



Payroll Internal Audit Report

South Waikato District Council

November 2018

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1. Executive summary

Introduction

We have completed an internal audit of South Waikato District Council (SWDC)'s payroll processes. The internal audit was performed at the request of SWDC's Management.

Objectives

The overall objectives of this internal audit was to confirm whether controls and processes are adequately designed and operating effectively to mitigate key payroll risks.

The specific objectives, scope and approach of the Internal Audit were agreed with SWDC Management and are set out in Appendix 2.

Overall rating

Based on the results of the Internal Audit, we have rated the control environment as 'Developing'. Refer to Appendix 3 for the classification of the internal audit ratings. The Payroll system (Datacom) provides a stable environment for business as usual processes with the potential to be complimented by insightful reporting and analytical functions. The control issues highlighted are common internal audit findings in an organisation which has previously not had a formal internal audit function. Refer to Appendix 3 for the classification of the internal audit ratings.

Overall Rating

Developing

Key strengths

We identified the following positive aspects that Management should continue to build on to enhance the overall control environment over SWDC's payroll processes:

Tone at the Top: there is a strong 'tone at the top' recognising the importance of good practice in the payroll function to mitigate key business risks. SWDC staff and Management also demonstrated a good and consistent understanding of payroll processes.

Continuous improvement culture: SWDC have recently invested in Datacom to improve the overall efficiency and quality of their payroll processes. The system provides a number of useful functions and strategic insights in payroll data and payroll calculation methods.

Exception report review: review of exception reports is a key control for SWDC's payroll function. The payroll exception reports are reviewed by the Human Resources (HR) Manager and the Finance Manager prior to payroll payment approval.

Datacom payroll instruction manual: SWDC has a comprehensive pack of instruction manuals for various users (i.e. employee, managers, and payroll admin). They act as reference guides to enable users to perform necessary functions in their roles.

Key findings/observations

Summarised below are the number of findings identified by the risk ratings.

	High	Medium	Low
Total internal audit findings	-	4	1

The risk ratings are based on a combination of residual risks arising from the issues, the urgency required to resolve/mitigate the risks, and opportunities to make the processes more efficient and effective. Detailed findings and recommendations are included in Section 4 of this report. These findings and recommendations were discussed with SWDC management.

The medium rated findings and recommendations are:

1. Perform regular user access reviews for appropriateness and segregation of duties in the payroll function to ensure incompatible tasks are segregated and to ensure employees' roles and responsibilities commensurate their access rights in the system.
2. Review manual interventions in the payroll processes to strengthen the control environment and make the processes more efficient.

3. Review and update system configurations and payroll processes to ensure better alignment with the Holidays Act 2003:
 - ensure employees' annual leave entitlements are calculated correctly when an employee's work status changes.
 - ensure employees gross earnings are calculated in line with the Act whereby consideration is given on whether allowances and cash up of leave should be included in the calculation of gross earnings
 - assessment of whether casual employees should be afforded leave entitlements which should be made by reviewing their work patterns and/or clarifying their 'working week' in an agreement.

In addition to the issues highlighted in Section 4, additional insights from analyses of payroll data has been included in Section 5. Key insights include employment

duration for both current and terminated employees, and overtime performed by staff in certain departments.

Overall management comments

A number of the points raised will be addressed through the creation of an overall process/manual for how Payroll should be operating at SWDC. The plan is for this to be created by the 21 December 2018. This will cover:

- All approvals
- Timesheet entry
- Sub-delegations of timesheets and leave approvals
- Checking process before payroll is run
- Responsibilities
- Periodic access reviews for the payroll process.

2. Background

SWDC employs over 170 staff, consisting of full time, part time, temporary part time, fixed term, contractor on invoice and casual staff.

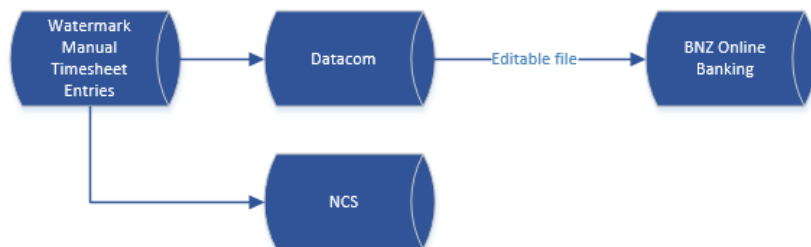
Payroll costs amounted to \$5.6M (net) between 1 June 2017 and 31 May 2018.

Payroll systems/tools

There are four main elements in the SWDC's payroll process:

- Datacom: contains the employee masterfile and is used for payroll processing.
- BNZ Online Banking: used for making payroll payments.
- Watermark Manual Timesheet Entries: used for job costing in NCS (Finance system) and capturing of actual hours worked for Watermark employees (timesheets).
- NCS: SWDC's finance system and is used for job costing (labour, material and mileages), and payroll accruals.

A visual depiction of the linkage between all payroll related systems is provided below:



Employee details

The HR team provides the HR/Payroll Assistant with details on new hires, terminations, and changes to employment related employee data (e.g. salaries, pay rates, etc.). In addition, the Business Unit Managers may provide details to the

HR/Payroll Assistant with regards to employee salaries and pay rate changes. The HR/Payroll Assistant enters the relevant details necessary for Payroll in Datacom. All SWDC staff have access to change personal details (e.g. name and address) themselves within Datacom. They do not have access to change employment details (e.g. position and pay rate).

Pay runs

Pay runs are processed on a fortnightly basis. The process for a standard pay run is as follows:

- Business Unit Managers approve timesheets in Datacom. Prior to the payroll pay run, unapproved timesheets are approved by the HR/Payroll Assistant on behalf of the Managers.
- Watermark employees fill out manual timesheets as well as electronic timesheets in Datacom. The manual timesheets are reviewed and approved by the Watermark Manager or Supervisor and are sent to the Assistant Accountant who collates and codes the hours to respective job costings in NCS. The Assistant Accountant reviews both the manual hours and Datacom hours on a sample basis for discrepancies before the pay run is processed.
- The HR/Payroll Assistant runs the payroll reports in Datacom. These are reviewed and approved by the HR Manager and the Finance Manager.
- The HR/Payroll Assistant uploads payments in BNZ for approval.

