



Payroll Audit Report

Treasury Department,
Ministry of Finance and Corporate
Governance

Office of the Director of Audit
Government of Antigua and Barbuda



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Background

The Government of Antigua and Barbuda operates a centralized disbursement system for payroll and payroll related cost through the Treasury Department. In 2006, an initiative was taken to computerise the payroll process by introducing a Free Balance-Human Capital Accountability system (FB-HCA).

Free Balance is an online program designed to assist the government in aggregate fiscal control and better management of public funds. The initial implementation was introduced at the Treasury Department where the processing of payroll information for both Established and Non-Established workers was done. The intention was to eventually allow all Government departments access to input their payroll information into the system, while the Treasury Department would review and further process the said transactions.

However, in June 2013 FB-HCA was upgraded to Civil Service Management (CSM). With the change over to CSM, the Treasury Department was only responsible for processing payroll related payments for non-established workers, while the inputting and review processes for established workers were transferred to the Establishment Department.

Since the implementation of the Free Balance at the Treasury Department, an audit has never been conducted on the Payroll system. A audit would assess the impact of Free Balance on the efficiency and effectiveness of the payroll process and establish the degree of accuracy of the information inputted into the Free Balance system. As a result of the aforementioned, the audit was designed to assess the integrity of the payroll system at the Treasury Department, identify potential areas for improvement and to invoke a culture of independent review within the government service.

EXECUTIVE SUMMARY

The implementation of Free Balance in 2006 and subsequent modifications to the program have considerably improved the way business is done at the Treasury Department. The continuous effectiveness however requires that management ensures that systems are in place to minimize the potential occurrence of errors or fraud.

With the significant amount of change forms that are processed by the Treasury and Establishment Departments on a monthly basis, it is of utmost importance that sufficient policies and procedures are adopted and implemented by management to ensure efficiency and accuracy of payroll information.

The effective functioning of an internal audit unit presently located in the Treasury Department should greatly mitigate the risk of errors and fraud. However, management needs to work along closely with the internal audit unit and act in a timely manner on the recommendations made.

Key findings

Errors identified from the audit test were classified into four categories for detail analysis. These were: no action taken; incorrect entry; department error (ministry error) and system failure. Our aggregated results for the four showed that for 2013 there was a total of 24% error in the system; for 2012 there was a total of 20% error in the system; for 2011 there was a total of 21% and a total of 16% error for 2010.

These errors resulted from employees responsible for processing payroll, overriding the controls in the system to meet payroll deadlines. There is no existing policy or procedure to identify errors independent of the payroll department and the department lacks a procedures manual which would standardize all payroll processes.

The frequency of these errors in our findings would have been significantly reduced if the internal audit unit was actively involved in identifying and correcting these errors in a timely manner. However, internal audit unit is unable to operate optimally because of significant internal issues the unit is currently facing.

Recommendations

A procedures manual needs to be implemented by management urgently so that the processing of transactions is done in a standardized manner.

There should be at least one person independent of the payroll unit, who is charged with the responsibility of reviewing the payroll so that the errors identified can be corrected, at least by the following payroll period.

The Internal Audit Departments should perform frequent audits. However, it is recommended that payroll audit should be done at least once every three (3) years by the External Audit Department.

Finally, it is advised that senior management should give significant consideration to improving the efficiency and effectiveness of the internal audit unit, with a view to improving their independence, effectiveness and contribution to risk identification.

INTRODUCTION

Mandate

1. The primary duties and powers of the Director of Audit are outlined in the Antigua and Barbuda Constitution, 1981, section 97 and the Office of the Director of Audit Act, 2014.
2. In discharging his duties, the Director of Audit is required under the Antigua and Barbuda Constitution, 1981 section 97 (1) and (2) and the Office of the Director of Audit Act, 2014, No. 4 of 2014, Part II section 9 that states:

The Director of Audit shall -

- (a) satisfy himself that all monies that have been appropriated by Parliament and disbursed have been applied to the purposes to which they were so appropriated and that the expenditure conforms to the authority that governs it.*
- (b) at least once every year audit and report on the public accounts of Antigua and Barbuda, the accounts of all officers and authorities of the Government, the accounts of all courts including any accounts of the Supreme Court maintained in Antigua and Barbuda, the accounts of every commission established by the Constitution and the Clerks to the House of Representatives and the Senate.*

Section 97 (3 and 4) of the Antigua and Barbuda Constitution, 1981 also states that:

- (3) The Director of Audit shall have the power to carry out audits of the accounts, balance sheets and other financial statements of all enterprises that are owned or controlled by or on behalf of Antigua and Barbuda.*
- (4) The Director of Audit and any other officer authorized by him shall have access to all books, records, returns, reports and other documents which in his opinion relate to any of the accounts referred to in subsections (2) and (3) of this section.*

Section 9 (2) of the Office of the Director of Audit Act, 2014 states that the Director of Audit shall satisfy himself that-

- (a) all reasonable precautions have been taken to safeguard the collection and custody of revenue and that the law, directions and instructions relating thereto are duly observed;*
- (b) expenditure is incurred with due regard to the economy and to the value obtained;*
- (c) public moneys other than those appropriated are dealt with in accordance with the proper authority;*
- (d) all reasonable precautions are taken to safeguard the receipt, custody, issue and proper use of*

cash, stamps, securities and stores and that the regulations, directions and instructions relating thereto are duly observed; and

(e) that adequate regulations, directions or instructions exist for the guidance of any officer who is delegated the duty of accounting officer.

Key Principles of Performance Auditing

According to International Standards of Supreme Audit Institutions, Performance auditing is explained as an independent and objective examination of government undertakings, systems, programmes or organisations, with regard to one or more of the three aspects of economy, efficiency and effectiveness, aiming to lead to improvements.

As a result of the centralized payroll system for civil servants; the process redesign that took place at Treasury Department over the past few years and the fact that payroll accounts for over 60% of Government's monthly expenditure, it was necessary to conduct an audit of this nature to give stakeholders some feedback on the degree of efficiency, effectiveness and economy of the payroll system at the Treasury Department for the years 2010 to 2013. Since the payroll process often starts at the department level it was necessary to obtain assurance that persons involved at all levels of the process is adequately competent to handle their duties. As such, audit testing was applied to all levels of the payroll process to give auditors sufficient information to produce greater analysis of the payroll system.

Audit Motivation

Each year the Director of Audit identifies a list of entities to be audited as a result of his risk assessment procedures. The Treasury Department was selected for the following reasons:

- The volume of transactions processed by the Treasury Department each month;
- The impact of material errors and possible misappropriation of public funds;
- Significant changes have been made relating to payroll processes over the past years and there is a great need for an independent investigation of the systems at the Treasury Department.

