



## Audit Committee Report

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**Report of:** Laraine Manley, Executive Director

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**Date:** 1<sup>st</sup> August 2012

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**Subject:** Progress Report on HR/Payroll Procedures

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**Author of Report:** Mark Sherwood/Julie Toner

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**Summary:** Sheffield City Council (the Council) implemented a pay review that was designed to improve the consistency of pay and rewards to all staff in the Council who perform similar roles. The review aimed to promote the Council as a fair employer, while also enabling it to simplify its payroll activities, which had developed organically over a number of years.

To provide assurance that the transition process had been undertaken accurately and completely, the Council's Internal Audit team undertook a sample review of salaries affected by the pay protection scheme in September 2010. Its report, which was published in January 2011, identified that about ten per cent of those staff it had sampled were being overpaid because their pay protection entitlement had been incorrectly calculated and/or applied.

A further review was commissioned by Grant Thornton on behalf of Sheffield City Council, which contained a number of recommendations. This report provides an update on the recommendations subsequent actions taken to address these.

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**Recommendations:** **The recommendations made by Grant Thornton have now been addressed and therefore this work is now complete.**

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**Background Papers:**

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**Category of Report:** OPEN

This report is commercially sensitive as it contains information about the performance of a third party organisation

**If Closed add – ‘Not for publication because it contains exempt information under Paragraph... of Schedule 12A of the Local Government Act 1972 (as amended).’**

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**Statutory and Council Policy Checklist**

<b>Financial Implications</b>
NO Cleared by:
<b>Legal Implications</b>
NO Cleared by:
<b>Equality of Opportunity Implications</b>
NO Cleared by:
<b>Tackling Health Inequalities Implications</b>
NO
<b>Human rights Implications</b>
NO:
<b>Environmental and Sustainability implications</b>
NO
<b>Economic impact</b>
NO
<b>Community safety implications</b>
NO
<b>Human resources implications</b>
YES
<b>Property implications</b>
NO
<b>Area(s) affected</b>
<b>Relevant Cabinet Portfolio Leader</b>

<b>Relevant Scrutiny Committee if decision called in</b>
Not applicable
<b>Is the item a matter which is reserved for approval by the City Council?</b>
<b>NO</b>
<b>Press release</b>
NO

## **Progress report on HR/Payroll procedures**

### **1.0 INTRODUCTION**

Sheffield City Council (the Council) began a pay and grading project that was designed to improve the consistency of pay and rewards to all staff in the Council who perform similar roles. The project aimed to promote the Council as a fair employer, while also enabling it to simplify its payroll activities, which had developed organically over a number of years.

The pay and grading project resulted in the implementation of revised salary bandings from April 2010. Although some groups of employees were excluded (including teachers and senior management), the pay and rewards of about 14,000 staff were reviewed and the pay scale points of some 4,000 were subject to changes.

As the process was designed to harmonise pay and rewards, some staff were required to take a cut in salary, and others received an increase. In order to ease the transition for those whose salaries were reduced, the Council agreed to award "pay protection" to compensate them for the loss of pay for a period of nine, 12 or 18 months commencing in April 2010.

To provide assurance that the transition process had been undertaken accurately and completely, the Council's Internal Audit team undertook a sample review of salaries affected by the pay protection scheme in September 2010. Its report, which was published in January 2011, identified that about ten per cent of those staff it had sampled were being overpaid because their pay protection entitlement had been incorrectly calculated and/or applied.

A further review was commissioned by Grant Thornton on behalf of Sheffield City Council. The scope of the review included:

- Review the Council's Internal Audit work in relation to the project to confirm that a robust process and valid results were achieved.
- Perform CAATs testing to identify those employees where salaries paid did not appear to align to the output of the pay and grading process.
- Analyse the processes used to implement the revised salaries to provide an accurate payroll in April 2010, including whether the checking of inputs and outputs provided assurance to management.
- Evaluate Capita's processes for managing the Council's payroll against good practice.

