



Internal Audit Report

HR/Payroll (2021/22)

Final

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Prepared for: East Sussex Fire & Rescue Service

Date: October 2022



Internal Audit Report – HR/Payroll (2021/22)

Report Distribution List

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Julie King, Assistant Director - People Services
Lucy Birch, HR & Organisational Development Manager
John Olliver, Payroll, Pensions & HR Assurance Manager
Alison Avery, Finance Manager

This audit report is written for the officers named in the distribution list. If you would like to share it with anyone else, please consult the Chief Internal Auditor.

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1. Introduction

- 1.1. Employees' salary payments account for a large proportion of East Sussex Fire and Rescue Service's expenditure. The payroll department is responsible for paying employees accurately in accordance with established policies.
- 1.2. The objective of this audit was to provide assurance that key controls are in place and operating as expected to manage key risks to the achievement of system objectives, including those relating to starters, leavers, temporary and permanent payments, and contractual changes.
- 1.3. This review is part of the agreed Internal Audit Plan for 2021/22.
- 1.4. This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted within the main body of the report.

2. Scope

- 2.1. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
 - Starters are properly approved, and pay is calculated and paid from the correct dates;
 - Leavers are removed from the Payroll in a timely manner and paid correctly and accurately to the correct dates;
 - Permanent variations to pay (including additional availability allowances / additional responsibility allowances) are properly approved, calculated and paid from the correct dates;
 - Pay runs and BACS transmissions are correct and authorised;
 - Payroll data is regularly reconciled to the General Ledger;
 - Reconciliations of salary payments take place to ensure that employees are paid correctly;
 - Temporary payments (including additional hours, expense claims and payment to casual staff) are correctly authorised prior to processing;
 - Changes to data, including those processed through personnel change forms, are reviewed, accurately input, coded and authorised; and
 - Overpayments are identified and recovered in a timely manner.

3. Audit Opinion

3.1. **Partial Assurance is provided in respect of HR/Payroll (2021/22).** This opinion means that there are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.

Appendix A provides a summary of the opinions and what they mean and sets out management responsibilities.

4. Basis of Opinion

- 4.1. Based on the testing undertaken, we have only been able to provide an opinion of **partial assurance** in relation to the area under review because:
- 4.2. Evidence of ID for new starters to confirm when copies of identity documents had been seen has not been maintained, with three employees out of nine tested not having evidence of fitness for work checks on file.
- 4.3. One new starter had been set up for the incorrect year and put onto unpaid leave for a year as a manual workaround to correct their personnel file, resulting in inaccuracies in length of service.
- 4.4. The process for ensuring that holiday pay is correctly calculated for part time workers is based on a calculation of turn outs for the previous year and is not always input in a timely manner, with the payments for 2021/22 not processed until mid-way through the financial year. This may result in overpayments or financial loss for the Authority, and for employees, should they not receive sufficient pay.
- 4.5. There is no clearly defined process for making changes with regard to the provision and removal of additional pay and allowances, increasing the risk of allowances being paid to employees who are no longer available to undertake the role, leading to financial loss and operational challenges.
- 4.6. The process for monitoring and recovering overpayments requires improvement, with two records in place highlighting different amounts, reducing oversight and the ability to ensure full recovery.
- 4.7. Mileage claims were not always supported by appropriate evidence as to the journey length, or the ordinary commuting mileage of the employee.
- 4.8. In addition to the above, some of the actions from the previous audit have not been implemented in full and therefore remain outstanding.
- 4.9. There were, however, several areas where evidence was seen of effective control. These are as follows:
- There is appropriate separation of duties in place during the recruitment and onboarding process, to reduce the risk of fraud or error.
 - There is a clearly defined leavers' process in place, with a sample demonstrating that leavers are removed from the payroll in a timely manner following the end of their employment.

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- There are appropriate processes in place for making changes to standing payroll data, with a secondary check and separation of duties in place.
- BACS transmissions are run correctly and authorised appropriately by ESCC payroll.