Audit Objective

The objectives of this audit were to:

1. Test the degree of accuracy of the payroll information produced by the Treasury Department;
2. Assess the level of competence of the persons involved in the entire payroll process;
3. Assess the adequacy and appropriateness of the existing controls to safeguard against fraud and errors;
4. Issue an independent opinion on the operational efficiency and effectiveness of the payroll systems at the Treasury Department covering the period January 2010 and December 2013.

Audit Scope

The scope of the audit consists of the following:

- Capturing and processing information relating to established and non - established employees - Payroll system at the Treasury Department;
- The degree of proficiency of the payroll officers at the various units within the Treasury Department;
- Review of internal payroll control procedures adopted by management;
- Data and evidences collected referring specifically to the period 2010 to 2013.

Audit Design

The main audit questions developed were as follows:

- Are the policies and procedures adopted and implemented at the Treasury Department sufficient and appropriate to prevent material fraud and errors from occurring in the payroll unit?
- Are the employees at the Treasury Department adequately trained?
- Do the employees at the Treasury Department have reasonable understanding of the policies and procedures that governs the payroll process?
- Is the payroll system being used adequately by the Treasury Department?
- Are employees involved in the payroll process fully aware of the controls?
- Are the employees involved in the payroll process fully aware of the importance of their roles and responsibilities in the overall payroll process?
- Do the employees at Establishment Department and other related Departments (Public Works, Education and Central Board of Health), have adequate and competent staff to perform their duties?

In order to achieve the objectives and answer these questions the audit was designed and performed as follows:

Stage 1 - Planning and Information Gathering

The main intention of gathering information at this stage in the audit was to assist in the overall risk assessment process, so that high risk areas are given adequate attention. This would minimise the risk of issuing an inappropriate opinion.

Throughout this stage, an initial audit plan was designed based on the accumulated knowledge and experience of the audit team, as well as the review of relevant laws and regulations governing the payroll process. However, the audit plan was continuously modified as additional information was obtained that gave greater understanding of the processes and procedures.

Stage 2 - Performance (substantive stage)

Following the information obtained and the risk areas identified in the audit plan, audit procedures were performed to gain sufficient and appropriate audit evidence to form reasonable conclusions about the audit findings relating to the payroll system at the Treasury Department.

After gathering the information and identifying the high risk areas as outlined in the audit plan, audit procedures were performed to gain sufficient and appropriate audit evidence. The audit evidence is then used to form reasonable conclusions about the audit findings relating to the payroll system at the Treasury Department.

Stage 3 - Review and reporting

After audit evidence was collected and analysed, the next stage of the audit was to carefully review the evidence and make recommendations for improvements where necessary. The findings and recommendations were reported to the relevant stakeholders for their consideration.

Stage 4- Monitoring

The most efficient performance audit will certainly be considered ineffective if there are no follow-up procedures in place. These procedures ensure that the audit recommendations are sufficiently considered and implemented and that adequate steps are taken by management to mitigate the potential impact of the risks identified.

Assessment Criteria.

The Finance Administration Act, 2006, The Finance Administration Regulations, 2010, manuals and recommendations from FreeBalance experts were used to assess the operation of the payroll system at the Treasury Department.

Current practices were compared with what is expected through compliance with policies and procedures set out by those charged with governance as well as the Free Balance experts.

Methodology

During the audit engagement, payroll information from a sample of eight thousand, two hundred and forty-two (8,242) employees were reviewed. This sample consisted of 3,814 established, 2,228 non-established monthly paid employees and 2,200 non-established weekly employees, who are employed at the various government ministries and departments.

Sampling

Audit procedures were applied on a random basis to less than 100% of the total transactions for the period audited. This was to obtain a representative sample that will give sufficient details of the entire population.

- Seven (7) departments were selected for the audit based on either the volume of transactions generated by the department, their close connection and significant impact on the payroll process. The following departments were selected for the sampling test - Treasury Department, Establishment Department, Ministry of Agriculture, Ministry of Finance and Corporate Governance, Internal Audit, Ministry of Public Works and Central Board of Health.

Interviews

Using a standard questionnaire, structured interviews were carried out with key staff from the various departments, along with their supervisors, in order to gain an in-depth knowledge of the daily payroll function and the role they play in the overall payroll procedure.

Document reviews

Extensive literature reviews were carried out to gain an understanding of the policies and procedures that should be implemented and followed by the payroll personnel at the Treasury Department.

The following documents were reviewed:

- ✓ Free Balance Manual
- ✓ The Civil Service Regulation
- ✓ The Finance and Audit Act CAP 168
- ✓ The Finance Administration Act, 2006
- ✓ The Finance and Administration Regulations, 2010

Data validation process (re-performance)

This process involves going through the procedures that were used to get information in the payroll system. Change forms and payments vouchers were used to add, delete or make changes to civil servants' record and remuneration information. As a result of the aforementioned criteria, a sample of 384 items (change forms and payment vouchers) were selected and traced to the data entered in the system. This was to verify proper authorisation and accuracy of the information selected.

Observation

An explanation was obtained and documented on the processes and procedures carried out in the payroll department. Through observation, the auditors were able to assess the degree of compliance by the persons involved in the payroll process. By observing the activities of the various departments, the audit team tested the following:

- the degree of understanding of their duties and responsibilities;

- the degree of compliance with the control policies and procedures;
- the ability of employees or other parties to override system controls.

Current Procedures

The payroll process at the Treasury Department involves a number of procedures which begins at the ministries/departmental level and ends with payment at the Treasury Department. To fully analyse the entire process and report accurate conclusions, all areas affecting the payroll process were subject to one or more audit procedures. The degree of testing was based on the importance of all areas on the payroll process as a whole.

Audit Findings and Analysis

The Payroll Process

Employment process

There are two methods used to employ public servants:

- Method (1) for established workers which is done through the Establishment Department and;
- Method (2) for non-established which is done through Ministry of Labour/Respective Ministries.

Established workers

- ✓ The applicant has to first collect an application form from the Establishment Department.
- ✓ Application is completed and returned to the Department along with the necessary supporting documentation stating their qualifications and legal employment status.
- ✓ The Establishment Department would liaise with the respective ministry to ensure that the position is available and budgeted for. Once there is an available position and the applicant possesses the necessary qualifications for the position, the Public Service Commission will then invite the applicant to attend an interview. Following the interview, the decision (favourable or otherwise) is communicated in writing to the Establishment Department to inform the applicant of the outcome.
- ✓ The Establishment Department would then contact the applicant to inform him/her about the decision.
- ✓ Once successful, a letter of employment would then be sent to the employee and the Department to which he/she was assigned, stating the start date of employment, salary, and position.

It should be noted that the Ministry of Education reserves the right to interview and select their employees, while other Ministries and Departments such as Ministry of Agriculture, Air Traffic Control and Met. Office are also granted similar privilege of interviewing and selecting their employees.

