



Shire of Serpentine Jarrahdale

AUDIT

Payroll and Leave Management

March 2023

Version 1.4



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Document Control

Meta Data

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Revision History

Version	Change Description	Author	Date
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Distribution

Issued To:	Title	Date
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Acknowledgement

Blue Zoo wishes to thank all participants involved in this audit for extending their full cooperation.



Executive Summary

Background

Effective payroll management is a function of people, process and technology.

In today's rapidly evolving digital landscape, the interface between people, process, and technology is critical to the success of any local government. The integration of payroll technology into finance operations has dramatically changed the way local governments operate and interact with their staff. However, this integration must be balanced with the right processes and people to ensure efficient and effective outcomes.

People play a critical role in the interface between payroll technology and payroll processes. They bring the necessary skills and expertise to implement and manage payroll systems. They also bring a human element that ensures that payroll technology solutions are designed and implemented with the specific local government requirements in mind. People must be trained and equipped to effectively use a payroll system and understand the processes that support it.

Robust payroll processes are the foundation of any effective local government pay cycle. They define how pay is processed and ensure that it is done consistently and efficiently. The integration of technology into payroll processes can greatly improve efficiency, but it's important to ensure that this technology is aligned with policy, and that processes are designed to support technology solutions.

Technology, in turn, plays a role in enabling and enhancing payroll processes. It provides the tools and systems needed to automate tasks, improve communication, and streamline operations. Technology solutions must be carefully selected and implemented to ensure they support payroll processes, rather than payroll processes being amended sub-optimally to accommodate a technology platform.

Effective communication and collaboration are key to balancing the interface between people, process, and technology. HR, payroll and governance must work together to identify solutions and design processes that take advantage of the technology.

It's rare that a local government would intentionally underpay its staff and more often human or systems error comes into play – but in the view of the FWO and other regulatory bodies, this does not excuse the local government from its obligations.

Employers must ensure that their payroll systems and processes are up to date with payment obligations under the correct State Award(s) and/or relevant EBA(s). In addition, it is imperative that regular 'health checks' be conducted across the business to ensure that local governments remain continuously compliant with all legal obligations.

Objective

The objective of this audit is to provide management with an independent assessment of the operation of internal controls and operating procedures relating to the scoped items:

- Payroll Management.
- Leave Management.

Opinion

It is Auditor's opinion that payroll operations are generally meeting the LG industry standard at the Shire of Serpentine Jarrahdale.

There are a small number of material findings, however these are items are able to be quickly and easily remedied now that they have been identified.

There are also a number of non-urgent opportunities for improvement that the Shire may wish to consider adopting over time and as budget/resourcing permits.



Audit details

Scope

The Scope of the audit is to examine:

Payroll Processes

- Process for onboarding of new employees by payroll.
- Process for changing employee details (in particular bank account details) by payroll.
- Employees were paid in accordance with payroll policies and procedures.
- Pay rate reported on the pay statement in accordance with the approved rates in the employee's personnel file.
- Segregation of duties for approval of payroll payments – test over 3 pay runs; and
- Changes to other payroll information conducted in accordance with procedures.
- Hours worked and the leave taken on the timesheet agreed to the pay statement.
- Timesheets approved (where applicable); *not requested at the time of drafting this report*
- Additionally, as requested:
 - Review of timesheet procedures to evaluate misconduct resistance strategies; and
 - Both Manual and Online System
 - Review of processes for casual and part time staff payroll processes, including conversion to permanent part time or full time.

Leave Processes

- Process for applying and approving leave; and
- Employee leave records are managed in accordance with HR policies and procedures.
- Additionally, if requested *not requested at the time of drafting this report, but completed anyway to better inform the report*
 - Conduct a leave audit for sample employees against the HR physical records and the payroll system to confirm that all leave has been entered correctly into the system.

Resignation and Termination Processes

- Additionally, if requested *not requested at the time of drafting this report*
 - Audit a sample of seven staff (~5% of FTE) resignations / terminations effected between 2020 – 2022 against the criteria:
 - Review of payroll information to identify any overpayments and confirm if they have been rectified (if applicable).
 - Extension of overpayment review from identification and invoice through to collection and bank reconciliation.



Key Deliverables

The key deliverables of this review are:

- Preparation of an audit report for CEO outlining audit findings and recommendations for improvement.