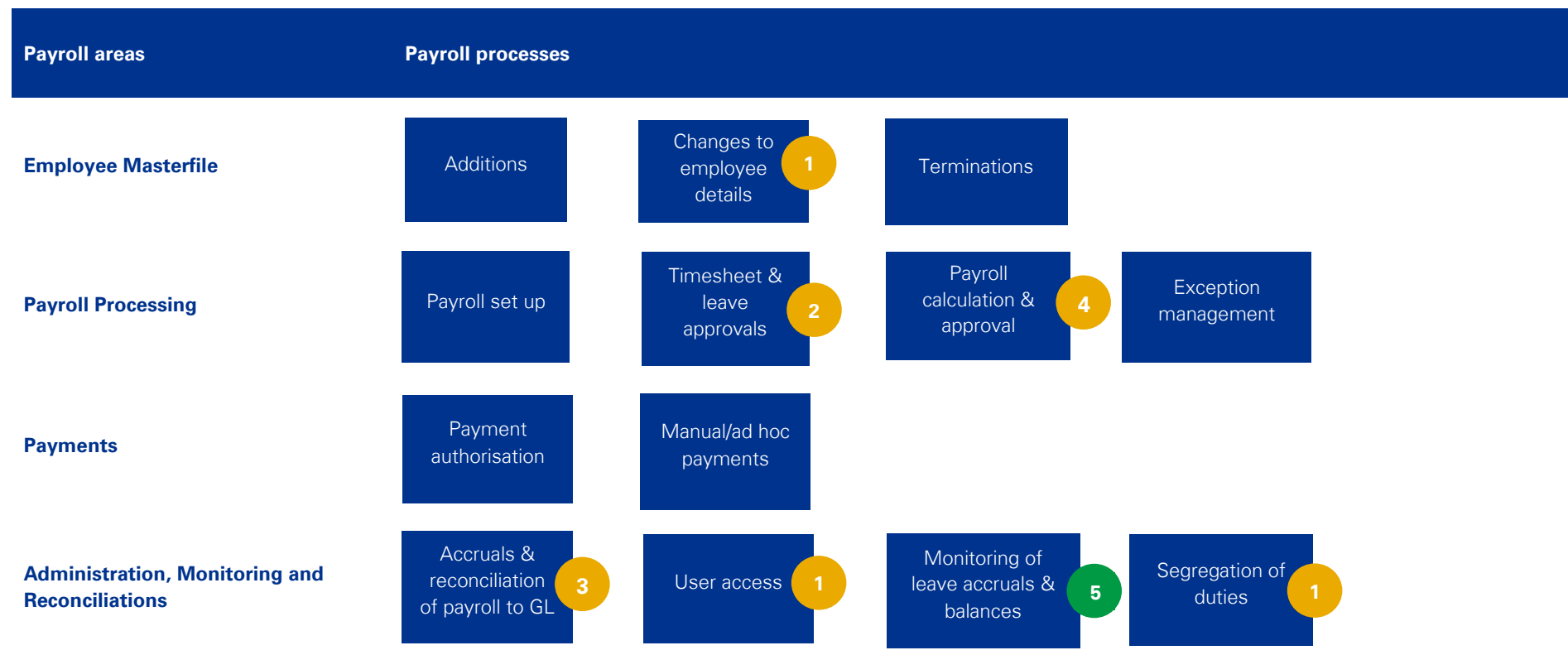
A high level flowchart of SWDC's payroll process can be found in Appendix 1.

Management initiatives

SWDC is continuously investing in Datacom to help enhance the payroll function. Datacom allows users to access a considerable amount of information held within the payroll system. All data is displayed in real time. Each Manager can see data relating to their respective departments and it also allows for comparisons between departments. The HR/Payroll Assistant has been exploring ways in which the Datacom functions can best be leveraged and used for reporting purposes.

3. Payroll process overview and mapping of findings

The following diagram shows key sub-processes in an end to end payroll process. The findings have been mapped to the respective sub-processes.



Finding reference and ratings:



4. Detailed findings and recommendations

1. Perform regular user access reviews for appropriateness and segregation of duties

Rating of finding: Medium

Internal Audit Finding

Inappropriate user access

There is currently no independent monitoring and review of user access in Datacom system. Our review identified the following issues:

- 4 staff members (Human Resources/Payroll Assistant, Revenue Officer, System Analyst and the Assistant Accountant) have super user access to the payroll system. This role allows the user to perform a number of incompatible tasks:
 - Set-up and termination of employees
 - Change of employee details (e.g. bank account details)
 - Edit of timesheets (including approved timesheets)
 - Approval of timesheets (refer finding 2)
 - Ability to make changes to staff pay rates
 - Create and finalise pay runs.
- Lack of restriction in assigning proxies. Managers have the ability to assign a proxy to junior staff to approve timesheets and staff leave on their behalf. This has resulted in managers assigning proxies to their junior team members for a period of multiple years as a way to reduce managers' administrative tasks. We note that in some instances, personal assistants have been given the delegation to approve timesheets and leave requests. Managers should only assign proxy to approve timesheets and leave requests on their behalf in their absence to a senior staff within the team.

Segregation of duties

The payroll process is generally well segregated in practice whereby the Human Resources (HR) Manager manages the on boarding, the business unit managers approve timesheets, Payroll staff maintain the employee masterfile and process pay runs, and the Finance team approve payments in BNZ online banking. Although these duties are well segregated, it is undermined by the above access.

In addition, we note that the Assistant Accountant also has access to post journals and maintain the General Ledger in NCS finance system.

