

REPORT TO: AUDIT SUB-COMMITTEE 24 SEPTEMBER 2001  
REPORT ON: EXTERNAL AUDIT - ABRIDGED REPORTS/MANAGEMENT LETTERS  
REPORT BY: EXTERNAL AUDITOR  
REPORT NO: 835-2001

ITEM 5

## **DUNDEE CITY COUNCIL**

### **Abridged Management Letter Payroll – 2000/01**

**External Audit Report No: 01/13**

**Draft Issued: 15 June 2001**

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## MANAGEMENT SUMMARY

### Introduction

This is the fifth and final year of our appointment as external auditors to Dundee City Council. We planned to conduct a cyclical review of the key accounting systems within the Council during our appointment. As part of our review, we assess the internal controls that form an integral part of each accounting system. An effective internal control system is an essential part of the efficient management of any organisation and responsibility for this rests with the members and officers of the Council.

As part of our 2000/01 audit plan, a review of the ISIS payroll was carried out. This review examined both the central payroll function in the Finance Department and the dedicated payroll service in the Social Work Department which inputs information that is received from all over the Dundee area, the Social Work offices and incorporates sheltered housing, wardens, homecare workers and other manual workers including cooks and domestic staff.

The Social Work Department's 2000/01 revenue budget for staff costs amounted to £30.082m (74% of the net expenditure of £40.823m) with an average total of 1651 full time equivalent personnel employed by the department.

### Scope of the audit

The scope of our work within the Social Work payroll service covered the input of payroll information into the ISIS system, looking specifically at starters, leavers, variations, payments and deductions. We also considered other general issues such as security of and access to payroll and personnel information.

Our review of the central payroll function covered specific tax, national insurance and other deduction issues. We also examined holiday entitlement, strike action procedures and pension issues.

Our overall objective was to ensure that the payroll systems and procedures in place within both departments are robust and internal controls are operating satisfactorily.

In 1998/99 we reviewed the central function in Finance for the processing of payroll, which is used by departments within the Council and by a number of external bodies. In 1999/2000 we reviewed the payroll procedures on a decentralised level looking at the departmental procedures for Education. Part of our scope for this audit was to follow up on the implementation of the agreed actions in our reports and to cover the same points in Social Work that were covered in the Education Department review.

Internal Audit has reviewed the procedures in place for processing of payroll in a number of other Council departments. We have reviewed the Internal Audit reports and their recommendations tended to have common themes, such as standard forms issued by central payroll not being adopted by the departments and non-integration of the payroll and personnel systems. We followed up the recommendations, relating to these common themes, to ensure that the agreed action plans had been implemented by the departments involved.

### Audit approach

Initial fact-finding interviews were held with Finance's Principal Operations Officer and the Senior Admin Assistant and Section Leader (Human Resources) in the Social Work Department. The payroll procedures and systems operated by the Social Work Department were documented and control risk assessment forms were completed. We updated our systems notes for the Central payroll function and reviewed our risk assessments. Audit programmes were devised to cover the areas set out in the scope of our review. We carried out compliance tests on the control systems within both payroll sections and some substantive testing was carried out, where required.

## **Overall conclusion**

Our review found that the Social Work and Central payroll systems and procedures are generally operating satisfactorily, and the security and access to the payroll and personnel information is adequately controlled and restricted to authorised staff. Internal Audit carries out follow up exercises to ensure agreed actions are implemented. Some good practice points were identified which have been noted below. There were, however, a number of weaknesses identified which have resulted in an agreed action plan with management to implement our audit recommendations. The main findings have been summarised later in this section and all of our findings are detailed in the main report.

## **Good practice points**

As part of our review we look for instances of what we consider to be points of good practice and we noted the following:

### ***Social Work Department***

An industrial dispute occurred during the year. Employees do not receive a salary when on strike. The department asked the line managers to supply them with a list of employees who were off over this period, identifying employees involved in the industrial action and those off sick or on holiday. This allowed the payroll section to accurately confirm the employees throughout the Social Work Department on strike action.

Employee record cards are scrutinised for employees who submit weekly timesheets for those who are on annual leave. This gives the payroll staff better control over the input of data from timesheets in that they are aware of, in advance, employees who will not have a timesheet for the relevant week.

A checklist introduced in 2000/01 records all timesheets that have been received from employees, including supply workers, across the various sections and ensures that the information for the payroll input is complete prior to processing.

The Social Work payroll suspense account is reviewed and cleared on a monthly basis. The balance on this account, at the time of the interim audit, related to miscoded items in the current month and gave us assurance that suspense items are being regularly investigated and cleared to the appropriate accounts.