5. Action Summary

5.1. The table below summarises the actions that have been agreed together with the risk:

Risk	Definition	No	Ref
High	This is a major control weakness requiring attention.		
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources.	7	1-7
Low	This represents good practice, implementation is not fundamental to internal control.	4	8-11
	Total number of agreed actions	11	

5.2. Full details of the audit findings and agreed actions are contained in the detailed findings section below.

6. Acknowledgement

6.1. We would like to thank all staff that provided assistance during the course of this audit.

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Detailed Findings

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
1	<p>New Starter Checks</p> <p>A sample of nine new starters was tested to ensure that appropriate evidence of identity, fitness to work and eligibility were in place. Testing identified that there was no evidence to confirm when copies of identity documents had been seen, as required within the Guidance set out by the Home Office. Three employee records did not contain evidence of fitness to work checks.</p> <p>Following the 2019/20 review it was agreed that a recruitment checklist would be reviewed, with quarterly spot checks taking place. We confirmed that a recruitment checklist, to ensure that appropriate checks are in place prior to an employee starting, had been reviewed, as agreed; however, a quarterly spot check process to ensure that appropriate checks are being completed has not been implemented, which could have identified some of the above issues.</p>	<p>Where copies of identity documents are not certified as an accurate reflection of the original, employees may be engaged with fraudulent or inaccurate documentation, resulting in reputational or regulatory implications for the service.</p> <p>Where employees do not have evidence of fitness to work checks, there is an increased risk of unfit employees undertaking work, or working without appropriate adjustments leading to injury.</p>	Medium	<p>Existing guidance will be recirculated to the team to reinforce the importance of adhering to ID check guidance.</p> <p>The HR Manager / Payroll, Pensions and HR Assurance Manager will diarise quarterly spot checks for starters and leavers to regularly check compliance against the checklist.</p>
Responsible Officer:		Lucy Birch, HR Manager	Target Implementation Date:	31 December 2022

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Ref	Finding	Potential Risk Implication	Risk	Agreed Action
2	<p>Incorrect Start Date</p> <p>Testing of new starters to ensure that they had been set up correctly and allocated the appropriate pay identified that one employee had been set up with a 2021 start date instead of 2022, in error.</p> <p>As a manual workaround, the employee was put onto unpaid leave within SAP for a year to bring them up to the correct start date.</p>	Where an employee is input with an incorrect start date, there is a risk that continuous service and associated benefits, such as leave, sickness and redundancy payments are incorrect, resulting in financial loss to the service.	Medium	The Payroll, Pensions and HR Assurance Manager will discuss alternative approaches with ESCC technical payroll team and ESFRS payroll team to agree a more effective approach of this situation should occur again.
Responsible Officer:		John Olliver, Payroll, Pensions and HR Assurance Manager	Target Implementation Date:	31 December 2022

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Ref	Finding	Potential Risk Implication	Risk	Agreed Action
3	<p>Provision of Additional Allowances</p> <p>The process for allocating additional allowances to employees such as Swift Water or Rope Rescue is not clearly defined, with some reliance being placed on employees to inform payroll if they feel that they are entitled to such an allowance.</p> <p>There is no formalised process to remove allowances from an employee's record if they are no longer available to undertake the associated role, increasing the risk of financial loss and a lack of available resource should a specialist skill be required.</p>	<p>The provision of additional allowances without a clearly defined process may lead to employees receiving an allowance where they are no longer available to perform the role, resulting in a lack of available resource in an emergency situation, and financial loss to the service through the payment of additional allowances where the duty is not being performed.</p>	Medium	<p>The allowances are subject to review through the IRMP.</p> <p>A Pay Policy is in development and this will define the criteria to attract and retain an allowance. We will therefore include a process to introduce checks and balances.</p>
Responsible Officer:		Lucy Birch, HR Manager	Target Implementation Date:	31 March 2023

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Ref	Finding	Potential Risk Implication	Risk	Agreed Action
4	<p>Permanent Changes to Employee Records Nine changes, marked as 'permanent' were selected and tested to ensure that sufficient authorisation had been provided that the change was accurate and that separation of duties could be evidenced throughout the process. In the majority of cases, these changes were temporary promotions or 'acting up' arrangements, that had been input as a permanent change.</p> <p>Testing identified that:</p> <ul style="list-style-type: none"> • For three changes, the information contained as to the employee's current role was incorrect, stating that they were competent when currently on a development grade or vice versa. • For one change, no PCF was provided to evidence the request. • Five PCF's did not contain details of the requestor / authorising manager. • In one instance, salary payment was incorrect. • Throughout the change process, there is no evidenced separation of duties, increasing the risk of errors occurring. 	<p>Where the permanent change process is not well-controlled through the provision of accurate PCF's authorised by an appropriate individual, there is a risk of incorrect or fraudulent changes being made, resulting in financial loss to the service.</p> <p>Where separation of duties is not clearly evidenced within the change process, there is an increased risk of fraud or error, leading to financial loss for the service.</p> <p>The use of permanent changes for temporary promotions may lead to changes not being made to revert employees back to their substantive post, leading to financial loss.</p>	Medium	<p>Changes are being made through ITG to the PCF form to minimise errors and bring fields up to date.</p> <p>It is expected that the introduction of MBOS early next year will also minimise errors.</p>