Recommendations

- Implement periodic user access review for the payroll process.
- Remove access to perform incompatible tasks in the Datacom system.
 - Super user access should be limited to a limited number of personnel and where practical, it should be team members outside of the payroll team.
 - Remove the Assistant Accountant's access to make changes to the employee masterfile, edit and approve timesheets and process pay runs in Datacom.
 - Remove the HR/Payroll Assistant and Assistant Accountant's access to approve timesheets on behalf of managers.
- Develop guidance on the sub-delegation of timesheets and leave request approval. Generally, only senior staff who have a good knowledge of the team's activities should be given the proxy to approve timesheets and leave requests. Clarify roles and responsibilities of timesheet entering and authorisation to the wider team to ensure timesheets are entered correctly and approved appropriately in a timely manner.

It is important to note that we did not identify any instances of inappropriate changes in the employee masterfile in our sample based review.

We also note that a mitigating control exists whereby an exception report highlighting key changes to employee's details is generated and reviewed by the Finance Manager and Human Resources (HR) Manager against supporting documentation prior to finalising payroll payments.

Impact

- Unauthorised changes to employee master data and payroll data may not be detected in a timely manner resulting in fraudulent/incorrect payments.
 - Financial loss resulting from unauthorised changes to employee master data and payroll data which may not be detected on a timely basis.
 - Timesheets and leave request are not approved appropriately.
 - Under/over payment to employee due to inaccurate timesheets approved.
-

Agreed Management Actions

- Implement a 6 monthly access review for the payroll process to be reviewed on 1 October and 1 April – Due by 1 December 2018.
- Limit super user access (to be included in payroll process manual) – Completed.
- Remove access for HR/Payroll Assistant and Assistant Accountant to approve timesheets on behalf of managers – Due by 30 November 2018.

Responsibility	HR Manager and Finance Manager	Target Date	1 December 2018
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2. Review manual interventions in Payroll process for efficiencies and better control environment

Rating of finding: Medium

Internal Audit Finding

Manual timesheets - Watermark

The Watermark team's timesheets are not being approved adequately. Watermark employees are required to record the hours worked and related mileage on manual timesheets and in the Datacom system (hours worked only). The timesheets are required to be approved by the Watermark manager/supervisor prior to the pay run however there is lack of clarity whether this is performed consistently.

The Assistant Accountant has the ability to make changes to the submitted timesheets and often approves them on behalf of the Watermark manager/supervisor. This is due to:

- The timesheets often being entered incorrectly in the Datacom system by Watermark employees. When a variance is identified (based on sample based checks) between the hours entered in the manual timesheets and the hours entered in the Datacom payroll system, the records in the Datacom system will be changed to match the manual timesheet data by the Assistant Accountant.
- The Watermark manager and supervisor often being unable to review and approve timesheets in a timely manner due to capacity constraints.

We note that staff from the support function (e.g. Finance) who approve timesheets on behalf of managers/supervisors potentially would not have a good knowledge of the operational team's daily activities to allow them to perform a diligent review of the timesheets.

Our sample testing identified a number of variances between manual timesheets and Datacom payroll system:

- Out of 25, 6 (24%) timesheets sampled had different hours recorded in the manual timesheet compared to the Datacom system. 5 out of these 6 instances had a higher number of hours recorded on the manual timesheet resulting in employees being potentially underpaid for that period.
- There was 1 instance where leave was entered, approved and processed as ordinary hours worked in the Datacom system.

The errors were not detected by the Assistant Accountant earlier as the initial review performed was only on a sample based review. We understand that the Assistant Accountant will be correcting these instances to ensure employees are compensated for any errors in processing.

Recommendations

- Remove the Assistant Accountant's access to approve timesheets. Timesheets should be reviewed by senior personnel who have a good knowledge of the team's activities to allow them to perform a diligent review of the timesheets.
- Consider refresher training for the Watermark team and the wider organisation users of the Datacom system to increase efficiency and proficiency.
- Timesheets and leave requests should be entered in the Datacom system correctly and duly approved by the Watermark manager and supervisor in a timely manner.
- Manual timesheets should be signed off adequately by manager/supervisor for job costing purposes in NCS.
- Explore Datacom system enhancement options to enable job costing reconciliation automation.

Job costing reconciliation

Currently there are 3 sets of data relating to the job costing process: manual timesheets, Datacom timesheet and NCS job costing. Employees are required to complete both manual timesheets and Datacom timesheets. The Assistant Accountant uses the manual timesheets to input job costings in NCS.

Reconciliation between NCS and Datacom in relation to job costings has not been performed on a regular basis due to data integrity issues. This is due to the following reasons:

- No system functionality to enable staff to record mileage against plants and stock in the Datacom system.
- Inaccurate data in job costing reports extracted from Datacom (i.e. time entered against jobs) due to incorrect system configuration.
- Datacom job costing reports are based on "pay period end date", not month end resulting in a timing difference to match costs to the correct period.

Impact

- Manual processes are susceptible to errors, fraud and have the potential to undermine the control environment. Time efficiencies may not be realised and maximised.
- Inefficiencies in payroll processes resulting in loss of productivity and increased costs.
- Lack of knowledge of key systems resulting inefficient processes.
- Inaccurate record keeping which may negatively impact the completeness and accuracy of the payment to employees.

Agreed Management Actions

- SWDC are in the process of changing how the timesheets are entered and authorised. The proposed solution is to have the Watermark timesheets authorised by the Watermark Manager. They will then be given to the Assistant Accountant to enter the hours into both Datacom and the NCS for job costing purposes.
- There will be an independent check of the timesheet entry.
- The Datacom system is not currently able to handle the job costing requirements.

Responsibility	Watermark Manager (currently defining role)	Target Date	21 December 2018
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3. Review system configuration for annual leave accruals/entitlement for better alignment to the Act

Rating of finding: Medium

Internal Audit Finding

The current Datacom system configuration does not adjust employees' annual leave entitlements when their employment status changes. This is required to enable employees to take 4 weeks of paid annual holidays as required under s 16(1) of the Holidays Act.

We note that this is a common issue for several organisations across New Zealand with no clear method and guidance to determine whether there are any financial implications for the potential incorrect accrual of annual leave. This is due to the current system limitations, quality of historic data (e.g. recording of leave in hours instead of days/weeks) and legacy employment contracts.

