

REPORT TO: TAYSIDE VALUATION JOINT BOARD – 22 AUGUST 2011

REPORT ON: INTERNAL AUDIT

REPORT BY: ASSESSOR

REPORT NO: TVJB 17-2011

1 PURPOSE OF REPORT

1.1 To present to the Board the following Internal Audit Reports, which are attached as appendices to this report:-

Follow-up Review

Internal Audit Report 2011/06 – Follow Up 2010/11

New Reports

Internal Audit Report 2011/03 – General Ledger 2010/11
2011/04 – Payroll 2010/11

2 RECOMMENDATIONS

2.1 The Board is asked to note the contents of the three Audit Reports.

3 FINANCIAL IMPLICATIONS

3.1 The cost of Internal Audit Services is provided for in the Assessor's Revenue Budget.

4 POLICY IMPLICATIONS

4.1 This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

5 BACKGROUND

5.1 Henderson Loggie have been appointed to provide an Internal Audit Service in respect of the financial years 2010/11 to 2012/13. Audit work has proceeded in accordance with the Audit Needs Assessment and Strategic Plan for the period 2010 to 2013 approved by the Board on 9 May 2011.

5.2 The Follow-up Review required consideration of a single recommendation in relation to Budgetary Control. That recommendation has been fully implemented with the publication of revised Financial Regulations.

5.3 Report 2011/03 – General Ledger concludes that appropriate procedures and controls are in place. However, it provides one recommendation on how control account reconciliations could be further strengthened. The Treasurer and the Assessor will address this recommendation at an early date.

5.4 Report 2011/04 – Payroll concludes that, overall, a good level of control is in place. Two recommendations have been made: one to strengthen controls over changes to standing data and another to improve authorisation procedures in relation to payroll runs. The Assessor will address these issues in early course.

6 CONSULTATION

6.1 The Clerk and Treasurer to the Board have been consulted on this report.

7 BACKGROUND PAPERS

7.1 None

John M Galbraith FRICS
Assessor

August 2011



HENDERSON LOGGIE
Chartered Accountants

Tayside Valuation Joint Board

**Follow Up
2010/11**

Internal Audit Report No: 2011/06

Draft Issued: 24 June 2011

Final Issued: 28 June 2011



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1. Management Summary

Introduction and Background

We have been appointed as Internal Auditors to Tayside Valuation Joint Board ('the Board') for the period 1 April 2010 to 31 March 2013. The Internal Audit Plan for 2010/2011 includes time for follow-up work on the recommendations made in Internal Audit reports issued by the previous Internal Auditors, Dundee City Council, during 2009/2010. These were:

2009/01 – Annual Report on the Provision of Internal Audit Services for 2008/09;
2009/02 – Follow-up of Creditors/Procurement;
2009/03 – Budgetary Control;
2009/04 – Health & Safety;
2009/05 – Follow-up of Non-Domestic Rates;
2009/06 – Council Tax; and
2009/07 – Electoral Register

Reports 2009/01, 2009/02, 2009/04, 2009/05, 2009/06 and 2009/07 did not contain an action plan and therefore no follow-up was required as part of this review.

Audit Scope and Objectives

The objective of our follow-up review will be to assess whether recommendations made in internal audit reports from 2009/10 have been appropriately implemented and to ensure that, where little or no progress has been made towards implementation, that plans are in place to progress them.

Audit Approach

The audit approach taken was as follows:

- to request from responsible officers for each report listed above an update on the status of implementation of the recommendations made;
- to ascertain by review of supporting documentation, for any significant recommendations within the reports listed above, whether action undertaken has been adequate; and
- preparation of a summary of the current status of the recommendations for the Audit Committee.

Overall Conclusion

The Board implemented the single recommendation contained within Internal Audit report 2009/03 – Budgetary Control in October 2010 with the publication of revised Financial Regulations. In line with the recommendation made by Internal Audit, Paragraph 22.2 of the revised Financial Regulations sets out the requirement for regular review and updating of the document to reflect any changes in legislation or working practices.

<i>From Original Reports</i>			<i>From Follow-Up Work Performed</i>			
Area	Recommendation Grades	Number Agreed	Fully Implemented	Partially Implemented	Little or No Progress Made	Not Past Agreed Completion Date
Budgetary Control	Critical	-	-	-	-	-
	Significant	-	-	-	-	-
	Routine	1	1	-	-	-
Total		1	1	-	-	-

Acknowledgements

We would like to thank all staff at the Board who assisted us during our review.

UPDATED ACTION PLAN

Recommendation	Grade	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at June 2011
<p><i>Budgetary Control</i></p> <p>R1 To ensure that the Financial Regulations reflect prevailing circumstances and working practices, this document should be reviewed and revised as soon as possible and any necessary changes which are required should be made. Thereafter, arrangements should be put in place to ensure that the Financial Regulations are reviewed at periodic intervals. The document should include details of the last revision, even if no amendments have been made.</p>	Routine	None	Yes	Assessor/ Treasurer	August 2010	<p>Completed in October 2010 with the publication of revised Financial Regulations.</p> <p><i>Fully Implemented</i></p>



HENDERSON LOGGIE
Chartered Accountants

Tayside Valuation Joint Board

**General Ledger
2010/11**

Internal Audit Report No: 2011/03

Draft Issued: 08 June 2011

Final Issued: 20 July 2011



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Management Summary

Introduction

As part of the Internal Audit programme at Tayside Valuation Joint Board ('the Board') for 2010/2011 we carried out a review of the key internal controls in place over the general ledger. The Audit Needs Assessment, completed in March 2011, identified this as an area where risk can arise and where Internal Audit can assist in providing assurances to the Joint Board and the Assessor that the related control environment is operating effectively, ensuring risk is maintained at an acceptable level.

Scope of the Audit

We reviewed the following processes as part of our audit:

- month-end financial close process;
- year-end financial close process; and
- updating user access rights and adding / removing users on the main financial system.

Objectives of the Audit

The objectives of our audit were to obtain reasonable assurance that systems are in place to ensure that:

- the chart of accounts, coding structure, reports and procedures are adequate in respect of production of the Board's management accounts and financial statements;
- key controls are in place over the trial balance structure, control account reconciliations and journal entries;
- there is adequate control and reconciliation of the main feeder systems to the general ledger; and
- changes to the main financial system's user access rights, the addition of new users and removal of leavers are appropriately approved and updated on a timely basis.