Although there is currently no direct link between the payroll system and the personnel system at this point in time the department does maintain a post list that is updated regularly and agreed at the end of each financial year to the payroll system.

The department maintains spreadsheets which details overtime carried out, split between time and a half and double time. The department also maintain spreadsheets detailing sickness absence and holidays. Both spreadsheets are used for reporting to line managers on a monthly basis for budget monitoring.

### ***Central Processing***

The pay awards details, as supplied by COSLA, were found to be inaccurate for a number of salary values. This was identified by the central payroll section in Finance and was reported to COSLA. Had this not been identified authorities throughout Scotland may have paid wrong amounts to their employees causing further resources to be used in recalculations.

The Finance Department carries out a quarterly review of all employees that currently have access to the ISIS Payroll system to ensure that their access permissions are still valid. Any non replies are followed up.

## Summary of main findings

| System                                  | Observation  | Recommendation   |
|---|--|--|
| <b><i>Social Work Starters</i></b>      | <input type="checkbox"/> Starter's forms only require to be signed by the Head of the Section and the Payroll Staffing Section. The form does not require the signature of the new employee.   | <input type="checkbox"/> The starter's form should include the signature of the person starting the post. The Department should consider adopting the Council wide starter's form.   |
| <b>Variations</b>                       | <input type="checkbox"/> Error reports did not appear to be actioned by a tick and in many cases were not signed off as checked.   | <input type="checkbox"/> The prints should be fully annotated via a tick for each entry and finally signed off as checked by the person who has actioned the print.  |
| <b>Leavers</b>                          | <input type="checkbox"/> Leaver's forms require only the signature of an authorised employee.  | <input type="checkbox"/> The leaver's form should include the signature of both the authorised employee and the person leaving the post where possible. Where the employee's signature is not on the form the reason should be stated. The department should consider adopting the standard leavers form, as recommended in our central payroll management letter. |
| <b>Timesheets</b>                       | <input type="checkbox"/> The lodgement of timesheets with the payroll section via E-mail has recently occurred for certain units in the department. This has been instigated at a divisional level and there is no control mechanism in place to record the required authorisation as on the manual forms.   | <input type="checkbox"/> A set of procedures should be drawn up and implemented for the lodgement of timesheets by E-mail, prior to this method being used by other units and establishments within the department.  |
| <b><i>Central Industrial Action</i></b> | <input type="checkbox"/> The Central Payroll Section devised specific forms to collate information needed for payroll and pensions purposes, regarding employees on industrial action. They issued the forms to several sections across all departments and set a deadline for the return of this information. In a number of cases the deadline was not met and the specific forms were not used. One department returned information in two different formats which when compared did not match. | <input type="checkbox"/> Where the Central Payroll Section issues a request to departments for specific information using a standard form devised for the purpose, the form should be used, accurately completed and returned by the deadline set.   |

## Summary of main findings (Cont'd)

| System                   | Observation   | Recommendation   |
|--------------------------|---|--|
| <b>Expense Claims</b>    | <ul style="list-style-type: none"> <li><input type="checkbox"/> There is currently no clear policy or guidelines as to expenses that can be claimed by Council employees.</li> <li><input type="checkbox"/> There are no lists of authorised personnel who can sign travel expense claim forms and certain employees authorise their own expense claims.</li> <li><input type="checkbox"/> In a large number of claims tested there was no supporting evidence such as receipts and tickets to substantiate expenses claimed.</li> </ul>  | <ul style="list-style-type: none"> <li><input type="checkbox"/> The Council should introduce a clear policy and guidelines on claiming expenses as soon as possible.</li> <li><input type="checkbox"/> A list of all authorised personnel who can sign claim forms should be compiled which should include the position they hold, the claims they can authorise and a copy of their signature. No employee should be permitted to authorise their own claims.</li> <li><input type="checkbox"/> Appropriate supporting evidence should be attached to expense claim forms to substantiate the claim.</li> </ul> |
| <b>Validation Checks</b> | <ul style="list-style-type: none"> <li><input type="checkbox"/> The ISIS payroll system allows the user to specify basic validation of financial codes input and included in our previous management letter was an agreed action to implement this across all user departments. Despite E-mails sent by the Central Payroll Section the Finance department has not implemented this.</li> </ul>   | <ul style="list-style-type: none"> <li><input type="checkbox"/> The Finance department should implement the basic validation of financial codes as soon as possible.</li> </ul>  |
| <b>Best Value Review</b> | <ul style="list-style-type: none"> <li><input type="checkbox"/> The recommendations for continuous improvements from the Payroll Services Best Value review, reported to committee on 31 January 2000, have not been fully implemented in the intervening period. We have reviewed the Corporate Planning Implementation Progress as at 31 January 2001 and some progress has been made in that the outcome of the Revenues payroll review is that a transfer to the Finance department has been agreed and is in progress. Reviews in two other departments are currently being conducted. There has however been some slippage, notably the visits to two other councils with lower payroll costs has not yet taken place and the investigation of the linking of the two ISIS systems is still ongoing despite reporting that a link with one department would be established by 31 March 2001.</li> </ul> | <ul style="list-style-type: none"> <li><input type="checkbox"/> A revised implementation plan should be agreed for the remaining outstanding Best Value review action points. In particular, the planned visit to the two authorities be carried out early in the new financial year and the interface of the ISIS payroll system and personnel system be fully implemented as soon as is practical and possible. The ongoing payroll reviews within the departments, with regard to the transfer to Central Payroll, be completed and implemented, where appropriate, as soon as practical.</li> </ul>          |