Non-established workers

The Labour Department, respective Ministries and Parliament are ultimately responsible for Non-established workers. All correspondences relating to hiring takes place between the Ministry where the employee will be working and the Labour Department.

- ✓ The applicant has to first send an application to the Head of Department stating his/her interest of employment.
- ✓ Once the position is in the Estimates, the application along with a recommendation letter from the Head of Department is then sent to the Permanent Secretary of the Ministry.
- ✓ The Permanent Secretary of the Ministry then sends a “ Permission to Employ” letter to the Financial Secretary at the Ministry of Finance, requesting approval to employ the applicant. The letter will also explain which fund allocation the salary will be paid from.
- ✓ Once approved, the Financial Secretary at the Ministry of Finance will stamp “approved” on the document and return to the Permanent Secretary of the respective Ministry, who will forward the document to his/her Department.
- ✓ The Department then contacts the applicant and inform him or her of the approval and start date of employment.
- ✓ Finally, the Department prepares a change form along with the letter of approval to Treasury Department to commence payment.

If the position is not in the Estimates, the Permanent Secretary of the respective Ministry would request an approval from the Financial Secretary for this position. A Special Warrant would be prepared after the approval is granted and the Financial Secretary and the Minister responsible for Finance would be required to sign this document.

The payment process begins with a change form and a letter of appointment for both Established and Non-established workers. The initial change form should contain all the employee’s personal details so that a file can be created in the system. Any subsequent change form is used to amend information on the personal file or salary. No modifications should be made to an employee's record unless a change form request is done by the Ministry.

Change Form system

Under the change form system,

- ✓ The department receives a letter of appointment on behalf of an employee from the Establishment or Labour Departments.
- ✓ The letter is then sent to the payroll division within the department (example, accounts division within the Ministry of Finance).
- ✓ The payroll clerk would then calculate the appropriate remuneration and then prepare the change form with that information. The change form should contain the employee's name, employee number, social security number, salary and deductions (social security, medical benefits, education levy, etc.) and the start date of the appointment. If it is a case where it is a new employee, then the change form should

contain the same information, excluding the employee number, which is assigned by Treasury Department.

- ✓ With respect to employees who are on an acting appointment, the same information would be sent, only that there would be an end date to the acting appointment unless the employee is acting in a vacant position.
- ✓ Upon completion, the change form is checked and signed by the supervisor of accounts and then sent to the Treasury Department, or to the Establishment Department. This has to be done by the 15th of every month for monthly paid workers and by Tuesday of every week for weekly workers.
- ✓ At the Establishment or Treasury Departments, the change form is first stamped and recorded and given to a supervisor to check the information for accuracy.
- ✓ After the change form has been verified, the supervisor will then distribute it to payroll officer for it to be entered into the system.
- ✓ The entry clerk inputs the information on the change form into the system by using the employee number. If there is no employee number on the change form or the employee number does not match, the employee name or the corresponding appointment letter, then the employee name is used.
- ✓ If it is a new employee entering the service, an employee number is assigned to the employee at this time. The other information is then entered and the system should generate the deductions that correspond to the change form.
- ✓ After all change forms are entered into the system, at the end of the month, the payroll for all employees is run at the Treasury Department.
- ✓ The salary advice for each department is printed after the payroll is run. Each department is then responsible for collecting that salary advice from the Treasury Department.

The Voucher system

Established Employees

The voucher system currently being used deals mostly with acting appointments for employees and any payment to employees that is to be taken from a previous financial year. A letter in respect of acting allowance for the employee is sent to the Department. If the allowance relates to a prior financial year, then a voucher is prepared and approved by a senior officer and sent to the Treasury Department. Any acting payment due to an employee for the current financial period is placed on a change form.

However, if the money from which the employee is being paid is under the Establishment Department Head, a voucher is prepared and sent to the Establishment Department for verification. This voucher is then entered into the system by the Establishment Department.

Non-established Employees

The voucher system is used to pay substituting and acting non-established employees. A letter is sent to the department in respect of the employee and a voucher is prepared, reviewed and approved by the supervisor. All vouchers in respect of non-established employees are sent directly to the Treasury Department for payment.

Pension Unit

This unit is responsible for the payment of government pensions. This unit currently employs 3 officers (1 Supervisor and 2 clerks) and is located on the first floor of the Treasury Department building. The Laws of Antigua and Barbuda Revised Edition 1992 states the Pension Policies as:

Pension Policies:

CHAPTER 310 THE PENSION (NON-ESTABLISHED GOVERNMENT EMPLOYEES) ACT states:

7. (1) *“Subject to the provisions of this Act every non- established employee in Government employment for a continuous period of ten or more years, or for periods amounting in the aggregate to ten or more years, may be granted on retirement a pension at the annual rate of one-
“Fiftieth of fifty-two times his weekly wage at the time of his retirement, for each complete year of his employment.”*

and

CHAPTER 311 THE PENSIONS ACT states:

8. (1) *“An officer shall retire from the public service on attaining the age of sixty years.
(2) An officer shall retire from the public service on or after attaining the age of fifty-five years, if he opts to retire at that age.
(3) An officer shall retire from the public service at the age of fifty years, if he applies in writing to retire at that age and the Governor-General.”*

Activities of the Pension Unit

The activities include:

- Receiving and approving pension and gratuity
- Verifying and assessing pension and gratuity
- Paying pension and gratuities;

Other activities are:-

- Receiving and maintaining pension records and data;
- Receiving and answering pension related inquiries and complaints;
- Monitoring the procedures to ensure that they meet desired objectives;

Measures that are put in place to prevent fraud include:

- A life certificate is requested from all pensioners twice yearly. This certificate must be presented to the Treasury Department in April and October, to certify that the pensioner is still alive and it is also used as a source document to update the pension list. Pensioners who fail to submit a certificate remain unpaid until a certificate is presented to the Pension Unit.
- The Cash book is also used to verify the list of pensioners.
- A verification list prepared by payroll is given to the Pension supervisor for a check to be done. However, there is no set time for payroll to produce this report
- Monthly checks of the death register are done at the court house to avoid making payments after a pensioner dies; since there is no way to recoup these monies.
- A pensioners assignment is ended after a maximum of six (6) cheques remain uncollected.
- Also, a very committed worker in the pension unit listens to all death notices and alerts the supervisor of any instances when a pensioner's death announcement is aired. This is to avoid making payments to a "deceased pensioner".

