

Item: 10

Monitoring and Audit Committee: 5 June 2025.

Internal Audit – Payroll.

Report by Chief Internal Auditor.

1. Overview

- 1.1. The internal audit plan 2024/25 includes a review of Payroll. This audit has been completed and the internal audit report is attached as Appendix 1 to this report.
- 1.2. The Payroll Section of the Finance Service is responsible for the payment of wages and salaries for approximately 2,645 employees and 1,365 pensioners of the Council.
- 1.3. The objective of this audit was to review the processes and procedures in place to ensure that the financial record of salaries, wages and deductions are accurate, and that staff are paid the correct amount at the right time.
- 1.4. The audit provides Substantial assurance that processes and controls relating to Payroll are well controlled and managed.
- 1.5. The internal audit report, attached as Appendix 1 to this report, includes one medium priority recommendation regarding digital timesheets and two low priority recommendations regarding payroll variations and guidance notes.

2. Recommendations

- 2.1. It is recommended that members of the Committee:
 - i. Scrutinise the findings contained in the internal audit report, attached as Appendix 1 to this report, relating to the processes and controls in place to ensure that the financial record of salaries, wages and deductions are accurate, and that staff are paid the correct amount at the right time, in order to obtain assurance that action has been taken or agreed where necessary.

For Further Information please contact:

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Implications of Report

1. **Financial:** None directly related to the recommendations in this report.
2. **Legal:** None directly related to the recommendations in this report.
3. **Corporate Governance:** In terms of the Scheme of Administration, consideration of Internal Audit findings and recommendations, and review of actions taken on recommendations made, are referred functions of the Monitoring and Audit Committee.
4. **Human Resources:** None directly related to the recommendations in this report.
5. **Equalities:** An Equality Impact Assessment is not required in respect of Internal Audit reporting.
6. **Island Communities Impact:** An Island Communities Impact Assessment is not required in respect of Internal Audit reporting.
7. **Links to Council Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan strategic priorities:
 - ☐ Growing our Economy.
 - ☐ Strengthening our Communities.
 - ☐ Developing our Infrastructure.
 - ☐ Transforming our Council.
8. **Links to Local Outcomes Improvement Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:
 - ☐ Cost of Living.
 - ☐ Sustainable Development.
 - ☐ Local Equality.
 - ☐ Improving Population Health.
9. **Environmental and Climate Risk:** None directly related to the recommendations in this report.
10. **Risk:** Internal Audit evaluates the effectiveness, and contributes to the improvement, of the risk management processes.
11. **Procurement:** None directly related to the recommendations in this report.
12. **Health and Safety:** None directly related to the recommendations in this report.
13. **Property and Assets:** None directly related to the recommendations in this report.
14. **Information Technology:** None directly related to the recommendations in this report.
15. **Cost of Living:** None directly related to the recommendations in this report.

List of Background Papers

Internal Audit Plan 2024/25

Appendix

Appendix1: Internal Audit Report – Payroll.

Internal Audit

Audit Report

Payroll

Draft issue date: 23 April 2025

Final issue date: 14 May 2025

Distribution list:	Service Manager Payroll and Pensions Head of Finance Head of Service (Improvement & Performance) Service Manager (Customer Services & Corporate Admin)
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Audit Opinion

Based on our findings in this review we have given the following audit opinion.

Substantial

The framework of governance, risk management and control were found to be comprehensive and effective.

A key to our audit opinions and level of recommendations is shown at the end of this report.

Executive Summary

The Payroll Section of the Finance Service is responsible for the payment of wages and salaries for approximately 2,645 employees and 1,365 pensioners of Orkney Islands Council (the Council). Our audit objectives are to ensure that the financial records of salaries, wages and deductions are accurate, and that staff are paid the correct amount at the right time.

Controls around all aspects of Payroll operations listed below are robust, effective, well documented and operating satisfactorily:

- General payroll operations.
- Starters, leavers, and variations in pay.
- Statutory and non-statutory deductions.
- Payments.
- Data security.

However, there is still considerable reliance on paper forms and printed reports for performing calculations and evidencing checks. In addition, inputting of manual timesheets for individuals and grouped timesheets involves a duplication of effort, and increases the possibility of error arising on input.