Audit Approach

We assessed whether the above objectives were being met by documenting the systems and controls through interviews with the Board's Administration Manager, Administration Assistant and key members of the Finance Team at Dundee City Council ('the Council'). We established whether the expected key controls were in place by reference to CIPFA standard control risk assessment templates for a general ledger system. Walkthrough and compliance testing was performed, where applicable, to determine whether the key controls were working effectively.



Management Summary

Action Plan

This report sets out one improvement action, which we consider necessary to ensure efficient delivery of each objective and this is discussed within the text for clarity. An action plan for implementation of this recommendation can be found at Section 2 of this report.

To aid the use of the action plan, our recommendations are 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 Joint Board.
- B Significant matters which can be resolved by the Board's Administration Manager, Assessor or the Departmental Accountant at the Council.
- C Less significant matters, which do not require urgent attention but which should be followed up within a reasonable timescale.

Overall Conclusion

Overall we obtained reasonable assurance that:

- the chart of accounts, coding structure, reports and procedures are adequate in respect of production of the Board's management accounts and financial statements;
- key controls are in place over the trial balance structure, control account reconciliations and journal entries; and
- there is adequate control and reconciliation of the main feeder systems to the general ledger.
- only the Board's Administration staff and appropriate finance staff at the Council have user access rights to the Board's main financial systems and there were no changes required in the year under review.

However our review found that controls surrounding the control account reconciliations could be further strengthened.

Summary of Main Findings and Recommendations

A Service Level Agreement for the provision of financial services is in place between the Board and Council. Under this Agreement the Council is responsible for maintaining the Board's general ledger, preparing control account reconciliations, providing regular revenue monitoring and management reports and preparing annual statutory accounts.

Our testing found the Board's control accounts are regularly reconciled by the Council. At present reconciliations prepared by the Council are not submitted to the Board, with the exception of monthly bank reconciliations. We recommend control account reconciliations, prepared by the Council, are regularly submitted to the Board and reviewed to ensure any variances are investigated timeously.

Acknowledgements

We would like to thank all staff at the Board and the Council who assisted us during our review.



Action Plan

Para Ref.	Recommendation	Grade	Comments	Agreed Y/N	Responsible Officer For Action	Agreed Completion Date
3.2	<i>Trial Balance and Control Account Reconciliations</i> R1 Regular control account reconciliations, prepared by the Council, should be submitted to the Assessor and reviewed to ensure any variances are investigated timeously.	C	Purchase Ledger Control Account, Sales Ledger Control Account and Payroll Control Account Reconciliations will be submitted to the Assessor on a monthly basis.	Y	Treasurer	31 Aug 2011

**1. Month / Year-End Financial Close Process**

- 1.1 The Board has in place a Service Level Agreement (SLA) with Dundee City Council ('the Council') for the provision of financial services. The current SLA covers the period April 2007 to March 2012. The services provided include the maintenance of the Board's general ledger, the preparation of control account reconciliations, provision of regular revenue monitoring and management reports and the preparation of annual statutory accounts.
- 1.2 The Board's month-end and year-end financial close process is performed by the Council. The Council maintains a control sheet, which documents the journals to be posted and reconciliations to be performed each month on the Board's behalf. Each task on the control sheet is ticked once complete. The Council also prepares a final accounts timetable, which documents the tasks to be completed in order for the Board's statutory accounts to be prepared. The timetable records the individual / department responsible for completing each task.
- 1.3 Each year the Council issues a final accounts checklist to the Board. The checklist records the ledger cut-off date and requests that the Board provides details of the imprest balances and accrued income and expenditure at the year-end. In preparation for the new financial year the Board provides the Council with the following year's revenue budget figures for each cost centre. The budget figures are uploaded on to the finance system by the Council and used for revenue monitoring purposes.

2. Chart of Accounts, Coding Structure, Reports and Procedures

- 2.1 The finance system enables reports to be generated for individual or groups of cost centres. Each general ledger code consists of ten numbers; the first five numbers relate to a specific cost centre whilst the remaining numbers relate to an account name, for example electricity.
- 2.2 The need for a new general ledger code is normally identified during the budget setting process. Discussions with the Board's Administration Assistant highlighted that general ledger codes could only be added or removed on the finance system by the Council. At present there are no formally documented procedures in place at the Board for requesting and authorising the addition or removal of general ledger codes. The Board's Administration Manager or Administration Assistant currently e-mails the Council to request a general ledger code be added or removed.

3. *Trial Balance and Control Account Reconciliations*

3.1 Each day the Council runs a 'daily balances management report' on the finance system to check that the Board's trial balance squares. In addition, the Departmental Accountant responsible for overseeing the Board's ledger reviews the trial balance each month to identify any unusual balances. Although the trial balances are not signed off by the Departmental Accountant, all balance sheet items are ticked to evidence a review has taken place.

3.2 *Observation*

As part of our review we sought assurance that the Council is reconciling the Board's control accounts on a regular basis in accordance with the SLA. We found all control accounts are reconciled on either a daily or monthly basis with the exception of the VAT control account, which is reconciled annually. Our fieldwork was performed in April 2011 at which point the 2010/11 VAT control account reconciliation had begun but was incomplete. Our review found control account reconciliations are not signed by the individual preparing or reviewing the reconciliation. In an attempt to become a paperless office the Council often retains control account reconciliations electronically rather than in paper format; as a result reconciliations are not signed off by the individual preparing the reconciliation. Although control account reconciliations are not signed by the Departmental Accountant the Accountant reviews the Board's trial balance each month and ticks all balance sheet items to evidence that the balances have been checked. At present bank reconciliations are the only reconciliations issued by the Council to the Board.

Risk

Unexplained balances on control accounts are not highlighted to the Board timeously.

Recommendation

R1 Control account reconciliations, prepared by the Council, should be submitted to the Assessor and reviewed to ensure any variances are investigated timeously.

Benefit

Assurance can be obtained that control accounts are regularly reconciled and variances investigated timeously.

