

REPORT TO: AUDIT AND RISK MANAGEMENT SUB-COMMITTEE 23 SEPTEMBER 2002
REPORT ON: EXTERNAL AUDIT ABRIDGED REPORTS
REPORT BY: EXTERNAL AUDIT
REPORT NO: 696-2002

ITEM 1(a)

29 July 2002

Mr D Dorward
Director of Finance
Dundee City Council
Tayside House
28 Crichton Street
Dundee, DD1 3RJ

Dear Sir

2001/02 AUDIT - SCHOOL PROPERTY RISK MANAGEMENT FOLLOW UP

An overview of the Council's arrangements for property risk management in schools was undertaken in 2000/01. The results from this review and associated agreed action plan were detailed in the report School Property Risk Management Follow – Up 2000/2001, issued on 10 December 2001 by the previous auditors, Henderson Loggie.

As part of our 2001/02 audit, a review was undertaken of the progress against this action plan. The review was restricted to the confirmation by officers that the agreed actions had been implemented, or other remedial action had been taken.

We are pleased to report that the two agreed actions identified in the action plan have now been fully or considerably implemented:

Recommendation	Review Finding
The revised draft corporate policy on risk management should be finalised as a matter of urgency.	<i>A corporate policy on risk management was approved by the Finance Committee on 10 December 2001</i>
A report be produced for Councillors, at least annually, outlining the progress made by the Council in reducing property related risks.	<i>Two reports have been passed to the Audit and Risk Management Sub Committee. The first deals with corporate risk management issues and the second proposes an anti vandalism strategy for Dundee City Council along with various initiatives.</i>

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10 September 2002

Accordingly, the review established that the Council has made satisfactory progress in implementing the action plan agreed in 2000/01.

The contents of this report have been agreed with the Principal Insurance and Risk Management Officer to confirm factual accuracy. In view of the limited nature of the review, a management report is not necessary and it is assumed that this management letter will be submitted to the Audit and Risk Management Committee in due course.

The co-operation and assistance provided by officers contacted during the course of our review is gratefully acknowledged.

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ITEM 1(b)

2001/2002 Audit
Dundee City Council
ISIS Payroll System

CONTENTS

	Page
Executive Summary	3
Action Plan	5

EXECUTIVE SUMMARY

Introduction

Stewardship is a function of executive and non-executive management and, therefore, responsibility for effective stewardship rests upon both members and officers of the Council. This responsibility is discharged primarily by the establishment of sound arrangements and systems for the planning, appraisal, authorisation and control over the use of resources.

The budgeted staff costs for the Council in the financial year 2001/2002 were approximately £135M, which equates to approximately 44% of the total revenue budget. It is essential, therefore, that a sound system of control exists within the payroll system to ensure the proper financial management of such a material area of expenditure.

A review of the ISIS Payroll System was carried out as part of the 2001/02 audit of the Council. The scope of the review focused on five key areas of control:

- ◆ payments are made only to valid employees
- ◆ all data input to the system is properly authorised
- ◆ data (particularly standing data) is accurate and complete
- ◆ payments are correctly calculated in accordance with contracts of employment, pay scales, hours worked, other authorised allowances etc.
- ◆ payroll costs are correctly recorded in the financial ledger

The review examined the procedures and controls within the Central Payroll Team. The Team are responsible for administering all payroll system issues and therefore, the overall procedures and controls in place within the system. At the time of the review, the Team was also responsible for processing all input to the system for four Services. Of these four Services, our review concentrated on the operation of the Finance Service part of the payroll (Revenues Administration Section and Finance Office Services Section).

Payroll data across the Council was also downloaded and interrogated to identify any anomalies in permanent information held, such as duplicate bank accounts and payments for overtime at enhanced rates to employees above APT&C scale point 30. This data interrogation exercise covered all Services.

This management letter sets out the findings from the review. The deficiencies outlined are those which came to our attention during the course of our normal audit work and are not necessarily all of the deficiencies that may exist.

Although we include in this management letter a number of specific recommendations to strengthen internal control within the areas reviewed, it is the responsibility of management to decide the extent of the control systems which are appropriate to the Council. We would stress, however, that an effective control system is an essential part of the efficient management of an organisation.

Main Audit Findings

Overall, our review found that of the twenty-nine expected system controls operated by the Central Payroll Team, all but four appear to be operating properly. In addition, the Central Payroll Team issue User Notices to all appropriate staff whenever there is a change to the payroll system.