It is understood that there is a current proposal for a project to review and improve corporate administration. If approved, this project could include areas such as potentially introducing digital timesheets more widely, and potentially making further changes to the payroll system. As a result, two of the recommendations which have arisen from the audit are framed as matters for consideration as part of this project.

The number and priority of the recommendations are set out in the table below. The priority headings assist management in assessing the significance of the issues raised.

Responsible officers will be required to update progress on the agreed actions via the Ideagen Risk System.

Total	High	Medium	Low
3	0	1	2

The assistance provided by officers contacted during this audit is gratefully acknowledged.

Introduction

The Payroll and Pensions Section of the Finance Service is responsible for payment of wages and salaries for approximately 2,645 employees and 1,365 pensioners of Orkney Islands Council (the Council). Our audit objectives were to ensure that the financial record of salaries, wages and deductions are accurate, and that staff are paid the correct amount at the right time.

This review was conducted in conformance with the Global Internal Audit Standards in the UK Public Sector.

Audit Scope

The audit reviewed the controls in place to ensure that:

- Only valid employees are entered on the payroll system.
- Information in respect of starters and leavers is recorded properly, and they are included in, or removed from, the payroll system in the appropriate period.
- Payroll data and other sensitive information is stored safely and cannot be accessed by unauthorised personnel.
- Overtime claims are appropriately authorised, the rates claimed are correct and the hours paid were the same as the claim form.
- Overtime and standby allowances are paid in accordance with Council policy in relation to employee grade.
- Payroll BACS runs are appropriately controlled and authorised by officers who have not been involved in their preparation.
- All data input into the payroll system is authorised.
- Employees are paid at the correct rate according to grade and scale.
- Employee deductions are made at the correct rate and in accordance with regulations.
- Employee and employer deductions are both reported to and paid to the correct agencies within the regulated timeframes.
- Payroll transactions are reflected correctly in the nominal ledger.

Audit Findings

1.0 General Payroll Controls

- 1.1 Clear guidance on procedures around new starters, staff leaving and changes to be made to payroll details, including the forms which are required to be completed and sent to the Payroll team is readily available on the MyView web page.
- 1.2 The current system used for the Payroll is Resourcelink, a commercially available package, which ensures that employees receive a payslip and P60 accessible via the MyView webpage. Testing confirmed that the parameter data (rates of tax, tax bands, etc.) and system calculations were correct. Annual changes in parameter data are done via software updates from the provider.
- 1.3 Resourcelink is also used by Human Resources (HR), but access to the data contained in the database is restricted by the use of security groups which dictate what information a user can access. The establishment list, a list of posts within the Council, is managed by HR and Payroll staff do not have access to it. In addition, paper files are kept by Payroll for each employee, separate from the personnel files kept by HR.
- 1.4 A list of authorised signatories who can sign off on timesheets, new starters forms etc., is held and updated annually and where there is a change in post holder. Directors countersign and date the signature sheets for their Directorates once all the relevant signatures have been collected.
- 1.5 There are good controls around specific areas where risk of fraud is higher, e.g. amendment of addresses or bank details. Amendment of these details within MyView triggers an automatic email to both Payroll and the employee themselves, notifying the change. It would still be theoretically possible for a Payroll staff member to manipulate pay rates for employees, but this change would require authorisation by another Payroll team member. In the event of collusion within the Payroll team, any variances in the staff payroll costs would be highlighted to the budget holder as part of the budget monitoring process.
- 1.6. Each staff member has their own login and password, which allows the system to trace which staff member has made amendments to a file. Although the system has the capability to audit data input, reports on data input are not routinely generated or reviewed. Instead, there is a process where all figures to be input are checked and signed off by a second team member before input.
- 1.7 Checking of all calculations manually, while extremely effective, is laborious and time consuming. In addition, although there has been a reduction in paper records over recent years, there is a continued use of paper forms and timesheets. This allows a record of any checking to be kept on the face of the form itself, but the necessity to physically store records, and the need for them to be physically accessed in order to undertake this work makes remote work more difficult. In addition, costs of paper, printing, storage and physical space may be higher than for digital storage.
- 1.8 We recommend that consideration is given to whether the information in respect of starters, leavers or necessary payroll variations, which arrives in a digital format, could be collated digitally, calculations automated, and results automatically uploaded to the Resourcelink system. This would allow data analytic techniques to be used to test either a sample or the

entire population of the calculations. Any resource freed could then be used to focus on the resolution of any exceptions or errors identified.