Pensioner process for Established workers

- Around October of every year, the Establishment Department sends a circular to all Ministries requesting a list of all employees who will attain the age of sixty within the following year.
- The Ministries responds by sending a minute with the names and date of birth of such employees to the Chief Establishment Officer.
- Establishment notifies the Public Service Commission (PSC) of the individuals who will attain the age of sixty. The PSC will responds with a noted decision.
- Establishment writes and informs the individual of the time to proceed on retirement. This letter is c.c. to Accountant General, Director of Audit and Public Service Commission (PSC).
- Establishment officer responsible for pension files checks the employee file to determine whether all necessary information is filed. Upon revision of the file, communication is sent to the employee to state the choice of pension, whether reduced or full or an employee can be called in to discuss likewise.
- Upon the response from the employee for the type of pension, Establishment prepares C46 Forms and send to Treasury with file.
- Pension is calculated by the payroll supervisor at the Treasury Department, then to the Pension Supervisor to be checked and afterwards to Audit Department for verification.
- Audit Department sends the employee file back to Pension unit upon the completion of the necessary checks, however, if calculation is incorrect the file is sent back to Pension Unit to be corrected.
- The Treasury Department sends the completed file to Establishment Department.
- Establishment prepares and sends a Circulation Note for Cabinet approval.

- Once approved, a Cabinet decision is sent to Establishment Department where an award is prepared and sent to the retiring employee
- Copies are also sent to the Accountant General and Director of Audit.
- A payroll officer then changes the status of the employee in the system - (CSM) - to pensioner to facilitate payment by the Treasury Department.

According to Antigua and Barbuda Public Service Association Article 11.7, all employees are entitled to four weeks pre-retirement leave and must use up all outstanding vacation days before going on retirement. However, workers with more than six months vacation are not entitled to pre-retirement leave, as there is a maximum of six months leave that can be taken prior to going on retirement. As a result, some employees will have to be paid for vacation days over six months, if approved by parliament; while others will forfeit the additional days especially if funds are not available. In an effort to limit the loss to employees, Establishment usually contacts the Ministry one year in advance, to encourage employees to use up outstanding vacation leave.

Pensioner process for Non-Established workers

- A minute is sent from the Ministry of Labour to the Ministry to alert employees who have attained pension age.
- The Ministry writes employees and advise those persons to go on pre-retirement leave up to six months before their retirement date. If employees have vacation, they are advised to take all or if they do not have they are granted four weeks mandatory vacation leave.
- Labour Department checks information such as date of birth, date of retirement and vacation (Principal Administrative Secretary usually conduct these checks).
- Once a complete check of the file is done it is forwarded to Treasury Department (Pension Unit) with a minute attached.
- Pension is calculated by the payroll supervisor at the Treasury Department. The file is then sent to Pension Supervisor for review and then to Audit Department to be verified.
- After review, the Director of Audit Department will send the employee file back to Pension Unit upon the completion of the necessary checks, however if the calculation is incorrect the information is sent back to Pension Unit for correction.
- The Treasury Department sends the completed file to the Ministry of Labour for processing. A minute is prepared and sent to Cabinet for approval.
- The Cabinet decision is sent to Labour Department where an award is prepared and signed by the Minister of Labour.
- Five copies of the award are prepared and sent to - Treasury Department, Audit Department, workplace (2) and 1 kept on the employee file at the Ministry of Labour.

Pensioners in the system without social security numbers

Our audit test identified persons in the system without Social Security numbers. Further investigation revealed that the persons were all pensioners. The explanation obtained from the Information Technology Representative was that when Treasury first implemented the new system, a number of persons did not have Social Security numbers. Treasury then contacted Social Security, who then assigned a range of numbers which were preceded by letters to be assigned to those persons. This temporary initiative was intended to facilitate payment until the system was properly implemented but it was never addressed.

It is important for management at the Treasury Department and Social Security Scheme to give some importance to this matter, to reduce the risk of making payments to pensioners who do not exist.

Banking

The Banking unit within the Treasury Department comprises a team of five (5) employees responsible for reconciling the general ledger with bank statements. In relation to payroll, this unit reconciles the total cheques sent to each bank against the respective bank statements. The purpose of this reconciliation is to verify that the total payment sent to each bank is accurate. This test is not specifically designed to identify errors in payment to employees.

The banking section currently has an outside consultant (Mr. Hubert Roberts) who looks at the processes to determine if there is a need for improvement. To ensure proper accountability and transparency within this section, the staff is rotated yearly to work on different bank accounts.

The banking section also re-issues cheques, which are stale dated for whatever reasons from the payroll and disbursement sections.

The process to re-issue a cheque is as follows:

- Persons collect or bring their stale dated cheques to Treasury Department.
- A form is filled out with the necessary information.
- Research is done to locate the voucher from which payment was originally made.
- Cheque is reprinted at the disbursement section

The supervisor also keeps a list of all cheques which were reissued for future reference.

CONTROL ENVIRONMENT IN PAYROLL DEPARTMENT

Procedures manual

During the initial interview stage of the audit, a payroll procedures manual and organisational chart was requested but a copy was not made available. As a result, documentation of the procedures was done based on the explanations received from the supervisors at both Establishment and Treasury Departments. Subsequently, the audit tests were designed based on those explanations. After further investigation, a copy of a manual that was a part of the Free Balance package was obtained from the Information Technology (IT) Department.

In the absence of a procedures manual, the risk of material misstatements is increased. The availability and enforcement of a procedures manual within a department, ensures that all individuals involved in the process treat similar transactions in a standardized manner. It helps employees to perform their duties with a higher level of certainty and confidence. Once the Treasury Department makes it a priority to make these manuals available to employees, the control environment will be strengthened.

Control procedures

Even though there is no procedures manual within the payroll department, there are some strong built-in controls within Free Balance which are often adhered to. The System manual can be seen in Appendix 1, 2,3 and 4. These built in controls are adequate enough to prevent most errors.

However, due to a lack of personnel to process the monthly payroll at the Establishment Department, the system controls are often overridden to allow the persons entering the transaction to also approve them. This self-review and approval process heavily limits the chances of the approver being able to identify errors and more significantly, it creates a loophole for fraud to be committed.

ADEQUACY OF EQUIPMENT AND INFRASTRUCTURE

The Treasury Department currently has a payroll department with five employees including the supervisor. All employees have computers that are performing efficiently to meet the needs of their functions. There is also a support team of two information technology employees in close proximity to the payroll department to assist with technical hardware and software matters. If they are unable to address an issue, it is referred to the head of IT who also has direct access to the system.

Because of a lack of infrastructure, there was never a formal payroll department set up at the Establishment Department, so the persons dealing with payroll are also assigned to other daily functions and work significant amount of overtime to meet their weekly demands.

The work environment at the Establishment Department has also been contributing to the low productivity and errors relating to payroll: the air conditioning unit is often out of service; there is poor lighting; employees have to work in small spaces which make it very easy to misplace documents. Because of the number of persons working in the same small congested space, the issue of confidentiality has also been a matter of concern.