3.3 During our audit we obtained a copy of the most up-to-date trial balance issued to the Board. The trial balance, dated 7 March 2011, showed all suspense accounts, with the exception of the 'bank recharges suspense' account, had a ledger balance of zero. Our testing confirmed that the 'bank recharges suspense' account related to employers charges and other miscellaneous charges paid by the Council on the Board's behalf. The recharges, with the exception of £10, were vouched to the February 2011 bank reconciliation.

4. *Journal Entries*

4.1 All journals are processed by the Council on the Board's behalf. The Board's Administration Manager and Administration Assistant will occasionally e-mail the Council to request a journal be processed; in most instances these journals will relate to the reallocation of expenditure between budget codes. During our audit we requested a copy of all journal requests e-mailed by the Administration Assistant to the Council during 2010/2011. We found two journals, of low value, had been requested during the year. In both instances there was no evidence to suggest the journals had been authorised. Discussions with the Administration Assistant highlighted that there are no formally documented procedures in place at the Board for requesting and approving journal entries. However, given the controls in place within the Council we have taken the view that this does not present a material risk.

Main Report

4. Journal Entries (Cont'd)

- 4.2 The Council regularly prepares journals and posts these to the Board's general ledger. Whilst reviewing a sample of 15 journals posted to the ledger during 2010/11 we found the individual inputting and authorising the journal was the same person. Council staff do not consider this to be an issue as only a restricted number of staff are able to post journals to the Board's ledger. Furthermore, it is anticipated that any discrepancies would be identified by the Departmental Accountant whilst reviewing the monthly trial balance and preparing revenue monitoring reports. Our testing found sufficient narrative was provided for each journal posted.

5. Feeder Systems

- 5.1 The interface between the Board's creditor module and general ledger ensures all transactions posted to the creditor module are automatically posted to the general ledger. The Board's finance system is programmed to generate a report on a daily basis which compares the purchase ledger control account balance per the general ledger with that recorded in the creditor module. During our review we selected five dates at random throughout 2010/11 and sought assurance that the finance system had generated a purchase ledger control account reconciliation report. In all instances we found a report was generated and the variance between the general ledger and creditor module balance was nil.
- 5.2 Due to the small volume of sales invoices raised by the Board it was deemed inappropriate to purchase the finance system's sales ledger module. All sales invoices are raised manually by the Board. The sales invoices raised each month are recorded on a 'return of income' form, which is submitted to the Council. The Council use this form to make the relevant postings to the general ledger. A spreadsheet is maintained by the Council, which lists all invoices recorded on the 'return of income' forms and payments processed through the Board's cashbook. This spreadsheet is reconciled to the sales invoice control account balance per the general ledger on a monthly basis.
- 5.3 Each month the Administration Assistant enters all payroll amendments on to the payroll system (Resourcelink). The Council runs monthly payroll reports from the system and these are sent to the Board for authorisation by the Administration Manager. The interface between Resourcelink and the general ledger ensures the ledger is automatically updated with the monthly payroll figure. The payroll figure per Resourcelink is reconciled to the payroll control account balance per the general ledger each month. We selected five months throughout 2010/11 and sought assurance that the payroll control account was fully reconciled to Resourcelink; no issues were noted from the testing performed.

**6 User Access Rights**

- 6.1 Access to the Board's finance system is restricted through the use of usernames and passwords. At present the Administration Manager, Administration Assistant and Secretary are the only members of staff at the Board with access to the finance system.
- 6.2 Our review found several members of Council staff have 'enquiry only' access to the Board's finance system; however there are currently only two members of staff with full access to the system and three staff members with 'accounting rights' access. Discussions with Council staff highlighted that there was no requirement to alter access rights to the Board's finance system during 2010/11. Where appropriate, alterations to Council staffs' user access rights are formally requested in an e-mail from the Departmental Accountant. A staff leaver form is required to be completed for all staff leaving the Board. This form includes confirmation by the IT department that access to all IT systems at the Board has been removed.



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Tayside Valuation Joint Board

**Payroll
2010/11**

Internal Audit Report No: 2011/04

Draft Issued: 16 June 2011

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1. Management Summary

Introduction and Background

As part of the Internal Audit programme at Tayside Valuation Joint Board ('the Board'), for 2010/11, we carried out a review of the key internal controls in place within the payroll system. Our Audit Needs Assessment identified this system as an area where risk can arise and where Internal Audit can assist in providing assurances to the Joint Board and Assessor that the related control environment is operating effectively, ensuring risk is maintained at an acceptable level.

Payroll is the single largest expense for the Board with budgeted staff costs for the year to 31 March 2010 of £2.82 million and consequently carries significant risk if the systems do not operate efficiently.

The Board has a service level agreement in place with Dundee City Council for the provision of payroll processing services. The calculation of net pay and the production of payslips is carried out by Dundee City Council, using its Resourcelink payroll software. All data relating to new employees, leavers and variations to pay for existing employees is entered by a member of the administrative staff at the Board, utilising a secure direct link to Dundee City Council's payroll software. BACS payments to employees are made by the Council.

Audit Scope and Objectives

The scope of the audit covers the adequacy and effectiveness of the processes and procedures in place to ensure that payroll payments made on the payroll system are valid, authorised, accurate and monitored appropriately.

The main objective of the audit is to review the overall arrangements for dealing with payroll risks and to consider whether mitigating controls in place are adequate.

The specific objectives of the review were to seek reasonable assurance that:

- all new posts are appropriately approved;
- starters and leavers are properly treated and enter and leave the payroll system at the correct dates;
- there is correct calculation of gross pay and deductions, including PAYE, national insurance and pension contributions;
- overtime payments and other variations to pay are properly authorised, processed and recorded;
- there is robust approval and checking of changes to employee standing data;
- payroll reconciliations are completed and reviewed on a timely basis;
- monitoring information is adequate for identifying incorrect payroll payments and to allow budget holders to manage their budgets effectively; and
- payments, whether to staff or paying deductions over to third parties, are properly authorised, processed and recorded within the Board's main financial system.

Audit Approach

From discussion with the Administrative staff, and review of procedural documentation, we have identified the key internal controls in place within the Board's payroll system and compared these with expected controls. Audit testing has been carried out to ensure that the controls in place are operating effectively; concentrating on starters, leavers and variations to pay.