Recommendation 1

2.0 Starters

- 2.1 Procedures in respect of pre-employment checks and supporting documents to be provided by potential new employees are covered by the Recruitment and Selection Policy managed by HR. The Payroll process for starters begins with the receipt of the New Starter Form completed by the relevant manager, and is controlled by a checklist to ensure that all relevant steps are undertaken and required documentation retained.
- 2.2 Audit testing confirmed that payroll records were only created where an authorised post existed, and that New Starter Form records were signed by authorised signatories. In addition, sample testing of employee files indicated that the details for new starters had been accurately input into the Payroll system, the relevant steps undertaken and documents such as bank mandates were correctly filed.
- 2.3 Ideally New Starter Forms should be submitted to Payroll before the employee's commencement date to allow sufficient time for the employee to be added to the relevant payroll. The audit sample showed that this was happening in just over a third of cases.
- 2.4 For the sample reviewed, 87% of forms were entered into the system within 24 days of receipt (48% within 12 days of receipt). Only one form tested was processed more than a month after receipt, but in this case, the form had been received well in advance of the commencement date.
- 2.5 All eligible employees are automatically enrolled in the Local Government Pension Scheme (LGPS). Payroll data, including new employee details, is passed to HM Revenue and Customs (HMRC) via the Real-Time Information (RTI) process.
- 2.6 Controls in relation to new starters are operating predominantly satisfactorily.
- 2.7 We recommend that the guidance notes on the Payroll Forms Workbook should be amended to include a request for submission of New Starter Forms prior to the employee's commencement date as set out in paragraph 2.3 above.

Recommendation 2

3.0 Leavers and Internal Transfers

- 3.1 Staff leaving Council employment or retiring are both classified as leavers. In addition, staff transferring between roles in the Council are treated as leavers in respect of their old role. Payroll make amendments to employee files in respect of leavers and transfers only once a 'Termination' Form has been received from and authorised by the authorised signatory. In addition, copies of the form are sent to the line manager of the authorised signatory, or Head of Service as appropriate.
- 3.2 Audit testing for leavers (24 of 246 – 9.8%) confirmed that all forms received were correctly completed with the relevant employee, post and termination date details, were submitted sufficiently in advance of the termination date and were signed by an authorised signatory. For one of the selected employees, no form was received. In this case the relevant employee was listed as a casual worker but had not undertaken any work since April 2023, so was being removed from the system for administrative reasons.

- 3.3 Termination dates recorded in the Resourcelink system for the sample were checked, and the Establishment List reviewed to ensure that it had been correctly updated. Testing was also undertaken to review P45 details (where appropriate), and notifications to the Pensions Section. Again for all forms received, there was 100% compliance with the relevant controls.
- 3.4 For a quarter of the sample, the last date of pay per the payslip did not agree to the termination date recorded. In these cases the relevant employees were all 'relief' employees who had intermittent working and payment patterns. Within the payslips for these employees, payments made after the termination date were clearly labelled as arrears.
- 3.5 Audit testing for staff transfers (18 of 354 – 5.0%) confirmed that where starter and leaver forms were submitted (16 of 18 and 17 of 18 respectively), they were correctly completed and signed by authorised signatories. Of the forms submitted, 8 had both starter and leaver forms submitted in advance of the date of the transfer and a further 4 had one of the forms submitted in advance of the transfer.
- 3.6 All starting and leaving dates were agreed to the Resourcelink system. Pay adjustments calculated on the starter and leaver forms are correctly calculated and reflected in the payslips for the relevant employee.
- 3.7 Controls in respect of leavers and internal transfers are operating satisfactorily.

No Recommendation

4.0 Variations in Pay

- 4.1 A sample of 20 timesheets and payslips in respect of employees paid by hours and who receive overtime were reviewed to ensure that there was supporting documentation for the payments shown in the payslips. All cases sampled had hours in an authorised timesheet in agreement with those shown on the payslip.
- 4.2 A sample of 6 employees receiving maternity pay in the period from 1 April 2024 was tested with the following results for all cases:
- Due dates matched forms provided by the NHS MAT1B form.
 - Maternity pay commenced on the date that maternity leave commenced.
 - All employees sampled qualified for maternity pay.
 - Payments were correctly calculated in line with Council policy.
 - Statutory Maternity Pay was promptly reclaimed from the Department for Work and Pensions.