Internal Audit

Currently, there is an Internal Audit Unit that functions as the internal auditors for the entire government service. This unit is currently located in a room at the Treasury Department and consists of five (5) officers, one of whom is the Supervisor. The following information was discovered during the planning stage of the audit: -

- The members of the unit are all previous Treasury workers, with the exception of one junior auditor.

- Two of the internal auditors were transferred from payroll to the internal audit unit and this composition made it extremely difficult for auditors to function within the Treasury Department, while maintaining a healthy degree of objectivity and independence.

External Audit initial intention of carrying out this audit was to work along with internal audit to prevent duplication of work. However, it was disclosed that the internal audit unit has never conducted an audit on the payroll unit, therefore, no information from this unit was available for review. This did not prevent us from continuing our interview with the team to identify areas in which we could have helped.

FINDINGS AND ANALYSIS

Our audit findings relating to testing of change forms and vouchers are summarised by year in the four tables below. The tables show the total of all errors and discrepancies identified and a disaggregation of the errors in the various categories for greater analysis.

The categories in which the results were broken down are as follows:

No Action Taken - errors classed as "no action taken" are errors where a department's request for action to be taken via the use of a change form and the change form got to the Establishment or Treasury departments, however, nothing was done to reflect the said request.

Incorrect Entry - errors placed in this category are those errors where the change form has the correct information but the entry clerk entered different information from what was on the change form, and the approver failed to identify the error.

Department Error - this category consists of errors on the change form made by the department sending the request to the Treasury or Establishment Departments. Errors on the change form are often identified by the persons entering the information at the Treasury/Establishment Departments. For instance, incorrect calculations for sick leave deductions/refund. The reason why errors made at the department level are deemed significant is because there is no certainty that errors on the change form will be identified before being entered in the system.

System Failure- there are some occasions where the change forms are correctly addressed but the system fail to fully process the transaction. For instance the system may fail to calculate statutory deductions.

2013

Type of error	Frequency of occurrence
No action taken	4% of all change forms were not acted upon
Incorrect Entry	13% of all change forms were incorrectly acted upon
Department Error	6% of all change forms instructions and calculations were incorrect
System Failure	1% of all errors in the system are caused by system

	failure
Combination of all errors	24% Error and Discrepancies

2012

Type of error	Frequency of occurrence
No action taken	1% of all change forms were not acted upon
Incorrect Entry	15% of all change forms were incorrectly acted upon
Department Error	4% of all change forms instructions and calculations were incorrect
System Failure	0% of all errors in the system are caused by system failure
Combination of all errors	20% Error and Discrepancies

2011

Type of error	Frequency of occurrence
No action taken	10% of all change forms were not acted upon
Incorrect Entry	11% of all change forms were incorrectly acted upon
Department Error	1% of all change forms instructions and calculations were incorrect
System Failure	0% of all errors in the system are caused by system failure
Combination of all errors	21% Error and Discrepancies

2010

Type of error	Frequency of occurrence
No action taken	3% of all change forms were not acted upon
Incorrect Entry	8% of all change forms were incorrectly acted upon
Department Error	5% of all change forms instructions and calculations were incorrect
System Failure	0% of all errors in the system are caused by system failure
Combination of all errors	16% Error and Discrepancies

CAUSE OF ERRORS

STAFFING

The payroll system in government heavily depends on the persons in the payroll units at the Treasury and Establishment departments entering monthly change forms to reflect the adjustments to employees' salaries. However, there is no payroll unit at the Establishment Department to deal specifically with payroll matters. The persons responsible for processing payroll for established workers at the Establishment Department were never relieved of their other duties not relating to payroll. As a result, these persons have to work overtime at least three (3) days weekly including most weekends. Errors such as entering an amount other than

what was on the change form or voucher points to the alertness of the entry officer and approver at the time transactions were being processed.

In June 2013, the Establishment Department was given the responsibility for processing the payroll information for all established workers. Previously, the Treasury Department was solely responsible for processing the payroll information for all public servants. There are five (5) persons in payroll unit, including the supervisor and although the processing of established workers has been transferred, there is still a problem with work overload as a result of inadequate staff.

Within the last twenty-four (24) months, two employees from the payroll unit were transferred to internal audit unit even though there has always been a need for additional staff in payroll.

Approval Process

There is one supervisor in the payroll unit at the Treasury Department who is responsible for approving all payroll transactions from July 2013. In the absence of the supervisor, the Accountant General will assign another member of staff to perform the approval function. On numerous occasions, a member from the Information Technology Department or a less senior employee in the payroll Department will be assigned as an approver. The risk with assigning less senior employee and the Information Technology staff member comes from their ability to sufficiently identify errors of deliberate misstatements made on change forms.

Prior to July 2013, there were no built in system controls that require approval of transactions entered. Once transactions are entered, it is up to the discretion of the payroll supervisor to identify items for review. Even with the current controls in place that require all transactions to be approved, the approval process can easily become a box ticking exercise, unless it can be reasonably assumed that all persons selected as approvers are sufficiently competent, to understand, identify and correct all possible payroll errors that can be made at the various levels, prior to being approved. However, the tables above indicate that significant amount of the errors in the system started at the departmental level and were neither identified nor corrected by the entry officers or the approvers.

Training

Based on some of the errors identified, it indicates that some of the employees need to be trained on how to enter the figures in the system, in order to generate accurate results. A common error in the system resulted from entering the net amount on the change form instead of the gross. Again these errors were not identified by the approvers.

In an effort to limit this type of error to an acceptable level, training should focus more on the importance of following internal controls, policies and procedures. This should serve as a further indicator to the persons authorising the transactions that they need to be more vigilant when reviewing entries for approval, and to be held accountable.

Lack of separation of duties

Due to the lack of a Payroll unit at the Establishment Department, two of the persons that were trained as approvers, often have to switch between approver and entry officer, to ensure

that all transactions are processed on time to meet the monthly deadline. The training given by an entry officer is different from an approver. This was deliberately done with the notion that an approver will not enter transactions for transparency purpose. The constant change in functional responsibility of these officers can easily cause them to miss material misstatements, having to be constantly readjusting their mind-set, as they assume the different roles. Another concern was the risks of the officers approving work they would have previously entered, even though the Information Technology officers claimed that it was not possible for an officer to enter and approve the same transactions. The officers also confirmed that they have never entered and approved the same transaction, instead they will ensure that all the transactions that they have entered are approved functioning in the dual role of approval.

Overriding policies and procedures

The deadline for departments to submit change forms is the 15th of every month. However, departments frequently submit these change forms after the 15th with the expectation that the Treasury Department will process the forms. A significant amount of the change forms tested were stamped and entered after the deadline.

The risk with processing a change form after the deadline is that it creates additional pressure on the payroll staff both at the Treasury and Establishment Departments to get salary ready for the payment period. This increases the risk of material misstatements due to errors or otherwise.