1. Management Summary

Action Plan Grading

This report sets out two improvement actions, which we consider necessary to ensure efficient delivery of each objective and this is discussed within the text for clarity. An action plan for implementation of the recommendations can be found at Section 2 of this report.

To aid the use of the action plan, our recommendations are 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 Joint Board.
- B Significant matters which can be resolved by the Board's Administration Manager, Assessor or the Departmental Accountant at the Council.
- C Less significant matters, which do not require urgent attention but which should be followed up within a reasonable timescale.

Overall Conclusion

From our audit work, assurance was obtained that, overall, a good level of control is in place and systems are sufficient to ensure: new posts are appropriately approved, starters and leavers are properly treated and enter and leave the system at the correct dates; correct calculation of gross pay and deductions; overtime payments are properly authorised, processed and recorded; approval and checking of changes to employee standing data; payroll reconciliations are completed and reviewed on a timely basis; monitoring information is adequate for identifying incorrect payroll payments and to allow budget holders to manage their budgets effectively; and payments, whether to staff or paying deductions over to third parties, are authorised, processed and recorded within the main accounting system.

However our review found that some improvements to controls over changes to standing data could be further strengthened and the checks carried out on the draft payroll run should be formally recorded.

Summary of Main Findings and Recommendations

We noted during our previous review of this area in 2005/06 (Internal Audit Report No. 2006/01) that the exception reports received from Dundee City Council were not being reviewed and signed-off by the Assessor or Depute Assessor. We confirmed during our testing this was now being completed.

Our testing on the current process for updating employee standing data identified weaknesses in the current approach, with updating of standing employee data based on email correspondence. Whilst recognising that changes to standing employee data are not commonplace we recommend that a more formal process should be put in place to document changes to standing data.

As part of our testing on the checking of payments being made to employees, we found that the payroll report being provided by Dundee City Council was not signed off as being checked. Although it was intimated that this is checked, we recommend that the payroll report is signed off by the Administration Manager to provide documented evidence that the amount paid by Dundee City Council has been independently verified.

Acknowledgements

We would like to thank all staff at the Board who assisted us during our review.



2. Action Plan

Para Ref.	Recommendation	Grade	Comments	Agreed	Responsible Officer	Agreed Completion Date
3.2	Standing data R1 A formal documented process should be established for the updating of employee standing data to ensure that information is updated correctly and in a timely fashion. The Assessor should then review any payroll changes, such as changes to bank details.	C		Yes	Assessor	31 December 2011
5.2	Authorisation of the Payroll Runs R2 The Assessor should review the draft payroll run after the Administration Manager and Administrative Assistant complete their checking of the payment details and the Assessor should authorise the final payroll run.	C	Following the recent retiral of the Administration Manager, a review of the staff structure is currently underway. While it is agreed that this recommendation should be actioned, a date of December 2011 has been input for final completion of this matter in order to allow time to consider which postholders will be involved in the process once the new staff structure is established.	Yes	Assessor	31 December 2011

3. Main Report

1. *Starters and Leavers*

- 1.1 Our testing identified that there were no new starts within the Board during financial year 2010/11. This meant that no substantive testing could be carried out. We have documented the system and controls in place and from the work done we have concluded that the control environment around new starts appears robust. However, without any starts in the period reviewed we are not in a position to confirm whether the controls are functioning as anticipated.
- 1.2 There were three leavers from the Board during financial year 2010/11 and we examined each of these cases individually. The personnel file for each of these employees was checked to confirm that the appropriate resignation documentation, superannuation termination documentation and calculation of final payments made were on file. The employees' final payslip was also checked to ensure that pay had been calculated correctly. In addition, we confirmed that a form was completed for all three leavers to ensure that the employee's access rights to Board computer systems were removed on their departure from the organisation.

2. *Variations to pay*

- 2.1 The audit considered variations to pay arising from overtime.
- 2.2 A sample of three overtime payments for employees paid via timesheets for hours out-with their contracted hours was selected and checks made to ensure that the claims were on the official Overtime Return forms and clearly detailed the additional hours worked and that the payment had been correctly calculated. We also checked that the claims had been certified as correct by an authorised signatory and had been signed and dated when input into the computer system. Testing in this area proved satisfactory.

3. *Employee Standing Data*

- 3.1 The process for making changes to standing employee data was discussed with the Administrative Assistant who is responsible for making the relevant amendments on the payroll system. He explained that there is no formal document for instructing changes to employee data and changes are currently triggered by an email being sent to him requesting a change.

3.2 *Observation*

There is no formal documentation in place to notify the Administrative Assistant to make changes to the employee standing data. The Administrative Assistant is solely responsible for updating an employee's bank details on the payroll system and no secondary review is performed on these changes.

Risk

Not all information required for the updating of standing data may be received or updated in a timely manner. The changes are not properly authorised.

Recommendation

R1 A formal documented process should be established for the updating of employee standing data to ensure that information is updated correctly and in a timely fashion. The Assessor should then review any payroll changes, such as changes to bank details.

Benefit

Changes to payroll standing data are updated correctly and properly authorised. Any incorrect payments details are identified before the final payment run is made.

3. Main Report

4. *Payments and deductions*

- 4.1 A Service Level Agreement is in place with Dundee City Council for performance of payroll administration duties on behalf of the Board. To gain some additional assurance in this area a sample of ten payslips were reviewed and deductions (PAYE and NIC, superannuation and other voluntary deductions such as student loans and car payments) were checked for accuracy, traced to individual personnel files and supporting paperwork, including claim forms and contracts, where appropriate. Net pay due was agreed to the BACS processing report.
- 4.2 The Council send copies of the payroll control totals for each pay run and the Board administrative staff then agree these amounts to the payroll input sheets to ensure payments are as expected. Testing in this area proved satisfactory.

5. *Authorisation of the Payroll Runs*

- 5.1 The Administrative Assistant is responsible for inputting the employees pay details into the Council's payroll system, Resourcelink. The Council produce a draft payroll run which is sent to the same officer. The Administrative Assistant then checks, together with the Administration Manager, that the details on the individual payslips reconcile to the figures on the spreadsheet maintained within the Board. Only once this check is carried out is the final payroll run authorised.