Accordingly, controls around the commencement, calculation, payment and reclaiming of maternity pay are operating satisfactorily.

- 4.3 The pay arrears in respect of the revised pay rates for the Scottish Joint Council and the Scottish Negotiating Committee for Teachers which apply with effect from 1 April, were put through in the December payrolls. A sample of 10 employees was reviewed to check the calculations of the arrears and that the revised pay rate was in accordance with the relevant pay scales. All calculations and pay rates examined were found to be correct.
- 4.4 Other requests for variation or changes are made via a Notification of Change form, which is only actioned if signed off by an authorised signatory.

- 4.5 Variations in respect of sick pay were tested as part of the recent Sickness Management Audit.
- 4.6 The Resourcelink system produces exception reports which show any amendments put through and highlight any payslip amounts out of keeping with expected expenditure.
- 4.7 Controls in relation to variation of pay are operating satisfactorily.

No Recommendation

5.0 Deductions

- 5.1 Statutory deductions include PAYE tax (through the tax code), Employers and Employees National Insurance Contributions, and student loans. These deductions are based on the information provided in the HMRC starter checklist which new employees are required to complete and send to the Payroll team. This information is input into Resourcelink, which automatically flags new starters in the RTI file sent to HMRC.
- 5.2 Non-statutory deductions include Council Tax, rents and garage rents, union dues and Cyclescheme deductions. New mandates received are input and initialled by a member of the Payroll team and checked by a separate team member. A spreadsheet in respect of existing arrangements is received at the start of the financial year, showing monthly deductions required. The Team Manager selects a sample of around 5% of deductions shown and checks that they are in line with prior year deductions.
- 5.3 Audit testing focussed on the first four listed in paragraph 5.2 above, as the number of employees involved in the Cyclescheme is low. Testing of a sample confirmed that deductions were only actioned
- If authorised by a mandate signed by the employee (new arrangements in the year) or
 - Had been agreed to a historic pattern of payments (existing payments).
- 5.4 Monthly summary reports are produced for each type of deduction detailing the relevant employees and amounts deducted, which are then used to make payments through the Integra finance system. This procedure was tested for a sample of 10 deductions in one month, and all sampled entries were agreed to the individual employees' payslips and the appropriate Integra account.
- 5.5 Controls in respect of the operation of both statutory and non-statutory deductions are operating satisfactorily.

No Recommendation

6.0 Payments

- 6.1 A checklist is used to ensure that all the necessary steps required to ensure the payroll runs on time are undertaken. This document also enables the Team Manager to monitor how the process is progressing. During financial year (FY) 2024/25, all salary payments were made on time.
- 6.2 The monthly salary process is currently dependent upon timely submission of group and individual timesheets. The timetable for deadlines for timesheets is sent out in the March preceding the FY. The Team Manager highlighted that there has been an increase in the number of timesheets which are being submitted after the deadline. Given the integrated

nature of the steps to produce the payroll, these delays increase time pressure on later steps in the process.

- 6.3 As noted earlier, the process is currently laborious and time consuming. The Team Manager has stated that the team are presently forced to prioritise checking in certain areas since they do not have sufficient time each month to undertake full checks across the board. Delays in timesheet submission contribute to this situation, and limit the amount of checking that can be undertaken.
- 6.4 In some instances, the request for a salary payment is received too far after the deadline to allow the payment to be made as part of the payroll. In these cases, ad hoc payments can be requested via a specific request form. Payroll raise an indent for 65% of the gross amount (to adjust for PAYE, NIC and pensions), which is submitted to Finance for payment. This payment is then noted to be removed from the next full payroll amount. Payroll make a charge of £50 for each such form processed. In FY 2024/25 over 60 such requests were made.
- 6.5 We recommend that consideration is given to introducing digital timesheets across the Council, combined with digital authorisation by authorised signatories, or an appropriate substitute approver. In addition, automatic email reminders issued to the authorising signatories and reporting on compliance with deadlines to senior management would help to encourage compliance with the necessary timetable.