Quality Review (independent audits)

Currently, no one is assigned to review the payroll after the payments are made. The Payroll Unit within the Treasury Department depends on the ministries/departments to collect and review the payroll for errors. The errors are communicated to the payroll unit where the necessary corrections are made by the following payment period. However, only a few ministries collect copies of the payroll from the Treasury Department and even fewer actually review them and give them to employees.

Internal audit has not been actively identifying areas of weaknesses within payroll. As a result, areas of risk within the payroll unit need to improve to reduce risk of misstatements that are not identified and rectified in a timely manner.

Banking unit within the Treasury Department currently performs reconciliation by comparing the total payments sent to the banks with the total of salary on the payroll. The main purpose of this control procedure is to test the accuracy of aggregated payroll payments and deductions with the cheques prepared by the Treasury Department. This procedure currently being used will not easily identify *employee specific* payroll errors. Hence the reason why an independent review team should be assigned the task of reviewing payroll on a monthly basis.

Dealing with Employee matters

Errors and other payroll related matters which can be and should be addressed at the Ministry (department) level are often left to the responsibility of Treasury Department. Some examples of these matters are: errors in salary (underpayment/overpayment); obtaining copies of pay

slip; obtaining explanations for changes in salary and deductions and other payroll related matters. All the issues identified above can be addressed at the respective ministries. Throughout any given work day payroll officers are constantly interrupted with these queries, yet they still have their daily functions to complete.

The lack of a procedures manual

In the absence of a procedures manual there is no standard method to deal with payroll transactions. The introduction of a procedures manual at this time is extremely important, since it would create synergy between the Establishment Department, Treasury Department and the Ministries in respect of payroll related matters.

A procedures manual is an important guide when performing audits. It gives the auditor an in-depth understanding on how transactions should be processed. This allows internal and external audit to be able to design their audits to compare actual payroll procedures against manuals.

This audit certainly demonstrated the challenges arising from the lack of procedures manuals. Instead of using procedures manuals to understand payroll policies and procedures, the audit team was forced to utilize the explanations obtained from the supervisors. This is not implying that system manuals shown in the appendix are not adequate, but there is nothing documented to show the degree to which the payroll unit is in compliance with any set procedures or policies.

IMPACT OF ERRORS AND OTHER MATTERS OF CONCERN

Even though the consequences of the errors mentioned vary in severity, they all have the potential of causing negative impacts that can adversely affect the reputation of the Treasury Department and all other departments involved in the processing of government's payroll. As such, it is important that significant consideration be given and relevant strategies be adopted and implemented to mitigate the overall risk facing the Department.

Lack of confidence in the payroll unit

Employees will certainly lose confidence in the payroll system and will unnecessarily overburden the Treasury Department with addressing payroll matters which could have been dealt with at the specific department (Ministry). Employees will create additional issues when they focus on querying every necessary deduction from salary.

Unnecessary overtime payments

As a result of the added responsibility given to the Treasury Department, unnecessary overtime payments is frequently incurred. This is to compensate for time spent in dealing with ministry matters and correcting errors which certainly reduces the hours available to process the current month's payroll.

Reduce Productivity

Once employees believe that their salary may be inaccurate, significant amount of time that should be spent working will be wasted in querying payroll matters. Employees will be inclined to use payroll matters as a means of leaving their stations for lengthy periods of time.

Confidentiality issues

As review of the working environment has showed that the ease of access in the payroll units has created an issue of confidentiality. Due to lack of a payroll unit at the Establishment Department, change forms are processed in the general area where other employees are stationed.

The payroll unit at the Treasury Department having to deal with so many Ministries matters while processing change forms, it is impractical to prevent unauthorized viewing of change forms information and other confidential documents.

It is therefore recommended that each payroll units within the Treasury and Establishment Departments be provided with increased security and protection of payroll files/documents.

CONCLUSION

An independent performance audit was conducted on the payroll department at the Treasury Department for the period 2010 to 2013, which further resulted in the audit being extended to other related departments to ensure that the most appropriate conclusions and recommendations are identified and presented to management to achieve optimal results within the departments. The period selected for audit was due to significant changes that occurred within the department over the past four years in relation to payroll.

It is important for management to understand that the absence of procedures manuals, inadequate equipment, unsatisfactory work environment and insufficient staff will only lead to greater material misstatements at the Treasury and Establishment Departments.

It further points out the degree of risk, management is willing to accept before taking necessary action to safeguard public funds. This is reflected in the importance given to the internal controls and the Internal Audit Department. A functional Internal Audit Department is also necessary for identifying areas of risk and make recommendations to mitigate the likelihood of occurrence and the potential impact.

As a result of this audit, management should identify an independent team to conduct a detailed review of the current control environment. It is anticipated that the conclusion of this audit will invoke the need for more audits of similar nature, to build a culture of greater accountability.

RECOMMENDATIONS AND MANAGEMENT COMMENTS

1.	Recommendations	Management Response
1. Quality Control and Review	<p>Payroll reviews should be done on a regular basis to identify and correct errors in a timely manner. This can be done by assigning at least one person to review change form request and compare them to the actual change made in the system - all errors identified should be documented, referred to the payroll supervisor for adjustments and subsequently followed up.</p> <p>System errors identified should be referred to the Information Technology Department who should then refer the issues to the Free Balance representative for Antigua.</p>	
2. Procedure Manual	<p>It is most important that management seriously considers the need for documented procedure in payroll unit to give employees sufficient support and standardise the action taken on every change form request.</p>	
3. Internal Audit	<p>Significant consideration needs to be given to internal audit to create a more effective department. Some possible action involve: relocating the entire Department to a more spacious location; urgently consider changing the composition of the internal audit team members. This would increase the degree of objectivity and effectiveness of the Department.</p>	
4. Regular Audits	<p>There has never been a payroll audit done by either internal or external audit departments. Therefore, that matters identified in this audit and other pressing issues not identified could have been identified and addressed in a much timelier manner.</p> <p>Due to the nature and scope of this audit a limited amount of issues were identified. In order to identify and correct errors in a timely manner, it is suggested that regular audits be done. Frequent audits create a culture of risk awareness which will result in timely identification and correction of material</p>	