Methodology

The following review methodology was utilised:

- Provision of discovery list of documents to provide Shire staff with time to assemble the requested materials (excluding sampled payroll records)
- Entry Meeting with relevant stakeholders
- Agreement of audit scope and items for examination
- Completion of non-disclosure agreement (NDA) if required
- Onsite field work to examine the document repository and human resource management system
- Offsite examination of identified documents, registers and reports;
- Analysis of observations;
- Draft report of the findings;
- Review period by the Shire to allow for management comments; then
- Report finalised and submission to the CEO.



Discovery

The Shire of Serpentine Jarrahdale was provided with a comprehensive discovery list in order to fully inform the Payroll and Leave Management Audit.

- Full staff list with role/department to facilitate randomised by Blue Zoo
- Employee Onboarding Process documentation
- Process for changing employee details (in particular bank account details) by payroll
- Changing Employee details process documentation, including defined request mechanisms, allocated change agents and approvers
- Payroll policy
- Documented payroll procedures
- Timesheets approval policy
- Timesheet approval procedures
- Delegation authority to approve timesheets (or JDF of approver noting this function)
- Segregation of duties policy
- Reporting obligations for departure from policy or procedure, including approvals
- List of departures from 'standard' payroll (manual editing or non-scheduled lodgement) in period
- Training of the approver in timesheet approval, including AED and ability to identify fraud/misconduct
- Managers have received functional training but no AED of misconduct resistance training
- Personnel record illustrating pay rate and any change logs
- Employment contract nominating pay rate and any variations
- Pay statements for the nominated period
- Relevant duty statements for preparer, lodger, approver, reconciler
- Payroll change policy
- Payroll change procedure
- Payroll change duty/delegation
- Leave policy
- Defined leave procedures, including processes for 'insufficient balance' requests
- Sampled employee leave requests for period
- Sampled employee leave approvals for period
- Payslips for sampled employees illustrating leave taken
- Record of any negative leave balances recorded anywhere in the payroll system, & relevant approvals
- Record management \ keeping plan for HR including retention and disposal authorities
- Timesheets for relevant periods
- Payslips for relevant periods
- Corresponding .aba files showing bank transaction (employee account numbers can be redacted)
- Timesheets approved (where applicable);
- Timesheets for the relevant period
- Payslips for casual and part time staff
- Leave Policy and documented procedures (if different for part time and casual employees)
- Documented procedures to convert casual staff to permanent part time or full time



Sample data set

Payroll management

EmpID	Organisation Unit
877	Infrastructure Services
911	Infrastructure Services
917	Library Services
914	Financial Services
806	Economic and Promotions
948	Infrastructure Services
752	Community Safety
981	Governance
561	Chief Executives Office
620	Operations
694	Community Safety
965	Emergency Services
823	Community Development

Leave management

EmpID	Organisation Unit
895	Subdivisions and Environment
836	Operations
872	Governance
563	People and Culture
922	Infrastructure Services
561	Chief Executives Office
914	Financial Services

Sample period

Fortnight encompassing first pay cycle in December 2022.

Original sample period was first pay cycle in January 2023. This was requested to be changed by Payroll Admin. Rationale for change was that this was a period of significant disruption due to a systems migration. Payroll Admin noted that there were 'some issues' relating to the January 2023 pay period, however this was not representative of a normal pay cycle and would not necessarily yield reliable audit data. Auditor agreed to change the sample period, with the revised period selected by the Auditor.



Audit observations

Finding indicators are represented as:

MS Meets expected standard

RA Requires attention

MD Not in existence or materially deficient

Policies

#	Policy	Indicator	Notes
01	Payroll policy	MD	Policy support for payroll does not exist. Payroll governance primarily based on historical precedent rather than by stated intent.
02	Timesheet approval policy	MD	Policy support for timesheet approval does not exist.
03	Segregation of duties	RA	Segregation of duties not supported by policy. Delegation of Authority to spend money for payroll not provided by Payroll Officer.
04	Payroll amendment policy	RA	Policy support for payroll amendment does not exist.
05	Leave policy	RA	Leave policy requires substantial revision. Multiple uncontrolled copies of policy within various file repositories. Auditor notes that re-drafting/amendment process is already underway via HR Manager.