SWDC's current business practice is to allow employees to accrue annual leave entitlements based on actual worked hours. While this is a common practice in the industry, it presents a risk of non-compliance with the Act when employees' standard hours increase. This is because a greater amount of hours need to be provided to the employee to enable them to take four weeks of leave now that they are working more hours per week.

For example, an employee who worked part-time at 20 hours per week for the first six months and then full-time for the next six months at 40 hours per week would have accrued 120 hours of leave. If they were to take leave now, they would only be able to take 3 weeks of leave (3 weeks @ 40 hrs per week). The employee needs to have their annual leave balance converted at the time of their employment status change or adjusted at the time of their work anniversary date (i.e. when the entitlement arises) to enable 4 weeks of leave (i.e. 160 hours).

Based on data analytics performed over the payroll data for the period 1 July 2017 to 31 May 2018, four employees were identified where an employee's employment status was changed 2 or more times:

Employee number	Employment status 1	Employment status 2	Employment status 3
800212	Fulltime	Casual	
800334	Casual	Part time	Fixed term
800363	Fulltime	Fixed term	
800368	Part time	Fulltime	Part time

Recommendations

- Review current system configurations with Datacom and explore options to better align to the Act on a going forward basis whereby the system automatically adjusts the leave balance when an employee's status changes.
- Alternatively, ensure all leave accruals are manually adjusted when staff employment status changes. These should be reviewed and approved by appropriate staff members.
- Review and adjust leave balances every time an employee reaches a work anniversary at SWDC.

Impact

- Non-compliance with the Holidays Act leading to action by regulator and reputational damage.
 - Underpayment of leave entitlements leading to staff and union discontent.
 - Overpayment of leave entitlements causing financial loss to SWDC.
-

Agreed Management Actions

- SWDC will be following up with Datapay directly to discuss options and a way forward – Datapay to respond by 30 November 2018.
 - The maintenance check list includes these changes.
 - Monthly leave balances are reviewed by both HR/Payroll and Group Managers and adjustments made and checked by the HR Manager as part of the fortnightly maintenance check – Completed.
-

Responsibility

HR/Payroll Assistant and HR Manager

Target Date

30 November 2018

4. Review and update payroll processes and system to correctly calculate gross earning and casual staff entitlements

Rating of finding: Medium

Internal Audit Finding

Gross earnings

Payroll system appears to be configured incorrectly resulting in potentially incorrect calculation of gross earnings for the purposes of calculating leave pay:

- Taxable Allowances are usually included in gross earnings unless the allowance is truly discretionary. SWDC have a taxable allowance that is not included in gross earnings (201SR Taxable C & C with QES). The configuration of the allowance should be reviewed to ensure it is in line with the Holidays Act 2003.
- Pay-As-You-Go (PAYG) Holiday Pay is paid to employees on short-term fixed-term assignments. If the employee subsequently takes a permanent role the PAYG payments already made should be included in the employee's gross earnings. PAYG payments are not included in gross earnings as per the current system configuration.
- Cashed up leave is currently included in the gross earning calculation with no distinction of the annual leave entitlement duration.

For annual leave cashed up under the provisions of Section 28 of the Act, the payment for the cashed up leave (up to a maximum of one week in one year) should not be included in gross earning.

If leave above the 4 weeks Holidays Act entitlement is cashed up, the payment for the cashed up leave should be included in gross earning.

Leave Entitlements for Casual Employees

Certain casual staff at SWDC are not afforded the following leave entitlements:

- Paid annual leave (casual staff are paid a further 8% of their gross salary instead)
- Sick leave
- Paid public holidays.

This treatment is non-compliant with the Act.

The Holidays Act does not categorise employees based on their Employment Agreement. PAYG Holiday Pay can only be used for Casual employees who work irregular and intermittent hours. Casuals who work regular hours are entitled to 4 weeks annual holidays after 12 months continuous service. Clauses in

Recommendations

- Review current system configurations with Datacom and explore options to better align to the Act. The Council may wish to seek legal assistance to clarify its compliance.
- Consider reviewing and updating the current Employment agreement for casual employees to better align to the Act.
- Review working hour patterns for all casual staff and determine which staff members can be afforded annual, sick and paid public holiday entitlements. Going forward, implement a process whereby all casual staff working patterns is reviewed over a period (e.g. past 4 weeks) to assess if they are eligible for certain entitlement.
- Consider the inclusion of a standardised clause in the Employee Agreement that states the method of determining a standard week for variable hour workers.

Employment Agreements cannot override legislation (refer Section 4 of the "ECM_18964_v6_Agreement - casual - issued with 34 (Employ 35)" agreement).

If a day is considered an "Otherwise Working Day" and there is a Public Holiday on that day the employee is entitled to be paid.

For Casuals it can be difficult to determine if they work regularly on a certain day of the week. Some companies use a formula of the employee having worked on the day at least 4 of the last 7 weeks to determine if the day is an Otherwise Working Day.

Casuals who work sufficient hours over 6 months to match or exceed the minimum hours set in Section 63 of the Act qualify for Sick Leave. Currently SDWC has 23 casual employees of which 18 employees have been employed more than 6 months and may potentially qualify for Sick Leave entitlement.

Variable hour workers

The definition of a standard working week has not been standardised and included in the employment agreement at SWDC. There is often a difficulty with employees who work variable hours each week to determine what portion of their 4 weeks entitlement is being used when leave is taken.

Impact

- Non-compliance with the Act leading to financial penalties and reputational damage.
- Incorrect payments to employees.

Agreed Management Actions

- SWDC will follow up with Datapay with regards to the process – Datapay to respond by 30 November 2018.
- The HR/Payroll Assistant will be attending an EMA course covering 'managing employee leave' – Due by 30 November 2018.
- Processes and changes will be looked into and implemented after the 'managing employee leave' course – Due by 31 January 2019.
- Casual contract wording has been amended to better align to the Act – Completed.
- A review of the current long term casual staff is being undertaken.