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Responsible Officer:	Einar Arnarson, Lead Technical Architect	Target Implementation Date:	31 December 2022

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Ref	Finding	Potential Risk Implication	Risk	Agreed Action
5	<p>Authorisation of On-Call Claims</p> <p>On-call claims are input by one member of the team and approved by another to evidence the employees that turned out for the call, and those who rode the appliance, in order to ensure that they receive the appropriate allowances and disturbance fees. A sample of eight claims were tested, with one having been input by one employee and approved by their brother, which constitutes a conflict of interest.</p>	<p>The approval of claims by relatives constitutes a conflict of interest and may result in inaccurate or fraudulent claims, leading to financial loss and reputational damage to the authority.</p>	Medium	<p>The new Conduct Policy will include a section on relationships and prohibit relatives from signing off claims etc.</p>
<p>Responsible Officer:</p>		<p>Lucy Birch, HR Manager</p>	<p>Target Implementation Date:</p>	<p>31 December 2022</p>

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Ref	Finding	Potential Risk Implication	Risk	Agreed Action
6	<p>Recording and Recovery of Overpayments Following the 2019/20 HR/Payroll audit, it was agreed that the Finance Manager would create a balance sheet reconciliation each month to ensure visibility of all outstanding overpayments and to monitor that the agreed recovery schedules are being followed. However, this action has not been implemented.</p> <p>An overpayment log was provided by Payroll, along with an aged debt report from finance; both of these documents show salary overpayments and the recovery process. The full population of recorded overpayments on the log provided by payroll demonstrated that there are 7 employees with overpayments outstanding totalling over £3k. The aged debt report, however, demonstrated that overpayments each month total approximately £25,000, with the majority being recovered before 30 days to leave between £400-£2k outstanding after a month. Overpayments totalling £11,800.22 remain outstanding having been in place for between 2-3</p>	<p>Where overpayments are not being accurately monitored and recovered in a timely manner, there is a risk that they may not be recovered in full, leading to financial loss for the authority.</p>	Medium	<p>A process will be devised and included in the Pay Policy currently under development.</p> <p>The Payroll, Pensions & Assurance Manager will review the status of all existing / historic overpayment cases and make recommendations to the AD Resources / Treasurer, AD People Services and Deputy Monitoring Officer for further action where a satisfactory repayment plan is not in place. This may include writing off of irrecoverable overpayments.</p>

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	<p>years.</p> <p>The volume and value of outstanding overpayments suggests that the process for recovering overpayments is weak, and that records are not being accurately maintained in order to ensure full and timely recovery.</p>			
Responsible Officer:		John Olliver, Payroll, Pensions and HR Assurance Manager	Target Implementation Date:	31 March 2023

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Ref	Finding	Potential Risk Implication	Risk	Agreed Action
7	<p>Electronic Data Files</p> <p>Following the 2019/20 review, it was agreed by management that the improvement project, relating to GDPR and Electronic filing, would provide a solution to the following findings:</p> <ul style="list-style-type: none"> • Lack of evidence of manager approval of permanent changes; and • Disclosure and Barring Service (DBS) checks had been retained on some employees files, which contravenes the ESFRS' DBS protocol. <p>Historical employee files have not yet been data cleansed or converted into electronic files as part of the GDPR and Electronic Filing Improvement Project, as a Business Case will need to be agreed by the ESFRS Change Board. Furthermore, this project will require funding, therefore, agreement by Senior Leadership Team is required.</p>	<p>Failure to comply with the General Data Protection Regulations (GDPR) could result in reputational damage and financial loss due to fines by the Information Commissioner's Office.</p>	Medium	<p>Project work to address historic archive issues continues in collaboration with colleagues in ITG.</p>
Responsible Officer:		John Olliver, Payroll, Pensions & HR Assurance Manager	Target Implementation Date:	31 March 2024