### **2.0 SUMMARY**

Findings of the Grant Thornton report proposed a number of actions and those that related to the HR / Payroll service provided by Capita were agreed between SCC and Capita as follows:

- 1. Capita payroll manager to allocate resource to work with SCC to reconcile this data, follow up on all individual cases and to give detail on potential cost implication to the Council.*

2. *Capita will provide monthly payroll change reports for HR business partners to review, this will include starters, leavers and contract changes affecting pay. HR Business partners will use this data with SCC managers to confirm accuracy of pay data, the aim of this is to develop ownership and achieve business compliance*
3. *Capita has exemption in the contract from the provision of the SAS70 report. Capita has an alternative assurance model, they will provide evidence of this model and approach to the council to give reassurance.*
4. *The Council should review the approach taken by Capita for reviewing exception reports and clarify its expectations. Capita currently perform this check on the gross pay within tolerance levels and have put in place new Business assurance checks which take place before payroll is run.*
5. *In future projects involving changes to the pay roll the critical importance of setting appropriate tolerance levels and assurance that the right level checks have taken place is noted.*

### **3.0 MAIN BODY OF THE REPORT**

The agreed actions together with an update of the status of each individual action are detailed as follows:

1. Capita payroll manager to allocate resource to work with SCC to reconcile this data, follow up on all individual cases and to give detail on potential cost implication to the Council.

*Update: Capita assigned a senior member of staff, who had been part of the pay and grading team, to work alongside SCC's HR Project Manager. The review commenced December 2011 and concluded 22<sup>nd</sup> February 2012. This review found that the overall accuracy of assimilation was well within the project tolerances set. Errors that occurred were broadly identified and corrected within the following two/three months. 183 cases were referred for further investigation of which 5 may require further action (potential recovery of £2,045).*

*Our key findings from this review are:*

- *Grant Thornton applied a set of logical tests to the March 2010 and April 2010 payrolls to establish areas of potential error. Whilst these checks would identify errors, they were also all scenarios where the potential discrepancy could be a legitimate outcome of the Pay Review. For example, pay could be legitimately lower in April than in March if the detriment was due to a change in terms and conditions, rather than the salary point for the post (e.g. retainer pay for drivers).*
- *In the vast majority of cases it has been established that the assimilation process was accurate. There were instances of incorrectly calculated protection but those have now been resolved. In other cases the incorrect grade was entered but has subsequently been corrected.*

- *Many of the errors that did occur were in complex cases, falling in to two areas: (1) Where the employee was the holder of multiple posts, each of which may have a different treatment, and (2) Where a normal business as usual change was made in the period immediately prior to, during or immediately after the implementation of the new pay scales. This was a risk that was accepted by the project - the decision was made not to implement a change freeze over the period of implementation due to the disruption this would cause within the organisation as a whole (although we still wouldn't expect them to happen). These are generally changes to post grade or changes to hours.*

*Following this review further activity was undertaken to validate payments outside of the scope of the Pay and Grading exercise.*

2. Capita will provide monthly payroll change reports for HR business partners to review. This will include starters, leavers and contract changes affecting pay. HR Business partners will use this data with SCC managers to confirm accuracy of pay data, the aim of this is to develop ownership and achieve business compliance

*Update: Payroll change reports were developed in October, tested during November and December and sent to HR in January and on an ongoing monthly basis.*

3. Capita has exemption in the contract from the provision of the SAS70 report. Capita has an alternative assurance model; they will provide evidence of this model and approach to the council to give reassurance.

*Update: In lieu of a SAS70 assurance report Capita offered an audit report to be provided by the Capita Group Risk Team in October 2011. This has been used as an alternative to SAS70 for another of Capita's local government clients and met the same requirements of SAS70. This option is currently with the Council for consideration.*

4. The Council should review the approach taken by Capita for reviewing exception reports and clarify its expectations.

*Update: Capita performs a validation check on variance in gross pay via a system generated exception report. The variance levels are applied specific to each payroll. In addition new Business / Quality Assurance checks on all new starters, leavers, contract changes, variable pay, mileage and expense claims are performed on a pay period basis before the final payroll is run. The result of these checks has shown a significant improvement in payroll accuracy with attainment of 99.85% accuracy being achieved.*

*It is recommended that an additional one-off exercise is undertaken to identify and confirm the correct treatment of posts currently listed as APT&C service conditions or with an assigned SUG grade.*

5. In future projects involving changes to the payroll, the critical importance of setting appropriate tolerance levels and assurance that the right level checks have taken place is noted.

#### **4.0 Recommendation**

**The recommendations made by Grant Thornton have now been addressed and therefore this work is now complete.**

**It is recommended therefore that this report is the final piece of work relating to this matter.**