Responsibility	HR/Payroll Assistant and Revenue Officer	Target Date	31 January 2019
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5. Clarify/develop and communicate payroll policies and procedures

Rating of finding: Low

Internal Audit Finding

Given the recent migration of payroll system to Datacom, formalisation and documentation of payroll policies has not been prioritised at SWDC. We note that as part of the transition to Datacom, a set of Standard Operating Procedures (SOP) has been developed. These SOPs provide guidance for timesheet processing (for employees, managers and payroll administrator), job costing and leave request process, processing payroll and payroll month-end procedures.

Payroll processes are well understood by the HR, Payroll and Finance team. However, a lot of this knowledge sits with individuals in the team. Roles and responsibilities of the other parts of the business relating to payroll (including leave) are not clearly understood and communicated.

During the internal audit, we noted the following:

- **Supporting documents:** There is lack of guidance on the level of documentation that should be retained to support changes to employee masterfile and certain allowances provided to respective employees.
- **Allowances:** There is inconsistent use of the 'non-taxable travel allowance' policy dated November 2014, which was first adopted in 2004 and was due to be reviewed in 2016. From the discussion with staff, we understand that SWDC is phasing out the use of this policy for new starters while maintaining the allowances for the existing eligible team members (11 employees).
- **Leave:** SWDC do not have a formal policy and/or guidelines on monitoring leave balances which has resulted in accrual of a high leave liability and also staff with high negative leave balances. The list of employees who have either negative leave balances or high annual leave balances are sent out to respective managers by the HR/Payroll Assistant on a monthly basis. Managers are predominantly responsible for monitoring the balances and apply their discretion in managing the leave balances.

As at 22 June 2018:

- Total negative leave balances were 154 hours which equates to approximately \$10.5K. Two employees make up 91% of this liability.
- The sum of accumulated leave balances over 150 hours (20 days) was 12,527 hours. This is equivalent to approximately \$488k.

Recommendations

- Document and communicate policies and procedures relating to payroll processes to ensure consistency and continuity of processes. The policies and procedures should, at least, cover the following key sub processes:
 - Set-up and termination of employees
 - Changes to employee masterfile
 - Payroll payments processing
 - Review of exception reporting
 - Leave management, including leave cash-up and review of high/negative leave balance.
 - Authorisation of timesheets, leave requests and remuneration changes.
 - Supporting documentation retention
- Consider an independent review of the non-taxable travel allowance policy to ensure usage consistency and its alignment with the Income Tax Act 2007 and IRD guidance.
- Consider formalising a policy and/or guidelines to stipulate SWDC's requirements and expectations over leave management including:
 - Accrual
 - Negative leave
 - Cash-up of leave
 - Alternative leave
 - Responsibility to take leave once leave balance accrues beyond a set limit

Our review of annual leave balances also highlighted 8 employees with high leave balances, exceeding 300 hours (40 days) as per the contractual entitlements.

– Submission of timesheets and leave requests via ESS and approval.

Employee #	Annual leave balance (hours)
100135	629.6
480151	502.1
800191	455.8
433117	354.3
201145	351.5
206121	340.5
441100	322.6
100114	316.6

Impact

- Unclear and undocumented guidelines, policies and procedures may lead to inconsistent practices and lack of accountability.
- Loss of knowledge in case of staff turnover.
- Non-compliance with Income Tax Act 2007 and IRD guidance.
- In the absence of a formal guidance on leave balance monitoring and oversight, staff may continue to accumulate large leave balances and liability.
- Difficulty in recovering large negative leave balances on termination.
- Risk of staff burn-out due to extended periods of work with little or no leave.
- Increase in leave liability due to increase in pay rates.

Agreed Management Actions

- Document and communicate policies and procedures (to be included in the payroll process manual) – Due by 21 December 2018.
- Review the non-taxable travel allowance – Due by 21 December 2018.
- Formalise a policy around leave management (to be included in the payroll process manual) – Due by 21 December 2018.

Responsibility	Target Date
HR Manager and Finance Manager	21 December 2018

5. Insights from data analytics

Internal audit performed data analytics over the payroll data and key insights from the analyses are outlined below. This includes commentary on the results, discussion on irregularities and recommendations for improvements.

Data covering the period 1 July 2017 to 31 May 2018 from the Datacom system by Datacom was used to perform the analysis. Due to some data limitations, we could only perform limited tests.

Our data analytics covered 3 categories:

1. Overall data analytics - to identify irregularities and indicators of fraud
2. Workforce turnover
3. Overtime and excessive hours

Summaries of each area are given below:

Overall data analytics

A number of analytics were performed over the payroll transactional and employee masterfile data to identify trends, irregularities and indicators of fraud. These included:

- Fictitious and/or duplicate employee records
- Payment of salaries and wage before start date or after termination date
- Unexplained fluctuations in salaries and wages
- Duplicate payroll payments
- Unsupported changes to employee masterfile

It was pleasing to note that our analytics did not identify any exceptions.

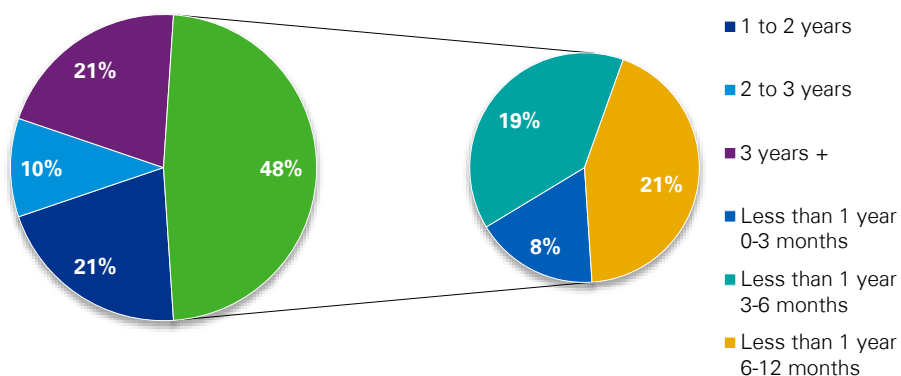
Workforce turnover

Graph 1a and 1b provide insights on employment duration for both terminated employees and current employees. The analysis included employees hired on fixed term basis.