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
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8	<p>Travel and Expense Claims</p> <p>A random sample of four expense claims and four travel claims was tested to ensure that claim forms were in place, expenses were approved appropriately, and accurate payment was made.</p> <p>One travel claim was not supported by a journey print out as required, with no detail in relation to ordinary commuting mileage to ensure that mileage is charged at the appropriate tax and NI rate. A second mileage claim was not supported by a journey print out.</p>	<p>Where sufficient evidence as to journey details, including the route taken and ordinary commuting mileage, is not provided, there is a risk of fraudulent or inaccurate claims being paid, leading to financial loss for the authority.</p> <p>Where employees do not provide information as to their ordinary commuting mileage, claims may be paid at an incorrect VAT rate, increasing the risk of regulatory penalty should tax be owed.</p>	Low	<p>The Finance team, who process travel and expenses claims, will be reminded of the need to challenge claims that are not fully completed or where necessary evidence is not provided.</p> <p>A reminder will be issued to all staff regarding the requirement to deduct ordinary commuting mileage from relevant claims.</p>
Responsible Officer:		Alison Avery, Finance Manager	Target Implementation Date:	31 December 2022

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
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9	<p>Additional Allowances</p> <p>The 2019/20 audit highlighted that a documented policy was not in place with regards to the award of additional payments for Speciality Services. It was agreed that an Allowance Policy would be revised when the current rationalisation/evaluation of Swift Water Rescue and Rope Rescue Speciality Services was complete. However, this action has not been completed as expected as the draft policy is still awaiting approval from the FBU, and, therefore, the action has been repeated as part of the current audit.</p>	<p>The lack of policy relating to additional payments may result in inconsistencies in their award, approval, processing and management.</p>	<p>Low</p>	<p>As per actions for 3 & 6, a pay policy is being developed.</p>	
<p>Responsible Officer:</p>		<p>HR/OD Manager/ Payroll, pension and HR Assurance Mgr</p>	<p>Target Implementation Date:</p>		<p>31 March 2023</p>

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Ref	Finding	Potential Risk Implication	Risk	Agreed Action
10	<p>On-Call Staff Holiday Pay Calculations</p> <p>At present, the process for calculating holiday pay for on-call employees involves an assessment of work undertaken, based on turn outs in the previous year. This means that the calculations are not input in a timely manner. The use of this process may result in employees being under or overpaid, and increase the associated administrative burden, leading to financial loss for the service.</p>	<p>The process for calculating holiday pay in-year increases the risk of inaccuracies, leading to under or overpayments, which may result in financial loss for the service.</p>	Low	<p>The introduction of FireWatch On Call Pay will result in this process being automated. This is not accessible until 1 Jan 2023 due to needing 1 -years' worth of data in the system.</p>
<p>Responsible Officer:</p>		<p>John Olliver, Payroll, Pensions and HR Assurance Manager</p>	<p>Target Implementation Date:</p>	<p>31 January 2023</p>

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Ref	Finding	Potential Risk Implication	Risk	Agreed Action
11	<p>New Starter Process</p> <p>Following a repeated finding from the 2018/19 review, it was agreed, as part of the 2019/20 audit, that the new starter process would be revisited and reviewed. Although the JobTrain (e-recruitment) system is now on-line, Payroll have struggled to collect all required payroll data and are working with the HR Admin team to improve the data flow. Despite this no significant delays in the payment of new hires have been evident.</p>	<p>Where the Payroll Team are not notified promptly of new starters, or payroll data is incomplete or inaccurate, there is a risk that new employees will not be paid on time or will receive incorrect salaries, resulting in financial loss or reputational damage to the service.</p>	Low	<p>FireWatch integration with MBOS will automate the bulk of this process and will be revisited in full at that point.</p>
<p>Responsible Officer:</p>		<p>John Olliver, Payroll, Pensions and HR Assurance Manager</p>	<p>Target Implementation Date:</p>	<p>1 June 2023</p>

Appendix A

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

Management Responsibilities

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

This report, and our work, should not be taken as a substitute for management's responsibilities for the application of sound business practices. We emphasise that it is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.