AUDIT & STANDARDS COMMITTEE	Agenda Item **31**
	Brighton & Hove City Council

Subject:	**HR and Payroll Audit Issues Update**
Date of Meeting:	**24 September 2013**
Report of:	**Executive Director of Finance and Resources**
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Wards Affected: All	

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

1.1 The committee have previously been informed both through the work of Internal Audit and External Audit of historic concerns about the payroll control environment. Significant improvements have been made over the last 18 months and this report summarises that work and meets the commitment made to this committee at its meeting of 16 April 2013 to provide 6 monthly updates on progress. It also provides an opportunity to update the committee on other related work in HR and any new challenges that are being faced.

2. RECOMMENDATIONS:

2.1 That the committee notes the progress made to improve the payroll control environment and other HR related audit work

3. RELEVANT ADDITIONAL BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

3.1 There have been a number of recent changes to the leadership and structure of Human Resources. There is a new Head of Human Resources and the function now reports to the Executive Director of Finance & Resources. There have also been significant changes in how the service's People Centre operates following a review of processes using the council's systems thinking methodology. Staff in the People Centre have worked extremely hard to deliver real improvements in service quality and in the control environment at the same time as dealing with complex national changes and our own local Pay and Allowances Modernisation agenda. There are still process improvements to be made and the team's capacity to continue that will be strengthened by the implementation of the Allowances framework.

<u>Payroll Audit 2012-13</u>

3.2   The Internal Audit review of Payroll for 2012-13 was finalised on 30 April 2013 and gave an audit opinion of reasonable assurance. The report identified seven recommendations to further improve controls all of which were classed as medium priority. Of these, two recommendations have already been implemented and the others, except one which is currently not technically possible to achieve, are in progress with the objective of completing by October. The reason that one recommendation can't currently be achieved is due to limitations with the database and evidencing the control through reporting, however Internal Audit has manually tested that the control is working.

<u>iTrent HR and Payroll Application Audit</u>

3.3   Deloittes was commissioned to conduct an application audit of the council's HR-Payroll system as part of a wider review of major ICT systems. The audit looked at technical system controls and procedures including:
 - Application management and governance
 - System security
 - Interface controls and processing
 - Data input
 - Data output
 - Change management
 - System resilience and recovery
 - Support arrangements

3.4   The report was finalised on 30 July 2013 and gave an audit opinion of reasonable assurance. There are eight recommendations (five medium priority and three low priority). Of these, five recommendations (four medium priority and one low priority) have been implemented and the others are in progress due for completion by October.

<u>Thematic Audit Schools Payroll</u>

3.5   An Internal Audit review of Schools Payroll for 2012-13 was finalised on 22 April 2013 and gave an audit opinion of reasonable assurance. The report made six recommendations to improve controls, five of which were for the client in Children's Services to implement and one of which was for HR to implement. The action for HR is 75% complete and due to be finished in September.

<u>Sickness Management Audit</u>

3.6   An Internal Audit review of Sickness Management for 2012-13 was finalised on 30 June 2013 and gave an audit opinion of reasonable assurance.

<u>Establishment Control</u>

3.7   Work has been undertaken to improve the link between budgeting in the
        Authority Financials system and expenditure paid through the HR-Payroll
        system. This has been a joint project between HR, Finance and ICT and went
        live in April 2013 for non-schools services. It provides much tighter control
        over the council's establishment, not only in terms of recruitment but also
        changes to an individual's pay and allowances. It will also provide higher
        quality information for the council to analyse its current and projected spend
        on employee related pay.

3.8   The process links managers, budget holders, Finance and HR electronically
        through e-Form notifications and has radically reduced the volume of
        paperwork to be processed and the risk of errors being made. .

3.9   Despite the short timeframe for implementation, the new process has
        received generally positive feedback from managers. It is providing more
        timely communication and visibility of the process. Budget holders are copied
        in to authorisations and are required to approve budgetary adjustments.
        Action is being taken to address comments raised by stakeholders to further
        improve the flow of information and efficiency of the process.

<u>Real Time Information</u>

3.10   Real Time Information (RTI) is the biggest change to the operation of Pay As
        You Earn in over 60 years. This requires employers to send information about
        income tax, national insurance contributions, student loans and other
        statutory payments and deductions to HM Revenue & Customs every time a
        payroll is run. This is a national project required to support the introduction of
        Universal Credit.

3.11   As an employer with more than 5,000 employees, the council was required to
        be live on the new statutory process by 28 June 2013.

3.12   This has been a joint project between HR, Finance, ICT and relevant software
        providers. It involved reviewing procedures, improving data quality,
        configuring and testing HR-Payroll software and procuring and implementing
        new BACS hardware and software. The first RTI transmissions to HM
        Revenue & Customs and to BACS were sent on 20 June 2013 and these
        transmissions were successful. The project has now transitioned into
        business as usual processes.