5.2 *Observation*

Accepting that there are few employees involved in the administration function at the Board this is an area where the key control should include segregation of duties; the employees who input and check the payment details should not also be responsible for authorising the final payroll run.

Risk

There is no independent check of the payroll payment details or authorisation of the final payroll run.

Recommendation

R2 The Assessor should review the draft payroll run after the Administration Manager and Administrative Assistant complete their checking of the payment details and the Assessor should authorise the final payroll run.

Benefit

There would be an independent check on the payroll payment details and appropriate authorisation of the final payroll run.

6. *Monitoring Information*

- 6.1 A recognised key control over the payroll system is that exception reports should be run prior to the authorising of the final payroll run to ensure that any incorrect payments or details are identified. Any variances on the exception report should then be investigated by an independent person and appropriate amendments to the payroll system made before the final payroll run is authorised for processing. As described at 5.1 above the Administrative Assistant is responsible for inputting the employees pay details into the Council's payroll system. Exception reports are produced by the Council, normally showing new starts or leavers, and these are signed off by the Administration Manager or the Assessor, ensuring segregation of duties from the input of employees payroll details prior to authorisation of the final payroll run.



3. Main Report

6. *Monitoring Information (Continued)*

- 6.2 Staff costs are monitored by the Joint Board as part of the quarterly revenue monitoring reports presented by the Treasurer. Explanations for variations between budgeted and actual spend on staff costs are included in these quarterly monitoring reports.



HENDERSON LOGGIE
Chartered Accountants

Tayside Valuation Joint Board

**Follow Up
2010/11**

Internal Audit Report No: 2011/06

Draft Issued: 24 June 2011

Final Issued: 28 June 2011



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Reports 2009/01, 2009/02, 2009/04, 2009/05, 2009/06 and 2009/07 did not contain an action plan and therefore no follow-up was required as part of this review.

Audit Scope and Objectives

The objective of our follow-up review will be to assess whether recommendations made in internal audit reports from 2009/10 have been appropriately implemented and to ensure that, where little or no progress has been made towards implementation, that plans are in place to progress them.

Audit Approach

The audit approach taken was as follows:

- to request from responsible officers for each report listed above an update on the status of implementation of the recommendations made;
- to ascertain by review of supporting documentation, for any significant recommendations within the reports listed above, whether action undertaken has been adequate; and
- preparation of a summary of the current status of the recommendations for the Audit Committee.

Overall Conclusion

The Board implemented the single recommendation contained within Internal Audit report 2009/03 – Budgetary Control in October 2010 with the publication of revised Financial Regulations. In line with the recommendation made by Internal Audit, Paragraph 22.2 of the revised Financial Regulations sets out the requirement for regular review and updating of the document to reflect any changes in legislation or working practices.

Area	From Original Reports		From Follow-Up Work Performed			
	Recommendation Grades	Number Agreed	Fully Implemented	Partially Implemented	Little or No Progress Made	Not Past Agreed Completion Date
Budgetary Control	Critical	-	-	-	-	-
	Significant	-	-	-	-	-
	Routine	1	1	-	-	-
Total		1	1	-	-	-

Acknowledgements

We would like to thank all staff at the Board who assisted us during our review.

UPDATED ACTION PLAN

Recommendation	Grade	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at June 2011
<p><i>Budgetary Control</i></p> <p>R1 To ensure that the Financial Regulations reflect prevailing circumstances and working practices, this document should be reviewed and revised as soon as possible and any necessary changes which are required should be made. Thereafter, arrangements should be put in place to ensure that the Financial Regulations are reviewed at periodic intervals. The document should include details of the last revision, even if no amendments have been made.</p>	Routine	None	Yes	Assessor/ Treasurer	August 2010	<p>Completed in October 2010 with the publication of revised Financial Regulations.</p> <p><i>Fully Implemented</i></p>



HENDERSON LOGGIE
Chartered Accountants

Tayside Valuation Joint Board

**General Ledger
2010/11**

Internal Audit Report No: 2011/03

Draft Issued: 08 June 2011

Final Issued: 20 July 2011



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Management Summary

Introduction

As part of the Internal Audit programme at Tayside Valuation Joint Board ('the Board') for 2010/2011 we carried out a review of the key internal controls in place over the general ledger. The Audit Needs Assessment, completed in March 2011, identified this as an area where risk can arise and where Internal Audit can assist in providing assurances to the Joint Board and the Assessor that the related control environment is operating effectively, ensuring risk is maintained at an acceptable level.

Scope of the Audit

We reviewed the following processes as part of our audit:

- month-end financial close process;
- year-end financial close process; and
- updating user access rights and adding / removing users on the main financial system.

Objectives of the Audit

The objectives of our audit were to obtain reasonable assurance that systems are in place to ensure that:

- the chart of accounts, coding structure, reports and procedures are adequate in respect of production of the Board's management accounts and financial statements;
- key controls are in place over the trial balance structure, control account reconciliations and journal entries;
- there is adequate control and reconciliation of the main feeder systems to the general ledger; and
- changes to the main financial system's user access rights, the addition of new users and removal of leavers are appropriately approved and updated on a timely basis.

Audit Approach

We assessed whether the above objectives were being met by documenting the systems and controls through interviews with the Board's Administration Manager, Administration Assistant and key members of the Finance Team at Dundee City Council ('the Council'). We established whether the expected key controls were in place by reference to CIPFA standard control risk assessment templates for a general ledger system. Walkthrough and compliance testing was performed, where applicable, to determine whether the key controls were working effectively.



Management Summary

Action Plan

This report sets out one improvement action, which we consider necessary to ensure efficient delivery of each objective and this is discussed within the text for clarity. An action plan for implementation of this recommendation can be found at Section 2 of this report.

To aid the use of the action plan, our recommendations are 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 Joint Board.
- B Significant matters which can be resolved by the Board's Administration Manager, Assessor or the Departmental Accountant at the Council.
- C Less significant matters, which do not require urgent attention but which should be followed up within a reasonable timescale.

Overall Conclusion

Overall we obtained reasonable assurance that:

- the chart of accounts, coding structure, reports and procedures are adequate in respect of production of the Board's management accounts and financial statements;
- key controls are in place over the trial balance structure, control account reconciliations and journal entries; and
- there is adequate control and reconciliation of the main feeder systems to the general ledger.
- only the Board's Administration staff and appropriate finance staff at the Council have user access rights to the Board's main financial systems and there were no changes required in the year under review.