**Action plan**

The action that we consider necessary for all of our observations is noted in the main report and an action plan for implementation of these recommendations can be found in section 2.

To aid the use of the action plan, our recommendations have been graded to denote the level of importance that should be given to each one. These gradings are as follows:

- A      Fundamental issues which require the consideration of the Director of Finance or Chief Executive.
- B      Significant matters that can be resolved by the payroll section managers.
- C      Less significant matters, which do not require urgent attention but which should be followed up within a reasonable timescale.

**Acknowledgements**

We would like to take this opportunity to thank the Social Work Payroll Section and the Central Payroll Section officers who assisted us during the course of our interim audit work.

## ACTION PLAN

| Para & page Ref.    | Recommendation  | Grade    | Comments  | Agreed | Responsible Officer        | Agreed Completion Date |
|---------------------|---|----------|---|--------|----------------------------|------------------------|
|                     | <b>SOCIAL WORK DEPARTMENT</b>   |          |   |        |                            |                        |
|                     | <b>Starters</b>   |          |   |        |                            |                        |
| Para 1.1<br>Page 9  | The starter's form should include the signature of the person starting the post. The Department should consider adopting the Council wide starter's form.                     | <b>B</b> | <p>Whilst a draft New Start Form has been issued to all departments for comment, not all departments have actually introduced the New Start Form.</p> <p>It is intended to incorporate comments received from departments and issue a revised New Start Form for implementation by all departments.</p>   | Yes    | Alan Mooney                | 30/09/01               |
| Para 1.2<br>Page 9  | Data is input to the payroll on the completion of the entire checking process and all procedural forms for new starts are timeously filed in the employees' personal folders. | <b>C</b> | The department's staffing section has independent controls from payroll to ensure that all appointments are for authorised posts only. Regarding the filing a number of copy letters of appointment and forms P1 were not in employees' personal files because these documents are not filed until a member of staff in the departmental Finance Section verifies the correct financial code to use. A Finance Officer was appointed in March and documents are checked and returned quicker. The risk of an unauthorised post being filled and incorrect data posted to payroll is non existent. | Yes    | Paul Hird<br>(Social Work) | System in place.       |
|                     | <b>Variations</b>   |          |   |        |                            |                        |
| Para 1.3<br>Page 10 | The error report prints should be fully annotated by a tick for each entry actioned and finally signed off as checked by the person who has actioned the print.               | <b>B</b> | All payroll staff have been reminded of the need to verify that each error warning has been checked. A further check is now made, before the report is filed, to ensure that each entry has been initialled.  | Yes    | Paul Hird<br>(Social Work) | Completed              |