Several omissions and weaknesses were highlighted, however, the most important of which are:

- ◆ procedural instructions for the Central Payroll Team did not cover all tasks undertaken by the Team
- ◆ the Revenues Administration and the Finance Office Services Sections of the Finance Service did not have procedural instructions for starters, leavers and amendments to payroll
- ◆ there is no authorised signatory list to ensure that input documents received from Services have been properly authorised
- ◆ instances arose where original documentation for both starters and amendments to the payroll had not been signed or authorised by the employee's line manager, but had still been processed by the Central Payroll Team
- ◆ instances were noted where there was a lack of evidence of checks carried out within the Central Payroll Team

Data Interrogation

Our review of potentially anomalous data was, with the exception of the points noted below, satisfactorily resolved with suitable explanations being provided. This data interrogation would give a level of comfort that the underlying records in the system are accurate.

The following points are, however, noted:

- ◆ with some exceptions, it is SNJC and Council policy that employees above scale point 30 should not receive overtime at enhanced rates.. Testing showed that a number of non-entitled employees had received such payments
- ◆ an employee had erroneously contributing more than the maximum Additional Voluntary Contributions for a number of years

Recommendations to strengthen controls within the system, arising from the review, are contained in the following action plan.

ACTION PLAN

No.	Recommendation	Responsible Officer	Management Response	Action Date
<p>Review finding: <i>The Central Payroll Team have procedural instructions for starters and leavers but do not have procedural instructions that cover the other tasks undertaken by the team</i></p>				
	<p>Procedural instructions for the Central Payroll Team should cover all tasks undertaken Risk Category: Medium</p>	<p>A Mooney Principal Operations Officer</p>	<p>It is accepted that there should be procedural instructions for all tasks undertaken by the Central Payroll Team which outline the key processes involved. However, due to the complex nature of payroll, it is not possible to detail the action to be taken by payroll staff in all potential sets of circumstances. To prepare and maintain such guidance would place a significant demand on the limited staff resources that are currently available within the Finance Department. Nevertheless, it is intended that, following the implementation of the "link" between the ISIS Payroll and Personnel Systems, a set of procedural instructions will be prepared which will cover the key procedures involved in the administration of payroll in this new operating environment.</p>	<p>31.03.03</p>

	Recommendation	Responsible Officer	Management Response	Action Date
Review finding: <i>The Revenues Administration and the Finance Office Services Sections of the Finance Service do not have procedural instructions for starters, leavers and amendments to payroll</i>				
	Both the Revenues Administration Section and the Finance Office Services Section should produce procedural instructions for all tasks undertaken Risk Category: Medium	H Robertson Revenues Admin. Manager. L Burke Senior Admin Assistant	Procedure instructions will be formalised in Finance Office Services and Revenues Administration Sections. Although this recommendation does not directly affect the Central Payroll Team, assistance can, if requested, be provided to the Revenues Division and the Banking/Office Services Section in the preparation of their procedural instructions for new starts, leavers and amendments to payroll.	11/10/02
Review finding: <i>The ISIS Payroll forces a password change on users every 100 days but does not have a time-out capability set</i>				
	Consideration should be given to shortening the time between systems forced password changes to, say, a month. A time out capability on the system should be pre-determined to automatically log out a user after a set period of inactivity Risk Category: Medium	A Mooney Principal Operations Officer	This recommendation is not practical. To force the user to change their password every month will result in the user writing down their current password which could lead to potential breaches of system security. Northgate Information Solutions who are responsible for the maintenance and development of the ISIS Payroll System, have indicated to the City Council that they are no longer applying major developments to this product and expect all users to transfer to their new payroll/personnel product "RESOURCELINK". As the recommendation is likely to be a major enhancement to the ISIS Payroll System, it is not intended to pursue this recommendation at this point in time. However, this functionality will be incorporated in the specification prepared by the City Council for a new payroll/personnel product.	N/A 31.12.07
Review finding: <i>The Central Payroll Team does not have an authorised signatory list to check that input documents are appropriately authorised</i>				

	Recommendation	Responsible Officer	Management Response	Action Date
	<p>An authorised signatory list should be compiled and used by the Central Payroll Team Risk Category: Medium</p>	<p>A Mooney Principal Operations Officer</p>	<p>In the Service Level Agreements between the Finance Department and the relevant service departments, it is the Client's responsibility to ensure that "each input form/notification of change is properly verified and authorised by the relevant departmental line manager".</p> <p>Therefore, it is considered that each department is responsible for preparing and maintaining an authorised signatory list and ensuring that all signatures on input forms/notifications of change are checked against this list prior to submitting their payroll input to the Finance Department.</p> <p>A User Notice will be issued to all departments advising them of the need to both prepare an authorised signatory list and to ensure that all signatures contained within payroll input documents are checked against it.</p> <p>However, where the payroll input documents are submitted directly to the Central Payroll Team ie weekly timesheets for the Leisure & Arts Department, it is accepted that this check has to be carried out within the Finance Department.</p>	<p>30/09/02</p>