However our review found that controls surrounding the control account reconciliations could be further strengthened.

Summary of Main Findings and Recommendations

A Service Level Agreement for the provision of financial services is in place between the Board and Council. Under this Agreement the Council is responsible for maintaining the Board's general ledger, preparing control account reconciliations, providing regular revenue monitoring and management reports and preparing annual statutory accounts.

Our testing found the Board's control accounts are regularly reconciled by the Council. At present reconciliations prepared by the Council are not submitted to the Board, with the exception of monthly bank reconciliations. We recommend control account reconciliations, prepared by the Council, are regularly submitted to the Board and reviewed to ensure any variances are investigated timeously.

Acknowledgements

We would like to thank all staff at the Board and the Council who assisted us during our review.



Action Plan

Para Ref.	Recommendation	Grade	Comments	Agreed Y/N	Responsible Officer For Action	Agreed Completion Date
3.2	<i>Trial Balance and Control Account Reconciliations</i> R1 Regular control account reconciliations, prepared by the Council, should be submitted to the Assessor and reviewed to ensure any variances are investigated timeously.	C	Purchase Ledger Control Account, Sales Ledger Control Account and Payroll Control Account Reconciliations will be submitted to the Assessor on a monthly basis.	Y	Treasurer	31 Aug 2011

**1. Month / Year-End Financial Close Process**

- 1.1 The Board has in place a Service Level Agreement (SLA) with Dundee City Council ('the Council') for the provision of financial services. The current SLA covers the period April 2007 to March 2012. The services provided include the maintenance of the Board's general ledger, the preparation of control account reconciliations, provision of regular revenue monitoring and management reports and the preparation of annual statutory accounts.
- 1.2 The Board's month-end and year-end financial close process is performed by the Council. The Council maintains a control sheet, which documents the journals to be posted and reconciliations to be performed each month on the Board's behalf. Each task on the control sheet is ticked once complete. The Council also prepares a final accounts timetable, which documents the tasks to be completed in order for the Board's statutory accounts to be prepared. The timetable records the individual / department responsible for completing each task.
- 1.3 Each year the Council issues a final accounts checklist to the Board. The checklist records the ledger cut-off date and requests that the Board provides details of the imprest balances and accrued income and expenditure at the year-end. In preparation for the new financial year the Board provides the Council with the following year's revenue budget figures for each cost centre. The budget figures are uploaded on to the finance system by the Council and used for revenue monitoring purposes.

2. Chart of Accounts, Coding Structure, Reports and Procedures

- 2.1 The finance system enables reports to be generated for individual or groups of cost centres. Each general ledger code consists of ten numbers; the first five numbers relate to a specific cost centre whilst the remaining numbers relate to an account name, for example electricity.
- 2.2 The need for a new general ledger code is normally identified during the budget setting process. Discussions with the Board's Administration Assistant highlighted that general ledger codes could only be added or removed on the finance system by the Council. At present there are no formally documented procedures in place at the Board for requesting and authorising the addition or removal of general ledger codes. The Board's Administration Manager or Administration Assistant currently e-mails the Council to request a general ledger code be added or removed.

3. Trial Balance and Control Account Reconciliations

3.1 Each day the Council runs a 'daily balances management report' on the finance system to check that the Board's trial balance squares. In addition, the Departmental Accountant responsible for overseeing the Board's ledger reviews the trial balance each month to identify any unusual balances. Although the trial balances are not signed off by the Departmental Accountant, all balance sheet items are ticked to evidence a review has taken place.

3.2 *Observation*

As part of our review we sought assurance that the Council is reconciling the Board's control accounts on a regular basis in accordance with the SLA. We found all control accounts are reconciled on either a daily or monthly basis with the exception of the VAT control account, which is reconciled annually. Our fieldwork was performed in April 2011 at which point the 2010/11 VAT control account reconciliation had begun but was incomplete. Our review found control account reconciliations are not signed by the individual preparing or reviewing the reconciliation. In an attempt to become a paperless office the Council often retains control account reconciliations electronically rather than in paper format; as a result reconciliations are not signed off by the individual preparing the reconciliation. Although control account reconciliations are not signed by the Departmental Accountant the Accountant reviews the Board's trial balance each month and ticks all balance sheet items to evidence that the balances have been checked. At present bank reconciliations are the only reconciliations issued by the Council to the Board.

Risk

Unexplained balances on control accounts are not highlighted to the Board timeously.

Recommendation

R1 Control account reconciliations, prepared by the Council, should be submitted to the Assessor and reviewed to ensure any variances are investigated timeously.

Benefit

Assurance can be obtained that control accounts are regularly reconciled and variances investigated timeously.

3.3 During our audit we obtained a copy of the most up-to-date trial balance issued to the Board. The trial balance, dated 7 March 2011, showed all suspense accounts, with the exception of the 'bank recharges suspense' account, had a ledger balance of zero. Our testing confirmed that the 'bank recharges suspense' account related to employers charges and other miscellaneous charges paid by the Council on the Board's behalf. The recharges, with the exception of £10, were vouched to the February 2011 bank reconciliation.

4. Journal Entries

4.1 All journals are processed by the Council on the Board's behalf. The Board's Administration Manager and Administration Assistant will occasionally e-mail the Council to request a journal be processed; in most instances these journals will relate to the reallocation of expenditure between budget codes. During our audit we requested a copy of all journal requests e-mailed by the Administration Assistant to the Council during 2010/2011. We found two journals, of low value, had been requested during the year. In both instances there was no evidence to suggest the journals had been authorised. Discussions with the Administration Assistant highlighted that there are no formally documented procedures in place at the Board for requesting and approving journal entries. However, given the controls in place within the Council we have taken the view that this does not present a material risk.

4. Journal Entries (Cont'd)

- 4.2 The Council regularly prepares journals and posts these to the Board's general ledger. Whilst reviewing a sample of 15 journals posted to the ledger during 2010/11 we found the individual inputting and authorising the journal was the same person. Council staff do not consider this to be an issue as only a restricted number of staff are able to post journals to the Board's ledger. Furthermore, it is anticipated that any discrepancies would be identified by the Departmental Accountant whilst reviewing the monthly trial balance and preparing revenue monitoring reports. Our testing found sufficient narrative was provided for each journal posted.