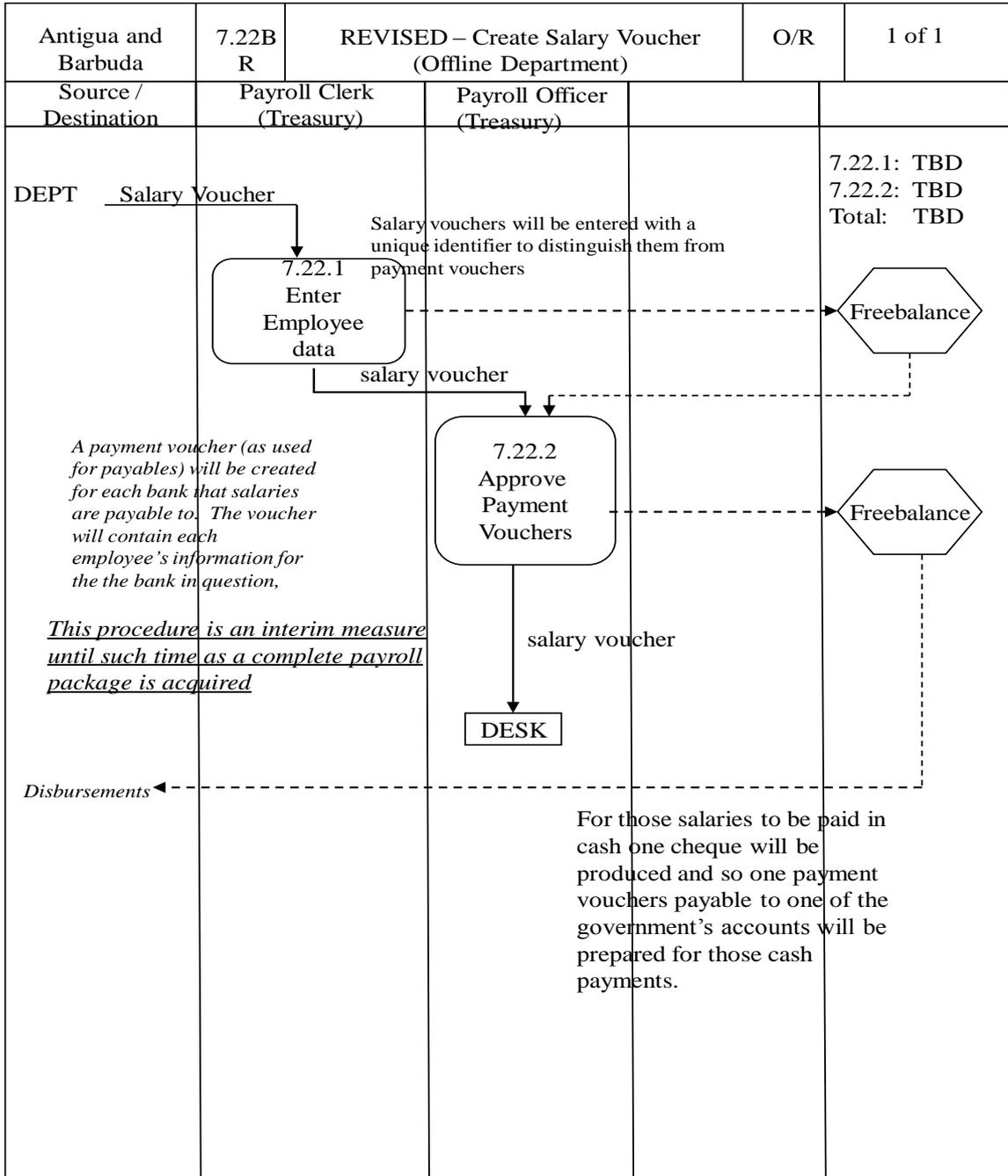
	misstatements created by errors or fraud.	
5. Social Security Numbers	It is important to ensure that the social security numbers are assigned to all pensioners to reduce the risk of making payments to pensioner in error, since the number is simply running in a numerical order. Internal Audit should investigate this matter further to identify a reasonable solution.	
6. Payroll Department at Establishment Dept.	Management at the Establishment Department urgently need to establish a payroll unit with a team solely responsible for payroll matters for establish civil servants. The current location and facilities are inadequate for an efficient and effective payroll department.	
7. Authorization	At least one more senior person should have the authority to approve payroll transactions at the Treasury Department, particularly when the current supervisor is not at work and in busy periods.	
8. Overriding system protocol	<p>A significant amount of errors can be eliminated once the controls built into Free Balance are followed. The persons entering the change forms should not be responsible for approving the transactions for payment.</p> <p>Management need to strictly enforce the deadline for accepting and processing change forms to help reduce errors due to workload.</p>	
9. Training	The audit results indicate that a significant amount of the errors began at the ministry level which indicates that the persons responsible for payroll matters are not adequately trained to perform their assigned functions. Consequently, further investigation should be done at a ministry level to identify training needs.	

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Director of Audit

APPENDIX

Appendix 1.



Elapsed Time: _____

Volume of processing: _____

Total Cycle Time: _____

Appendix 2.

Government of Antigua and Barbuda		Procedure Status: Pending Approval		Proc. No. 7.22B	
Procedure Name Create Salary Voucher				Frequency On Request	
Business Process		Payroll			
Triggering Event		Salary vouchers are received		From: Departments	
Results Salary voucher is entered online				Destination Disbursements	

7.22B.2: Enter Employee data

1. Log on to Freebalance.
2. Access Payment Vouchers.
3. For each bank that salaries are payable to enter in the following fields:
 - **Merchant's name: Bank that salaries are payable to**
 - **Address**
 - **Invoice number:**
 - **Date**

For each employee being paid to this particular bank enter in the following screens:

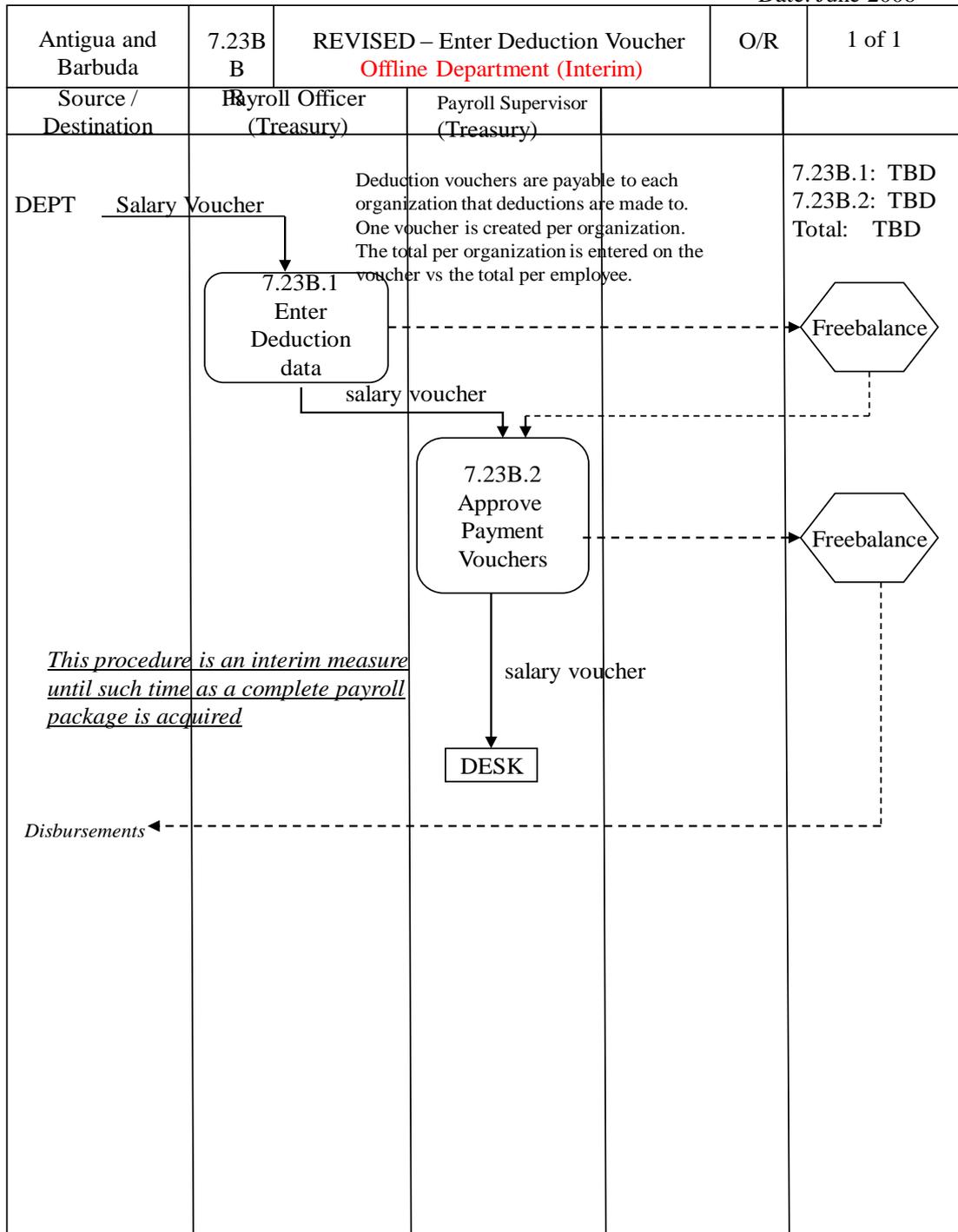
 - **Quantity of items**
 - **Description of items**
 - **Unit price**
 - **Expenditure account information**
4. Save

7.22B.2: Approve Salary Voucher

1. Log on to Freebalance.
2. Access vouchers for approval.
3. Compare employee log book data with online voucher details.
4. If employee log book data matches with online voucher details.
 - Then
 - Approve voucher
 - Else
 - Reject voucher (what happens when a voucher is rejected in Freebalance)

Appendix 3.

Date: June 2006



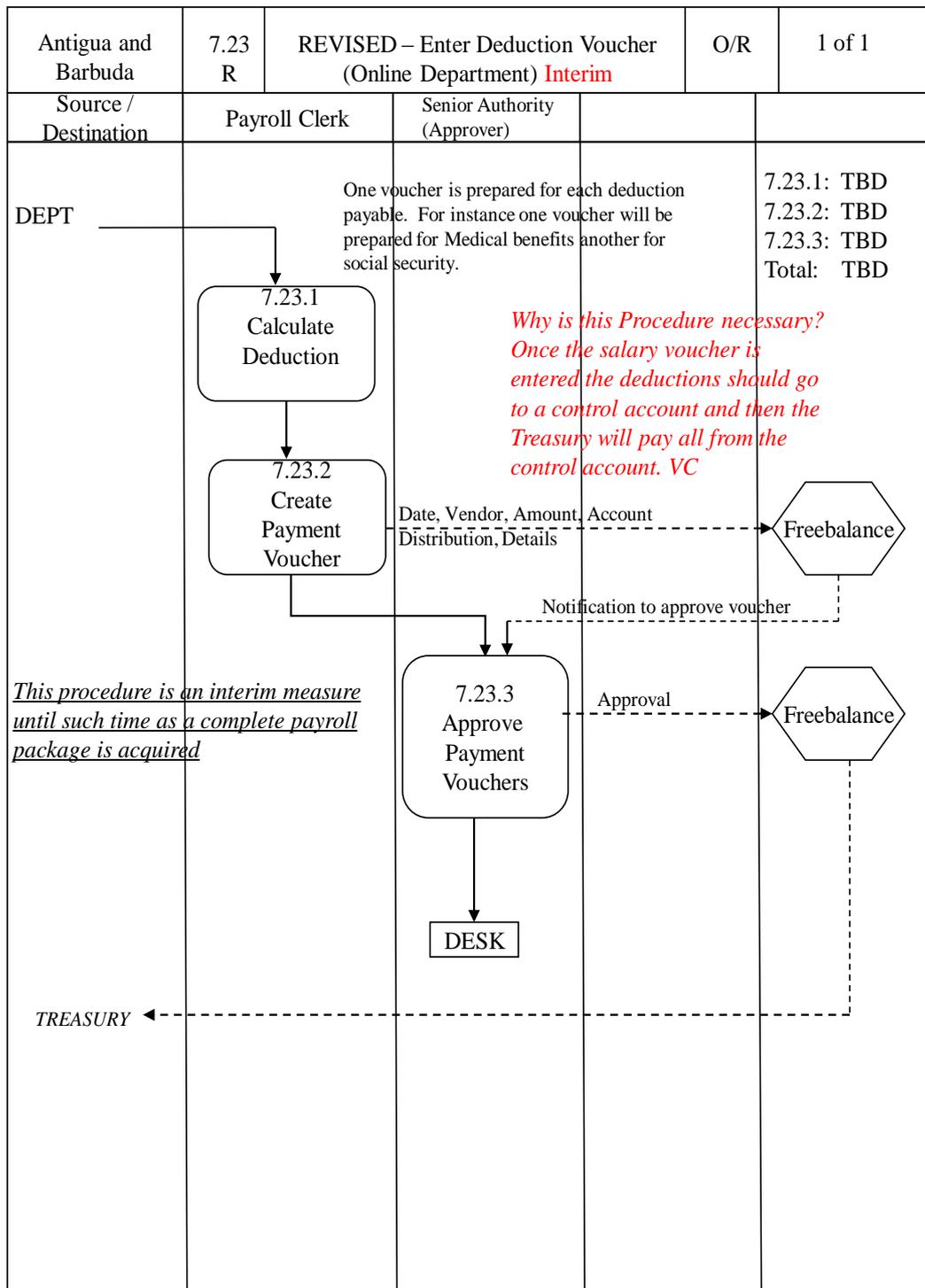
Elapsed Time: _____

Volume of processing: _____

Total Cycle Time: _____

Appendix 4.

Date: June 2006



Elapsed Time: _____ Volume of processing: _____ Total Cycle Time: _____