Procedures

#	Procedure	Indicator	Notes
01	Employee onboarding for payroll procedure	MS	Payroll onboarding occurs via OneComm system. HR commence the workflow and Payroll are allocated relevant activities. Pay grade and level established at onboarding. Access controls sufficient, with the exception of an inappropriate level of medical record access.
02	Changing employee details procedure (in particular bank account details) by payroll.	MS	Changing employee details process is not well documented, but a defined request mechanisms is in place with focus on self-service and allocated change agents and approvers for all non-self-service changes. Non-self-service changes are locked to function (HR/payroll). Checked TFN not able to be employee edited. All changes are logged appropriately.
03	Timesheet approval procedure	RA	Timesheet procedure not documented. Depot timesheets are effectively completed in advance to support auto pay, and reliance is placed in post-processing checks to identify any discrepancies. Pay cycle is Saturday to Friday, with pays processed on Thursday. Payroll only have half the picture at the time of processing depot pays.
04	Timesheet amendment procedure	RA	Timesheet amendment procedure not documented.
05	Payroll approval procedure	MS	There is no segregation of duties defined, however in practice, the Payroll Officers prepare payroll, Manager of Finance approves payroll, and Accountant lodges payroll.
06	Leave procedure	RA	Leave procedure is not well documented and overly complex as a result of the pay cycle, but is well managed by the payroll officer who has a sound understanding of the underlying processes and risk points.



General payroll management

#	Management	Indicator	Notes
01	Delegation authority to approve timesheets	MD	The auditor was not able to sight a specific delegation or JDF for timesheet approvers noting this function.
02	Reporting obligations for departure from policy or procedure	RA	There are no defined reporting obligations for departure from policy or procedure. Departures (circa 15% of payroll on a normal cycle) are discussed and resolved by payroll staff, but there is no pattern recognition, no recidivist reporting etc.
03	Training of the approver in timesheet approval	RA	Training for timesheet approvers is functional in nature, with little focus on timesheet interrogation, record keeping, or misconduct resistance.
04	Timesheet approvals generally	RA	With part of each pay cycle representing pay in advance, this requires a high degree of checking diligence by Payroll to ensure errors are not introduced for timesheets that straddle pay runs.
05	Record management / keeping plan for payroll	RA	Payroll were not aware of the Shire's record keeping plan, nor retention and disposal policies and/or authorities.
06	Record management	RA	Contract and other records are spread across the OneComm system and the Contract Manger system. The caused some confusion as to the exact location of some employment contracts during the audit process. The auditor is advised that the Shire is progressively moving these records into the OneComm system. It was noted that payroll staff had access to both medical and disciplinary records which while may be needed occasionally for payroll purposes, should only be provided on an as needs basis.
07	Duty statements for preparer, lodger, approver, and reconciler	MS	No specific duty statements are in place for payroll preparer, lodger, approver, and reconciler.
08	Depot timesheets generally	RA	Several staff report issues with depot not entering leave correctly. Payroll currently manually enter leave (without defined authority) after depot support officer sends fortnightly leave report in arrears. In the last 12 months more than 390 leave applications were entered by Payroll on behalf of staff. Payroll then seek to adjust/reconcile this with reference to time cards that show job costing. The payroll control involves payroll staff checking every individual depot time card to show there was some costing for each working day. Correct work pattern is falling back on payroll rather than on depot managers and staff.
09	Pay cycle	RA	The current pay cycle allows for prepayment of up to one week of pay, with leave retrofitted to subsequent pay cycles if it misses the processing cut-off date. It is probable that there have been cases of overpayment due to unexpected changes in work schedule. That this is not common place is only avoided by extensive and careful checking on the part of the payroll officers, relying on a very sound understanding of the process and an appetite to check every timesheet every pay cycle.
10	Pay point progression	MS	Pay point progression was occurring correctly when observed within the sample record set.
11	Salary Revisions	MS	The auditor noted that there were a number of sampled staff that had salary revisions back dated to 1 July from the salary reviews in September in the year. It was noted that this require some work by payroll to back pay staff.
12	Signed Contracts	RA	The Auditor noted that as part of the sampling of payroll, there were two employees with only the back page of their contract signed in the scanned version rather than the full contract.