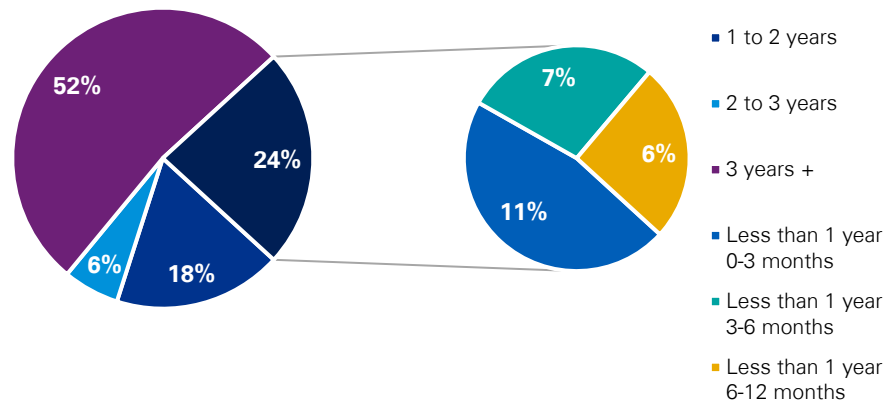
Overtime and Excessive Hours

Graphs 2a and 2b depict the overtime by department and the top 3 departments in terms of excessive hours (defined by working more than 80 hours every fortnight). Graph 2c provides the average hours of work of Watermark employees that work excessive hours regularly. The departments presented in this section have higher operational costs and may be at risk of staff fatigue.

Graph 1a: Employment duration for terminated employees



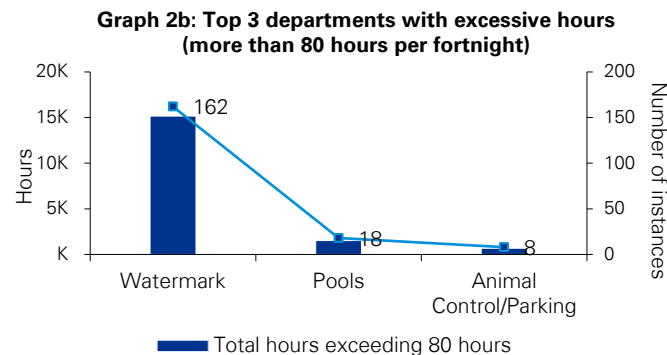
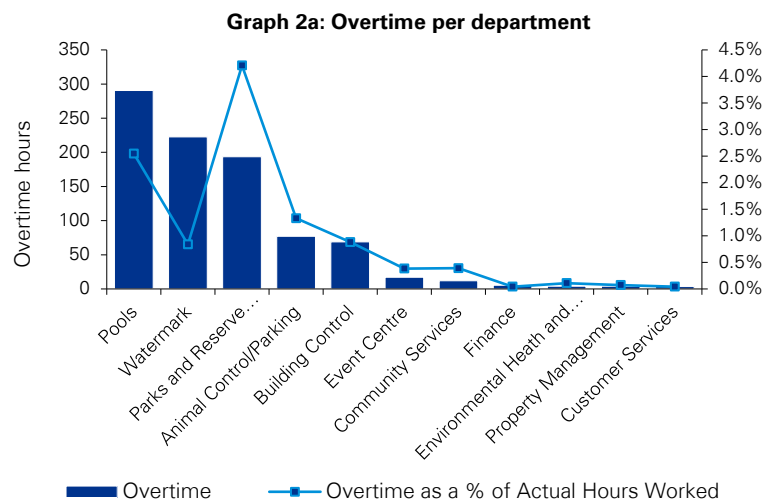
Graph 1b: Employment duration for current employees



Commentary:

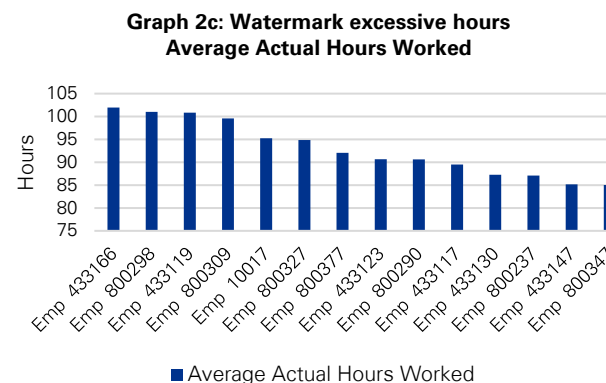
- SWDC has a high employee turnover, especially during the first year of employment. 48% of the terminated employees were employed for a period of less than 1 year and 79% of the terminated employees were employed for a period of less than 3 years. Common reasons for employees leaving include change of lifestyle, relocation and new opportunities. Attracting and retaining talent has been challenging given the location of SWDC.
- Based on management feedback, the median employment duration at SWDC is 2.3 years and the average employment duration is 6.1 years. 52% of the existing employees have been employed for a period greater than 3 years. This indicates that employees that have been at SWDC for more than 2.3 years are less likely to leave the Council as opposed to other groups.

We note that this is an area of focus for management given the challenges with recruiting skilled and experienced staff in the region.



Number of employees in data:

Watermark: 16
Pools: 17
Animal Control/Parking: 4



Commentary:

- Pools has the highest total of overtime hours (290 hours).
- Parks and Reserve Management has the highest number of overtime hours as a percentage of the actual hours worked (4.2%).
- Watermark has the highest instances of employees working over the standard work hours (more than 80 hours per fortnight) – 162 instances relating to 14 employees. On average, the actual hours worked of these instances are 94 hours per fortnight.
- Watermark has approximately 10 instances per employee of more than 80 hours worked per fortnight compared to Pools, and Animal Control and Parking (approximately 1 and 2 instances respectively).