<u>Auto-enrolment</u>

3.13   In accordance with the Workplace Pensions Reform (Pensions Act 2008 and
        2011), with effect from 1 October 2012 employers nationwide have a legal
        requirement at given staging dates to offer pension provision to all
        employees; and to auto-enrol certain employees that are not already
        contributing to a pension via the payroll into a qualifying pension scheme. The
        Council complied with this requirement by its staging date of 1 March 2013.

3.14   Every three years employees who meet the criteria for an eligible jobholder will need to be re-enrolled automatically into the relevant qualifying pension scheme. This means that even though an employee may have opted out of the pension scheme before then they will be enrolled into the scheme and will have to opt out again if they do not wish to remain in the scheme.

3.15   The table below shows the number of job holders by designated category reported to The Pensions Regulator on 21 June 2013 (people with more than one job are shown for each job they hold).

Category	Number
Workers in employment on staging date	15298
Eligible jobholders automatically enrolled on the staging date or deferral date into the Local Government Pensions Scheme	90
Eligible jobholders automatically enrolled on the staging date or deferral date into the Teachers' Pensions Scheme	39
Workers who were already active members of a qualifying pension scheme on the staging date	7920
Eligible jobholders who have been subjected to the defined benefit transitional period	1599
Workers who did not fall into any of the above categories	5650

Definitions:

Eligible jobholder – earns over £9,440 in that employment and is aged 22 or over but under state pension age

Deferral date – three month period that an employer can defer auto enrolment

Defined benefit transitional period – delay of compliance until 1 October 2017 for eligible jobholders not in a qualifying pension scheme on 1 March 2013

Pay and Allowances Modernisation

3.16   The council has been negotiating with the recognised trade unions on the modernisation of pay with the aim of seeking agreement on a new package of allowances that is consistent, modern and transparent.

3.17   The consultation period has now closed. The current position is that individual employees are due to be written to in September with details of the proposal. Approximately 1000 employees will receive new contracts of employment as a result of the changes.

3.18   The HR-Payroll system will have to undergo major reconfiguration to accommodate the new allowances. However there are longer term benefits that will help simplify the process and improve consistency in claiming allowances.

<u>Time and Expenses Rollout</u>

3.19 Approximately 90% of non-school based employees now have the facility to submit timesheets and expense claims electronically and have their claims authorised by their manager or approved authoriser electronically. In addition, four schools are using online time and expense claim submission. This functionality improves efficiency and reduces the risk of human error.

4.   FINANCIAL & OTHER IMPLICATIONS:

4.1   <u>Financial Implications:</u>

The report gives an update on progress against audit recommendations and it is expected that the costs of implementing these would be met from existing budgets. Most of the work will be undertaken by HR staff, with any technical issues that can't be resolved being referred back to MidlandHR, the HR-Payroll system supplier.

For the key payroll related workstreams outlined in the report, extra resources have been identified for some whilst others are expected to be met from existing budgets.

For the establishment control work, part of the Business Process Improvement (BPI) work, funding from the Transformation Fund has been agreed for two short-term additional support posts until the end of June and September 2013 respectively. For Real Time Information, Auto-enrolment and new pension schemes work, the 2013/14 budget includes approved funding to cover short-terms and one-off costs of approximately £30k and on-going costs of £42k per annum.

The cost of allowances to the authority, as a result of Pay Modernisation, is currently expected to increase compared to the current pay bill, however at the time of drafting this report the final position is still subject to negotiation but is affordable within the current budget for pay related costs. Indirect costs of Pay Modernisation, such as changes to contracts and the HR-Payroll system, as well as Time and Expenses rollout costs are expected to be covered within current HR resources.

Finance Officer Consulted: Peter Francis *Date: 16.08.13*

4.2   <u>Legal Implications:</u>

Although the report is for noting, the Committee is permitted – should it so wish – to make recommendations concerning the content to Policy & Resources Committee, Full Council, officers, or any other relevant body of the council.

Lawyer Consulted: Oliver Dixon *Date: 13.08.13*

4.3   Equalities Implications:

The HR-Payroll system supports improved diversity monitoring across a range of employment related areas. Recent improvements in reporting have been welcomed by the Workforce Equalities Group.

4.4   Sustainability Implications:

The HR-Payroll System is improving the council's carbon footprint by reducing the amount of paper and manual processes by introducing Employee and Manager Self Service and by reducing the council's direct energy use.

4.5   Crime & Disorder Implications:

The system improves the management of all necessary employment checks prior to employment commencing or on renewal of registration.

4.6   Risk & Opportunity Management Implications:

Improved audit controls reduce the risk of incorrect payments being made.

4.7   Corporate / Citywide Implications

A post-based HR system supports improved financial control across the whole organisation. An HR service that can contribute more strategically to the council will impact on organisational change and service delivery.

<u>SUPPORTING DOCUMENTATION</u>

Appendices:

None

Background Documents:

None