Recommendation 3

- 6.6 Salary payments are made via the BACS system using the bank account details on record. As noted at paragraph 1.5 above, amendment to the bank details triggers an automatic email to the Payroll team and the employee. The Payroll team also follow this up with a telephone call to the employee to ensure that the change is valid. Evidence of this procedure in operation has been provided.
- 6.7 During the FY 2024/25, the BACS payment limit was a £4,000,000 two day rolling limit. However, for December 2024, when the pay-rise arrears went into the payroll, the required payments for the relevant payroll was £5,191,522. To ensure payments, the Team Manager liaised with Accounting to ensure that there were sufficient funds to pay the payroll. The limit has subsequently been increased to £7,000,000.
- 6.8 The details of the ledger code(s) to which payroll costs are charged for each employee are captured in the Starters form. Each month, any invalid codes are flagged in the ledger interface and placed in suspense accounts, before being reviewed and journalled out to the correct codes. Audit testing confirmed that this process was operating as expected.
- 6.9 The operation of controls around the procedures for payments are satisfactory.

No recommendation

7.0 Security of Data

- 7.1 Payroll data covers both digital data, and paper records. Starters, leavers or notification of change forms are kept in lockable filing cabinets before and after processing. Reports and timesheets are filed within a lockable cupboard. All relevant keys are kept securely. Files are systematically labelled allowing easy retrieval.

- 7.2 At present, paper records are held on site for the current and prior 2 years. Earlier records are held at Hatston storage for a further 3 years, and then destroyed in line with the Council's data retention policy.
- 7.3 All staff are fully up to date with Data Protection training.
- 7.4 For the Resourcelink software, there is differential access which is done by allocating users to specific security groups. Staff are not allocated to more than one security group. Access rights range from supervisor rights for the Financial Systems staff and the Payroll Team Manager, to very limited access to information about a role for certain admin staff within the Services.
- 7.5 The Resourcelink software package is covered by the general IT back up protocols, and backed up in accordance with those protocols. There is an automatic back up of the full database done each morning at 06:30, together with interim backups during the day designed to minimise the amount of input data at risk of being lost.
- 7.6 Controls around data security are robust and operate satisfactorily.

No Recommendation

Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
1 Consideration should be given as to whether the information in respect of starters, leavers or necessary payroll variations, which arrives in a digital format, could be collated digitally, calculations automated, and results automatically uploaded to the Resourcelink system. This would allow data analytic techniques to be used to test either a sample or the entire population of the calculations. Any resource freed could then be used to focus on the resolution of any exceptions or errors identified.	Low	HR Systems Developer and Financial Systems Manager are currently working on system solutions / Starter Leaver forms.	Service Manager (Pensions & Payroll) and Service Manager (Customer Services & Corporate Admin)	1 April 2026.
2 Guidance notes on the Payroll Forms Workbook should be amended to include a request for submission of New Starter Forms prior to the employee's commencement date	Low	Team Manager (Payroll) will update the workbook, and implement by completion date. The revised version will be circulated when the next pay increase is agreed.	Service Manager (Pensions & Payroll)/Payroll Manager	30 June 2025

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
<p>3 Consideration should be given to introducing digital timesheets across the Council, combined with digital authorisation by authorised signatories, or an appropriate substitute approver. In addition, automatic email reminders issued to the authorising signatories and recording and reporting on compliance with deadlines to senior management would help to encourage compliance with the necessary timetable.</p>	<p>Medium</p>	<p>As above in 1. Reduction of paper trail is being worked on, and this will be considered in the new Payroll System although this will not be in place for a few years.</p> <p>HR are also reviewing relief hour contracts.</p>	<p>Service Manager (Pensions & Payroll) and Service Manager (Customer Services & Corporate Admin)</p>	<p>30 November 2026</p>

Key to Opinion and Priorities

Audit Opinion

Opinion	Definition
Substantial	The framework of governance, risk management and control were found to be comprehensive and effective.
Adequate	Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Recommendations

Priority	Definition	Action Required
High	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Medium	Weakness in governance, risk management and control that if unresolved exposes the organisation to a significant level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Low	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.