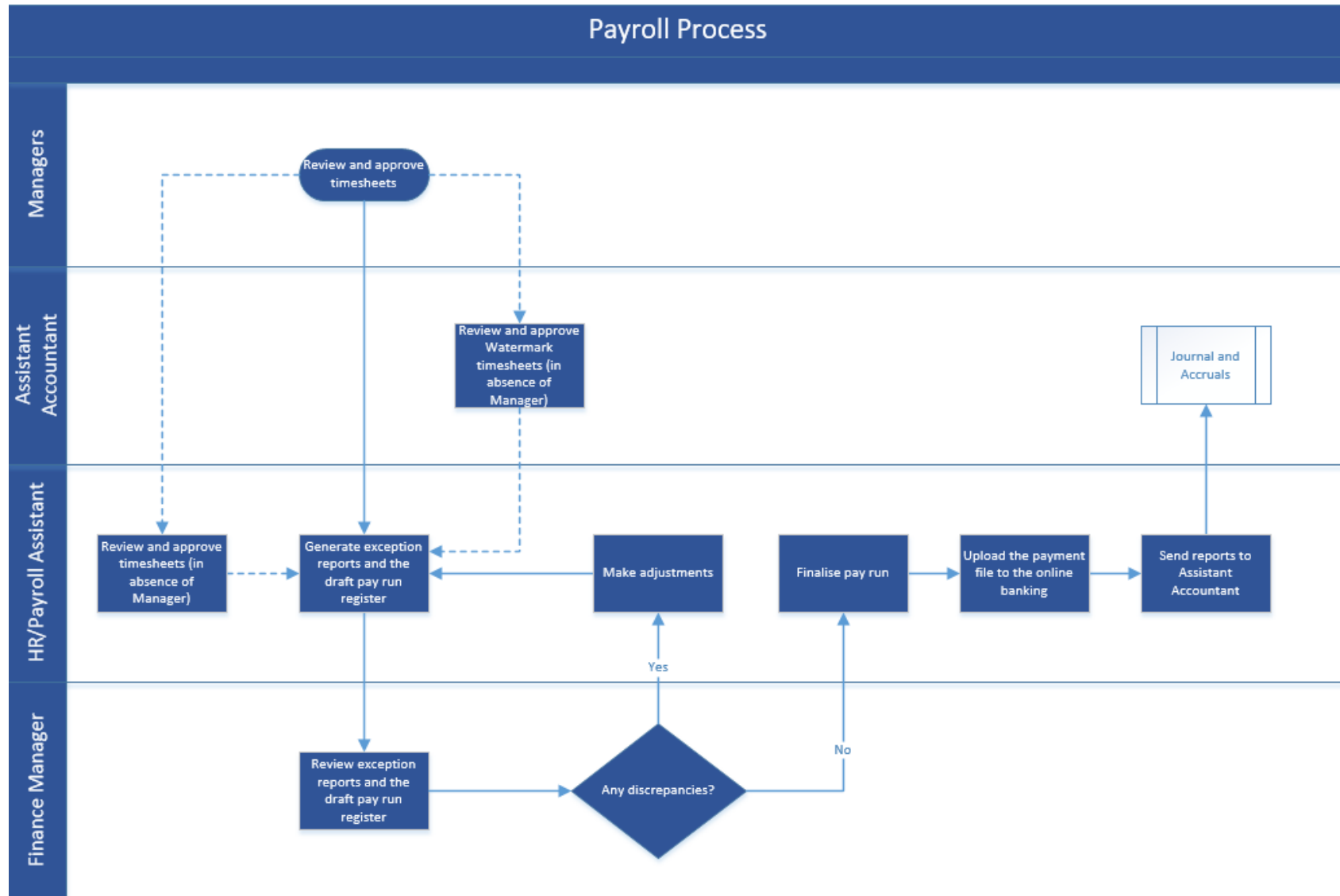
Recommendation(s)

- Review current rostering and staff structures to minimise the need for overtime and thereby reduce costs (where practical) and the risk of staff burn out.