Sampling – Payroll

Audit Item	877	911	917	914	806	948	752
Employment Contract	MS	MS	MS	MS	MS	MS	MS
Employment Contract Variations	MS	MS	n/a	n/a	MS	MS	MS
Timesheets	Autopay	Autopay	Autopay	Autopay	Autopay	MS	MS
Timesheet approvals	n/a	n/a	n/a	n/a	n/a	MS	MS
Amendments / variations	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Pay statements / payslips	MS	MS	MS	MS	MS	MS	MS
.aba file / bank rec	MS	MS	MS	MS	MS	MS	MS
Bank confirmation	MS	MS	MS	MS	MS	MS	MS

Audit Item	981	620	694	965	823	561
Employment Contract	MS	MS	MD unsigned	MD unsigned	MS	MS
Employment Contract Variations	n/a	MS	MS	n/a	MS	MS
Timesheets	New hire	MS	MS	Autopay	n/a	Autopay
Timesheet approvals	New hire	MS	MS	Autopay	n/a	n/a
Amendments / variations	New hire	n/a	n/a	n/a	n/a	n/a
Pay statements / payslips	n/a	MS	MS	MS	n/a	MS
.aba file / bank rec	n/a	MS	MS	MS	n/a	MS
Bank confirmation	n/a	MS	MS	MS	n/a	MS

Sampling – Leave

Audit Item	895	836	872	563	922	561	914
Leave requests	1	1	0	2	0	2	3
Leave approval	MS	MS	n/a	MS	n/a	MS	MS
Leave balances amended	MS	Covid	n/a	MS	n/a	MS	MS
Negative Leave balance	No	No	No	No	No	No	No

Exclusions

The following items were excluded from the audit:

Nil

Working Papers

Working papers have been retained for this audit for the purpose of responding to queries from the Shire regarding the audit process and data captured. These working papers will be securely destroyed sixty (60) days after delivery of this audit report to the Shire.



Audit Recommendations

Audit found **17** recommendations that warrant management comment.

The review of payroll and leave management at the Shire of Serpentine Jarrahdale yielded a number of material and non-material findings that are presented for consideration.

Each finding has an indicator attached to provide guidance regarding the time, cost and complexity of remediating or mitigating the finding.

These indicators may vary depending on internal capacity and capability within the Shire of Serpentine Jarrahdale to address these matters internally.

As always, the decision to address a finding will rest with the Shire of Serpentine Jarrahdale and will be informed by compliance obligation, risk appetite, along with budget, personnel and other constraints.

Finding indicators are represented as:

HIGH Extreme/Urgent

MOD Moderate/Priority

LOW Low/Operational

#	Audit Recommendation	Indicator
01	Consider implementing a payroll policy. Audit Observation – Policies 01 Audit Observation – General Payroll Management 02	MOD
	Management Response	
02	Consider implementing a timesheet approval policy or incorporating this within a payroll policy. Audit Observation – Policies 02	MOD
	Management Response	
03	Consider implementing a payroll segregation of duties policy or incorporating this within a payroll policy. Audit Observation – Policies 03	LOW
	Management Response	
04	Consider updating the leave policy which requires substantial revision. Audit Observation – Policies 04 & 05	MOD
	Management Response	
05	Revise and thoroughly document payroll 'change details' procedure Audit Observation – Procedures 02	LOW
	Management Response	
06	Revise and thoroughly document payroll 'payroll approval' procedure by role Audit Observation – Procedures 05	LOW
	Management Response	
07	Check delegation of authority to approve timesheets and approve payroll Audit Observation – General Payroll Management 01	LOW
	Management Response	



#	Audit Recommendation	Indicator
08	Managers require training in identifying timesheet misconduct Audit Observation – General Payroll Management 03 & 08	LOW
	Management Response	
09	Payroll require training in records management obligations Audit Observation – General Payroll Management 05	LOW
	Management Response	
10	Remove payroll access to employee medical records in OneComm Audit Observation – General Payroll Management 06	HIGH
	Management Response	
11	Remove payroll access to disciplinary records in Content Manager Audit Observation – General Payroll Management 06	HIGH
	Management Response	
12	Consider revising pay cycle timing to reduce payroll workload/error Audit Observation – General Payroll Management 09 & 04	MOD
	Management Response	
13	Consider conducting remuneration reviews in July to reduce impact of backpay calculations Audit Observation – General Payroll Management 11	LOW
	Management Response	
14	Consider reviewing all Employee contracts to ensure that all employees have a complete signed contract Audit Observation – General Payroll Management 12	MOD
	Management Response	
15	Obtain signed copy of employment contract for Employee 694 Audit Observation – Sampling - Payroll	LOW
	Management Response	
16	Obtain signed copy of employment contract for Employee 965 Audit Observation – Sampling - Payroll	LOW
	Management Response	
17	Consider adding initialling of each page of employment contracts Audit Observation – Sampling - Payroll	LOW
	Management Response	



End-report

No further data post this line.