No.	Recommendation	Responsible Officer	Management Response	Action Date
<p>Review finding: Instances arose where original documentation for starters, leavers and amendments to the payroll had not been signed/authorised by the employees manager but had still been processed</p>				
	<p>All documentation should be signed/authorised by the employee's manager prior to being passed to payroll for processing. Any documentation which has not been authorised should be returned for authorisation and not processed. Risk Category: Medium</p>	<p>A Mooney Principal Operations Officer</p>	<p>Following the recent audit review meeting, staff within the Central Payroll Team were advised of this weakness in the control procedures and asked to ensure that, in future, all payroll input documents are properly verified and authorised prior to processing. In order to ensure that this check is applied correctly, additional independent checks will be carried out periodically by the Central Payroll Team on payroll input documents processed by them. Not always necessary for manager to authorise. Office Services staff will often be appropriate.</p>	<p>30.09.02</p>
<p>Review finding: Instances arose where original documentation for starters, leavers and amendments processed by the Central Payroll Team had not been evidenced as input to the system or that the input had been checked by a second member of staff</p>				
	<p>Input, and secondary check of input, should be evidenced on the source documentation Risk Category: Medium</p>	<p>A Mooney Principal Operations Officer</p>	<p>The staff within the Central Payroll Team have also been made aware of this recommendation. Following discussions with the staff involved, the relevant input documents have been amended to incorporate "ACTIONED BY" and "CHECKED BY" fields. These input documents will also be distributed to all departmental payroll users. The periodic checks referred to at 5 above will also be applied to ensure that all input documents are initialled by the members of staff responsible for the input and checking processes.</p>	<p>30.09.02</p>

No.	Recommendation	Responsible Officer	Management Response	Action Date
Review finding: Instances arose where an unsigned letter of appointment(or unsigned photocopies) were held on an employee's personal file				
	All letters of appointment should be signed by the new employees and held on their personal file Risk Category: Medium	L Burke/ Snr Admin Assistant	All new employees are dealt with in this way.	With Immediate Effect
Review finding: Instances arose where original documentation for starters, leavers and amendments to the payroll were not held on an employee's personal file. Only photocopies of documents prior to input were held				
	All original documentation should be retained on employees personal files Risk Category: Medium	L Burke Snr Admin Assistant	This will be done.	30.09.02
Review finding: Employees above pay scale point 30 had received overtime at enhanced rates (i.e. time and a half and double time)				
	Controls relating to payments of overtime should be reviewed to ensure that only entitled staff above pay scale point 30 receive overtime at enhanced rates Risk Category: Medium	A Mooney Principal Operations Officer	Staff within the Central Payroll Team will be advised of the need to ensure that all overtime claim forms contain the employee's spinal column point and that the correct payment code is used to process the overtime input. In addition, a report will be developed within the ISIS Payroll System to ensure that all departments are paying overtime to employees on spinal column points 31 to 52 at plain time rates.	30.09.02

No.	Recommendation	Responsible Officer	Management Response	Action Date
Review finding: <i>An instance arose where an employee had been paying in excess of the maximum 15% superannuation contribution for a number of years</i>				
	Controls relating to superannuation should be reviewed to ensure that employees are not paying in excess of 15% superannuation contributions Risk Category: Medium	A Mooney Principal Operations Officer	The 15% limit referred to relates to the level of "net relevant earnings" which can be attributed to Pension contributions and on which Income Tax relief is available to the employee. As there was only one employee affected by the error, it is not considered that this particular issue is a significant weakness. However, to avoid a recurrence of this error, it is intended that the report within the ISIS Payroll System which highlights this particular discrepancy will be produced again in the penultimate pay period of Tax Year 2002/03. This will enable corrective action to be taken prior to the end of year returns being submitted to the Inland Revenue.	31.03.03
Review finding: <i>The ISIS Payroll and ISIS Personnel systems have not yet been integrated</i>				
	The ISIS Payroll and ISIS Personnel systems should be integrated, thereby providing greater control in both systems Risk Category: Medium	A Mooney Principal Operations Officer	As previously mentioned at 3 above, the City Council is currently considering the replacement of the ISIS Payroll and Personnel Systems with a fully-integrated human resource system by 2007. In the interim, the Finance Department is currently in the process of implementing a "link" between the ISIS Payroll and Personnel Systems to minimise the level of duplicate input required.	31.03.04