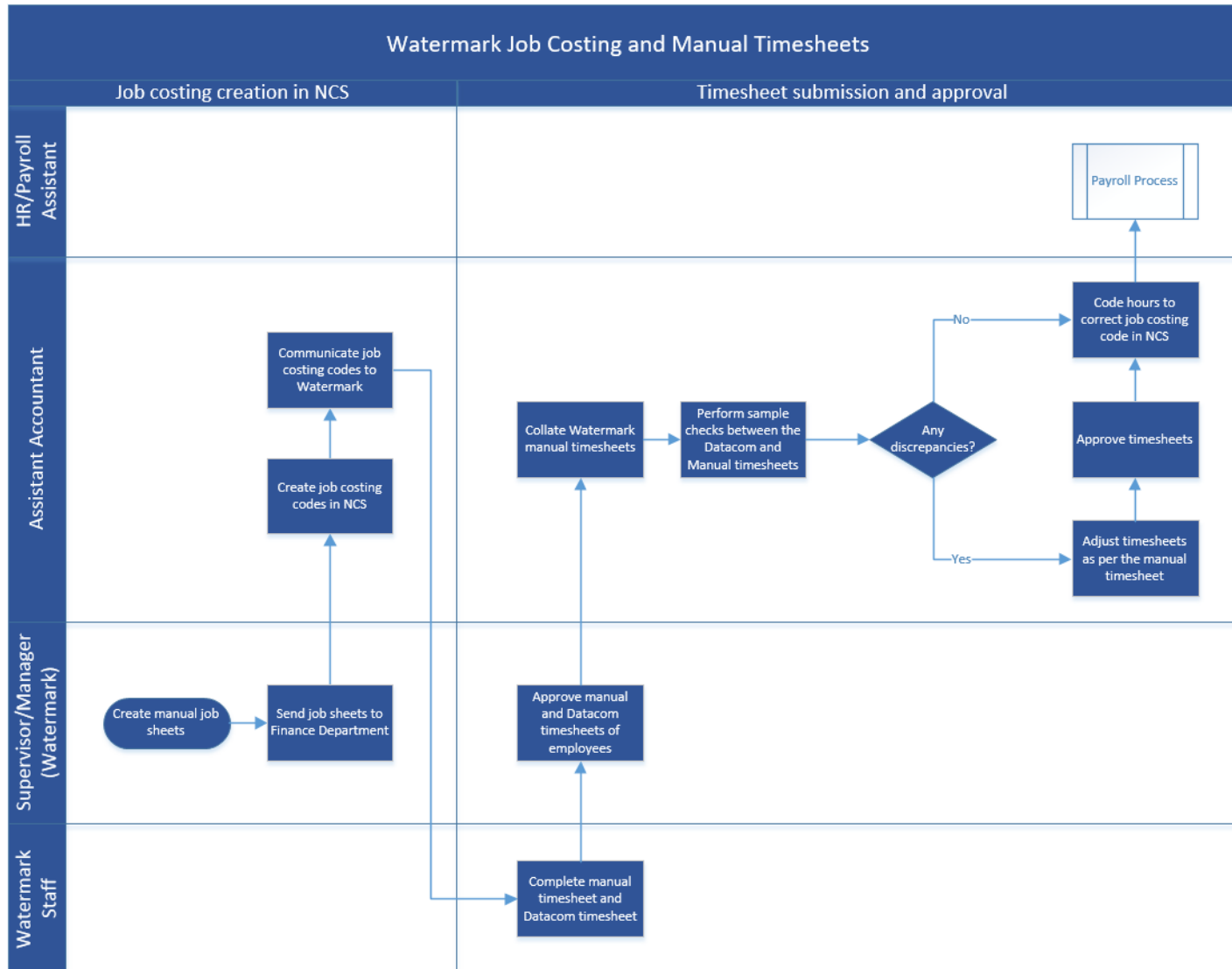


Appendices

Appendix 1: Process flowcharts (1/2)



Appendix 1: Process flowcharts (2/2)



Appendix 2: Internal Audit scope (extract)

Internal Audit Objectives

- Assessed the adequacy of design and operating effectiveness of processes and controls over the payroll function; and
- Provided recommendations for improvement where opportunities exist.

Internal Audit Scope

This internal audit covered the scope period from 1 July 2017 to 31 May 2018 and considered the following key elements of SWDC's end to end payroll processes based on the key risks mentioned above. The scope included:

Payroll function

- Compliance to Payroll policies, procedures and guidelines;
- Delegations of authority and segregation of duties in the payroll process;
- Processes and controls relating to changes to employee masterfile (including employee setup and terminations)
- Authorisation of payroll calculations including leave, overtime, allowances, PAYE and other deductions;
- Termination and manual payments;
- Review of information as per payroll summary report sent by Datacom to supporting documentation;
- Review of exception reporting and follow up of exceptions;
- Controls over payroll payments, reconciliations and clearing accounts;
- Monitoring over service level agreement with Datacom; and
- Adequacy of reporting to allow effective review of changes to payroll data, decision making and identification for follow-up.

Holidays Act process design assessment

We performed a risk-based assessment of non-compliance with the Holidays Act, focussing on common areas of non-compliance, including the following:

- casual staff;
- annual leave;

- alternative holiday;
- sick leave; and
- bereavement leave.

Coverage of scope areas

We covered the above scope areas through the below methods:

1. Control design effectiveness assessment (Payroll function and Holidays Act compliance)

Assessed whether the processes and controls are designed in a manner that enabled appropriate management over the key risk areas based on the above scope. We assessed the existence of controls by performing a walk-through of key processes.

2. Control operating effectiveness testing (sample-based testing) (Payroll function)

We assessed whether the processes and controls have been performing effectively (e.g. consistently and accurately) during the scope period.

This was tested through sample-based testing in line with KPMG's Internal Audit methodology. Where applicable, we substituted the sample based testing with data analytics for a wider coverage.

3. Data analytics testing (Payroll function)

We assessed the provided payroll data through a suite of data analytics tests designed to identify potential non-compliance, indicators of fraud, assess integrity of master data, and highlight key trends for decision-making.

Out of scope

- Bonus/incentive payments;
- Employee expense payments; and
- Compliance with the full requirements of the Holidays Act and calculations-based assessment of SWDC's compliance with the Holidays Act 2003.

Internal audit approach

This internal audit required fieldwork to be performed at the SWDC office. The approach included the following steps:

Planning

1. Obtained and reviewed SWDC's policies and procedures, process documents and discussion with Management relating to the in-scope areas;
2. Documented an overview of the in-scope areas and the related operational systems to identify key risks and associated mitigating controls;
3. The key risk and control assessment were confirmed with Management to agree the areas of significant risk.

Fieldwork

4. Used the risk and control assessment to target the fieldwork to areas of significant risk.
5. Detailed testing and data analytics (as required) was performed in line with KPMG's Internal Audit methodology as required to support our conclusions;
6. Analysed findings to identify the reasons and causes for deviations from policies and procedures and SWDC's guidelines;
7. Potential internal audit findings were cleared with process owners prior to drafting the Summary of Potential Findings for Management discussion;

Reporting

8. A report was drafted detailing the internal audit findings and opportunities for improvement, and provided to Management for documentation of their intended action plan; and
9. Issued final report including Management action plans to address Internal Audit's recommendations.

Appendix 3: Ratings and classifications

Audit rating

The audit ratings are defined as follows:

Rating	Definition
GOOD	The controls are fit for purpose and are being performed in a manner which effectively mitigates the identified risks.
EFFECTIVE	Despite the fact that some control weaknesses were identified, existing controls within the audited process are considered to be generally adequate, appropriate and effective. They ensure that the audited business processes will achieve their control objectives.
DEVELOPING	Control weaknesses were identified which, if not appropriately addressed, could in the future result in the audited business processes not achieving their control objectives.
NOT EFFECTIVE	Existing controls are considered to be inadequate and ineffective to ensure that the audited business processes will achieve their control objectives. Significant improvements are required to improve the adequacy and effectiveness of the control environment.

Risk rating

The risk rating assigned to the findings is determined based on an assessment of the impact of the business and the likelihood of the risk occurring, defined as follows:

Rating	Definition
LOW	Matters which are unlikely to have a significant impact on the system of internal control, but should be addressed as part of continuous improvement.
MEDIUM	Matters which are important to the system of internal control and should be addressed as soon as possible.
HIGH	Matters which are fundamental to the system of internal control. The matters observed can seriously compromise the system of internal control and data integrity and should be addressed as a matter of urgency.

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