will be given within the report to help achieve the expected risk rating.</p> <p>In some areas the target risk rating may not be “Low” and we may be willing to accept a “Medium” target risk rating. These situations could be found where:</p> <ul style="list-style-type: none"> • An organisation wishes to realise potential opportunities and as a result has a higher risk appetite. • The area under review is so inherently risky that we accept that risk mitigation strategies are unable to achieve a “Low” target risk rating.

Appendix 1 - Assurance Definitions

Action Priority	
Critical	Fundamental breakdown in internal control; significant risk of fraud, irregularity, impropriety. These must be addressed as a matter of urgency.
High	Significant weakness in internal control; non-compliance with regulations/legislation; material loss or public criticism. These actions must be completed within a short time period
Medium	Weakness that undermines systems of internal control. These risks should be completed within a medium time frame and can have various milestone to be adhered to over the project duration.
Low	Best Practice. These will make the function as good as possible and should be implemented over the course of 9-12 months.

Appendix 2 – Distribution List

Distribution List



Paul Redgate- Portfolio holder Finance(SHDC)
Sandeep Ghosh-Portfolio holder Finance (BBC)
Richard Fry-Portfolio holder Finance (ELDC)
Christine Marshall – Deputy Chief Executive – Corporate Development & Section 151 Officer, SELCP
Lewis Duckett – Chief Executive Officer, PSPSL
Samantha Knowles – Chief Financial Officer, PSPSL
Colleen Warren – Head of Finance (Client), PSPSL

Disclaimer

The matters raised in this report are only those which came to our attention during our internal audit work. Our quality assurance processes ensure that our work is conducted in conformance with the UK Public Sector Internal Audit Standards and that the information contained in this report is as accurate as possible – we do not provide absolute assurance that material errors, fraud or loss do not exist.

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