5. Feeder Systems

- 5.1 The interface between the Board's creditor module and general ledger ensures all transactions posted to the creditor module are automatically posted to the general ledger. The Board's finance system is programmed to generate a report on a daily basis which compares the purchase ledger control account balance per the general ledger with that recorded in the creditor module. During our review we selected five dates at random throughout 2010/11 and sought assurance that the finance system had generated a purchase ledger control account reconciliation report. In all instances we found a report was generated and the variance between the general ledger and creditor module balance was nil.
- 5.2 Due to the small volume of sales invoices raised by the Board it was deemed inappropriate to purchase the finance system's sales ledger module. All sales invoices are raised manually by the Board. The sales invoices raised each month are recorded on a 'return of income' form, which is submitted to the Council. The Council use this form to make the relevant postings to the general ledger. A spreadsheet is maintained by the Council, which lists all invoices recorded on the 'return of income' forms and payments processed through the Board's cashbook. This spreadsheet is reconciled to the sales invoice control account balance per the general ledger on a monthly basis.
- 5.3 Each month the Administration Assistant enters all payroll amendments on to the payroll system (Resourcelink). The Council runs monthly payroll reports from the system and these are sent to the Board for authorisation by the Administration Manager. The interface between Resourcelink and the general ledger ensures the ledger is automatically updated with the monthly payroll figure. The payroll figure per Resourcelink is reconciled to the payroll control account balance per the general ledger each month. We selected five months throughout 2010/11 and sought assurance that the payroll control account was fully reconciled to Resourcelink; no issues were noted from the testing performed.

**6 *User Access Rights***

- 6.1 Access to the Board's finance system is restricted through the use of usernames and passwords. At present the Administration Manager, Administration Assistant and Secretary are the only members of staff at the Board with access to the finance system.
- 6.2 Our review found several members of Council staff have 'enquiry only' access to the Board's finance system; however there are currently only two members of staff with full access to the system and three staff members with 'accounting rights' access. Discussions with Council staff highlighted that there was no requirement to alter access rights to the Board's finance system during 2010/11. Where appropriate, alterations to Council staffs' user access rights are formally requested in an e-mail from the Departmental Accountant. A staff leaver form is required to be completed for all staff leaving the Board. This form includes confirmation by the IT department that access to all IT systems at the Board has been removed.



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Tayside Valuation Joint Board

**Payroll
2010/11**

Internal Audit Report No: 2011/04

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1. Management Summary

Introduction and Background

As part of the Internal Audit programme at Tayside Valuation Joint Board ('the Board'), for 2010/11, we carried out a review of the key internal controls in place within the payroll system. Our Audit Needs Assessment identified this system as an area where risk can arise and where Internal Audit can assist in providing assurances to the Joint Board and Assessor that the related control environment is operating effectively, ensuring risk is maintained at an acceptable level.

Payroll is the single largest expense for the Board with budgeted staff costs for the year to 31 March 2010 of £2.82 million and consequently carries significant risk if the systems do not operate efficiently.

The Board has a service level agreement in place with Dundee City Council for the provision of payroll processing services. The calculation of net pay and the production of payslips is carried out by Dundee City Council, using its Resourcelink payroll software. All data relating to new employees, leavers and variations to pay for existing employees is entered by a member of the administrative staff at the Board, utilising a secure direct link to Dundee City Council's payroll software. BACS payments to employees are made by the Council.

Audit Scope and Objectives

The scope of the audit covers the adequacy and effectiveness of the processes and procedures in place to ensure that payroll payments made on the payroll system are valid, authorised, accurate and monitored appropriately.

The main objective of the audit is to review the overall arrangements for dealing with payroll risks and to consider whether mitigating controls in place are adequate.

The specific objectives of the review were to seek reasonable assurance that:

- all new posts are appropriately approved;
- starters and leavers are properly treated and enter and leave the payroll system at the correct dates;
- there is correct calculation of gross pay and deductions, including PAYE, national insurance and pension contributions;
- overtime payments and other variations to pay are properly authorised, processed and recorded;
- there is robust approval and checking of changes to employee standing data;
- payroll reconciliations are completed and reviewed on a timely basis;
- monitoring information is adequate for identifying incorrect payroll payments and to allow budget holders to manage their budgets effectively; and
- payments, whether to staff or paying deductions over to third parties, are properly authorised, processed and recorded within the Board's main financial system.

Audit Approach

From discussion with the Administrative staff, and review of procedural documentation, we have identified the key internal controls in place within the Board's payroll system and compared these with expected controls. Audit testing has been carried out to ensure that the controls in place are operating effectively; concentrating on starters, leavers and variations to pay.

1. Management Summary

Action Plan Grading

This report sets out two improvement actions, which we consider necessary to ensure efficient delivery of each objective and this is discussed within the text for clarity. An action plan for implementation of the recommendations can be found at Section 2 of this report.

To aid the use of the action plan, our recommendations are 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 Joint Board.
- B Significant matters which can be resolved by the Board's Administration Manager, Assessor or the Departmental Accountant at the Council.
- C Less significant matters, which do not require urgent attention but which should be followed up within a reasonable timescale.

Overall Conclusion

From our audit work, assurance was obtained that, overall, a good level of control is in place and systems are sufficient to ensure: new posts are appropriately approved, starters and leavers are properly treated and enter and leave the system at the correct dates; correct calculation of gross pay and deductions; overtime payments are properly authorised, processed and recorded; approval and checking of changes to employee standing data; payroll reconciliations are completed and reviewed on a timely basis; monitoring information is adequate for identifying incorrect payroll payments and to allow budget holders to manage their budgets effectively; and payments, whether to staff or paying deductions over to third parties, are authorised, processed and recorded within the main accounting system.

However our review found that some improvements to controls over changes to standing data could be further strengthened and the checks carried out on the draft payroll run should be formally recorded.

Summary of Main Findings and Recommendations

We noted during our previous review of this area in 2005/06 (Internal Audit Report No. 2006/01) that the exception reports received from Dundee City Council were not being reviewed and signed-off by the Assessor or Depute Assessor. We confirmed during our testing this was now being completed.