## ACTION PLAN

| Para & page Ref.    | Recommendation  | Grade    | Comments  | Agreed | Responsible Officer        | Agreed Completion Date |
|---------------------|---|----------|---|--------|----------------------------|------------------------|
| Para 1.4<br>Page 10 | <b>Leavers</b><br><br>The leaver's form should include the signature of both the authorised employee and the person leaving the post, where possible. Where the employee's signature is not on the form the reason should be stated. The department should consider adopting the standard leaver's form, as recommended in our 1998/99 payroll management letter. | <b>B</b> | Whilst a draft Leaver Notification Form has been issued to all departments for comment, not all departments have actually introduced the Leaver Notification Form.<br><br>It is intended to incorporate comments received from departments and issue a revised Leaver Notification Form for implementation by all departments.                                  | Yes    | Alan Mooney                | 30/09/01               |
| Para 1.5<br>Page 11 | <b>Links between systems</b><br><br>The link between the payroll and personnel systems is implemented as soon as possible (refer para 2.6).   | <b>B</b> | The "link" between the ISIS Payroll System and the ISIS Personnel System has been operating in a "test" environment. The software supplier has been commissioned to prepare a procedural document for the implementation of the "link" in a "live" environment within Contract Services.  | Yes    | Alan Mooney                | 31/08/01               |
| Para 1.6<br>Page 11 | <b>Time Sheets</b><br><br>A set of procedures should be drawn up and implemented for the lodgement of timesheets via E-mail, prior to this method being used by other units and establishments within the department.   | <b>B</b> | E-mail is used to submit time sheets by some units and is treated only as confirmation for staff whose hours generally do not vary. Requests for overtime and additional hours still need to be authorised and received using original forms. There are no plans to change the system at present. However, procedures will be drawn up and circulated to Units. | Yes    | Paul Hird<br>(Social Work) | 31/08/01               |

## ACTION PLAN

| Para & page Ref.    | Recommendation  | Grade    | Comments   | Agreed | Responsible Officer | Agreed Completion Date |
|---------------------|---|----------|--|--------|---------------------|------------------------|
| Para 2.1<br>Page 12 | <b>CENTRAL</b><br><br><b>Industrial Action</b><br><br>Where the Central Payroll Section issues a request to departments for specific information using a standard form devised for the purpose, the form is used, accurately completed and returned by the deadline set.  | <b>B</b> | I am in agreement with this recommendation. Subject to the approval of the Director of Finance, the comments made will be notified to all Chief Officers.  | Yes    | Alan Mooney         | 31/08/01               |
| Para 2.2<br>Page 12 | <b>Expense Claim Forms</b><br><br>The Council should introduce a clear policy and guidelines on claiming expenses, as soon as possible.   | <b>A</b> | Following discussion of the draft findings with Margaret Richardson, this matter has again been raised with the Director of Finance and Personnel & Management Services. The recommendations made by the Expenses Group will now be forwarded to the Chief Executive for his approval prior to consulting with the Trade Unions. | Yes    | Alan Mooney         | 30/09/01               |
| Para 2.3<br>Page 13 | A list should be compiled and circulated to the relevant staff, of all personnel who can authorise expense claim forms submitted to the Central Payroll Section. The list should include names of all personnel, details of which claims they can authorise, the position they hold and a copy of their signature. No employee should be permitted to authorise their own claims. | <b>B</b> | Departmental administration staff should carry out the verification of travelling & subsistence expense claim forms.<br><br>Central Payroll Processing will issue the necessary guidance to departments regarding this verification process.   | Yes    | Alan Mooney         | 31/08/01               |

## ACTION PLAN

| Para & page Ref.    | Recommendation   | Grade    | Comments   | Agreed | Responsible Officer          | Agreed Completion Date |
|---------------------|--|----------|--|--------|------------------------------|------------------------|
| Para 2.4<br>Page 13 | Where appropriate, supporting evidence, such as receipts and tickets, should be attached to expense claim forms to substantiate claims made.   | <b>B</b> | As above   | Yes    | Alan Mooney                  | 31/08/01               |
| Para 2.5<br>Page 14 | <b>Validation checks</b><br><br>The Finance department should implement the basic validation of financial codes as soon as possible.   | <b>B</b> | This work is scheduled in the Powersolve development plan.   | Yes    | Philip Owen                  | 31/08/01               |
| Para 2.6<br>Page 14 | <b>Best Value Review</b><br><br>A revised implementation plan should be agreed for the remaining outstanding Best Value revision points. In particular, the planned visit to the two authorities be carried out early in the new financial year and the interface of the ISIS payroll system and personnel system be fully implemented as soon as is practical and possible. The ongoing payroll reviews within the departments, with regard to the transfer to Central Payroll, should be completed and implemented, where appropriate, as soon as practical. | <b>A</b> | Meetings were held with Falkirk Council (11/06/01) and with West Dunbartonshire Council (20/06/01).<br><br>The Information Technology and Planning & Transportation Departments have agreed to transfer their payroll input responsibility to the Finance Department.<br><br>The Information Technology Department transferred with effect from 01/05/01. Planning & Transportation will transfer with effect from 01/08/01. | Yes    | John McDougall / Alan Mooney | 31/12/01               |