Our testing on the current process for updating employee standing data identified weaknesses in the current approach, with updating of standing employee data based on email correspondence. Whilst recognising that changes to standing employee data are not commonplace we recommend that a more formal process should be put in place to document changes to standing data.

As part of our testing on the checking of payments being made to employees, we found that the payroll report being provided by Dundee City Council was not signed off as being checked. Although it was intimated that this is checked, we recommend that the payroll report is signed off by the Administration Manager to provide documented evidence that the amount paid by Dundee City Council has been independently verified.

Acknowledgements

We would like to thank all staff at the Board who assisted us during our review.



2. Action Plan

Para Ref.	Recommendation	Grade	Comments	Agreed	Responsible Officer	Agreed Completion Date
3.2	Standing data R1 A formal documented process should be established for the updating of employee standing data to ensure that information is updated correctly and in a timely fashion. The Assessor should then review any payroll changes, such as changes to bank details.	C		Yes	Assessor	31 December 2011
5.2	Authorisation of the Payroll Runs R2 The Assessor should review the draft payroll run after the Administration Manager and Administrative Assistant complete their checking of the payment details and the Assessor should authorise the final payroll run.	C	Following the recent retiral of the Administration Manager, a review of the staff structure is currently underway. While it is agreed that this recommendation should be actioned, a date of December 2011 has been input for final completion of this matter in order to allow time to consider which postholders will be involved in the process once the new staff structure is established.	Yes	Assessor	31 December 2011

3. Main Report

1. *Starters and Leavers*

- 1.1 Our testing identified that there were no new starts within the Board during financial year 2010/11. This meant that no substantive testing could be carried out. We have documented the system and controls in place and from the work done we have concluded that the control environment around new starts appears robust. However, without any starts in the period reviewed we are not in a position to confirm whether the controls are functioning as anticipated.
- 1.2 There were three leavers from the Board during financial year 2010/11 and we examined each of these cases individually. The personnel file for each of these employees was checked to confirm that the appropriate resignation documentation, superannuation termination documentation and calculation of final payments made were on file. The employees' final payslip was also checked to ensure that pay had been calculated correctly. In addition, we confirmed that a form was completed for all three leavers to ensure that the employee's access rights to Board computer systems were removed on their departure from the organisation.

2. *Variations to pay*

- 2.1 The audit considered variations to pay arising from overtime.
- 2.2 A sample of three overtime payments for employees paid via timesheets for hours out-with their contracted hours was selected and checks made to ensure that the claims were on the official Overtime Return forms and clearly detailed the additional hours worked and that the payment had been correctly calculated. We also checked that the claims had been certified as correct by an authorised signatory and had been signed and dated when input into the computer system. Testing in this area proved satisfactory.

3. *Employee Standing Data*

- 3.1 The process for making changes to standing employee data was discussed with the Administrative Assistant who is responsible for making the relevant amendments on the payroll system. He explained that there is no formal document for instructing changes to employee data and changes are currently triggered by an email being sent to him requesting a change.

3.2 *Observation*

There is no formal documentation in place to notify the Administrative Assistant to make changes to the employee standing data. The Administrative Assistant is solely responsible for updating an employee's bank details on the payroll system and no secondary review is performed on these changes.

Risk

Not all information required for the updating of standing data may be received or updated in a timely manner. The changes are not properly authorised.

Recommendation

R1 A formal documented process should be established for the updating of employee standing data to ensure that information is updated correctly and in a timely fashion. The Assessor should then review any payroll changes, such as changes to bank details.

Benefit

Changes to payroll standing data are updated correctly and properly authorised. Any incorrect payments details are identified before the final payment run is made.

3. Main Report

4. *Payments and deductions*

- 4.1 A Service Level Agreement is in place with Dundee City Council for performance of payroll administration duties on behalf of the Board. To gain some additional assurance in this area a sample of ten payslips were reviewed and deductions (PAYE and NIC, superannuation and other voluntary deductions such as student loans and car payments) were checked for accuracy, traced to individual personnel files and supporting paperwork, including claim forms and contracts, where appropriate. Net pay due was agreed to the BACS processing report.
- 4.2 The Council send copies of the payroll control totals for each pay run and the Board administrative staff then agree these amounts to the payroll input sheets to ensure payments are as expected. Testing in this area proved satisfactory.

5. *Authorisation of the Payroll Runs*

- 5.1 The Administrative Assistant is responsible for inputting the employees pay details into the Council's payroll system, Resourcelink. The Council produce a draft payroll run which is sent to the same officer. The Administrative Assistant then checks, together with the Administration Manager, that the details on the individual payslips reconcile to the figures on the spreadsheet maintained within the Board. Only once this check is carried out is the final payroll run authorised.

5.2 *Observation*

Accepting that there are few employees involved in the administration function at the Board this is an area where the key control should include segregation of duties; the employees who input and check the payment details should not also be responsible for authorising the final payroll run.

Risk

There is no independent check of the payroll payment details or authorisation of the final payroll run.

Recommendation

R2 The Assessor should review the draft payroll run after the Administration Manager and Administrative Assistant complete their checking of the payment details and the Assessor should authorise the final payroll run.

Benefit

There would be an independent check on the payroll payment details and appropriate authorisation of the final payroll run.

6. *Monitoring Information*

- 6.1 A recognised key control over the payroll system is that exception reports should be run prior to the authorising of the final payroll run to ensure that any incorrect payments or details are identified. Any variances on the exception report should then be investigated by an independent person and appropriate amendments to the payroll system made before the final payroll run is authorised for processing. As described at 5.1 above the Administrative Assistant is responsible for inputting the employees pay details into the Council's payroll system. Exception reports are produced by the Council, normally showing new starts or leavers, and these are signed off by the Administration Manager or the Assessor, ensuring segregation of duties from the input of employees payroll details prior to authorisation of the final payroll run.



3. Main Report

6. *Monitoring Information (Continued)*

- 6.2 Staff costs are monitored by the Joint Board as part of the quarterly revenue monitoring reports presented by the Treasurer. Explanations for variations between budgeted and actual spend on staff costs are included in these quarterly monitoring reports.