HIGHLAND AND WESTERN ISLES VALUATION JOINT BOARD

2 November 2026

Agenda Item	**9**
Report No	**VAL/17/26**

Internal Audit Report – Payroll

Report by Strategic Lead (Audit and Risk), Highland Council

Summary

An audit review has been undertaken examining the Assessor's Payroll arrangements. A copy of the final audit report is attached for consideration by the Board.

1. Internal Audit Reports

1.1 Every Internal Audit report issued contains an audit opinion based upon the work performed in respect of the subject under review. There are five audit opinions which can be provided:

(i) Full Assurance: There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.

(ii) Substantial Assurance: While there is a generally a sound system, there are minor areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

(iii) Reasonable Assurance: Whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

(iv) Limited Assurance: Weaknesses in the system of controls are such as to put the system objectives at risk, and/ or the level of non-compliance puts the system objectives at risk.

(v) No Assurance: Control is generally weak, leaving the system open to significant error or abuse, and/ or significant non-compliance with basic controls leaves the system open to error or abuse.

1.2 Since the last update to the Board there has been one audit report issued relating to a review of Payroll arrangements. This report has the audit opinion of "Reasonable Assurance" and it was concluded that the key payroll controls were broadly effective but there were some opportunities for improvement. Therefore, two medium priority recommendations were made. These have been accepted by management and their agreed actions are due to be completed by 20 November 2026.

Recommendation

The Board is asked to **consider** and **note** the audit report provided.

Designation: Strategic Lead (Audit and Risk)

Date: 1st October 2026

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Internal Audit Final Report

Office of the Assessor and Electoral Registration Officer

Payroll

Description	Priority	No.
Major issues that managers need to address as a matter of urgency.	High	-
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	2
Minor issues that are not critical but managers should address.	Low	-

Audit Opinion

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Reasonable Assurance** can be given in that whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Distribution:
Assessor and ERO
Depute Assessor and ERO
Depute ERO Business Manager

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1. Introduction

1.1 Payroll services are provided by the Highland Council (HC) Payroll Section, and this review was undertaken as part of a wider HC Internal Audit review of Payroll. Payroll transactions for the Highland and Western Isles Valuation Joint Board (HWIVJB) are processed by the HC Payroll Section in the same manner as all other payroll transactions. The HC Payroll Internal Audit Report provided 'Reasonable Assurance' over this area and will be published in the Audit Committee meeting papers.

In the 2025/26 financial year, the Office of the Assessor and ERO had 53.9 FTE staff and staff costs represented £2.846 million of the net expenditure of £3.936 million.

1.2 The audit assessed the accuracy, timeliness and authorisation of payroll transactions, including statutory deductions, reconciliations between payroll, BACS and the general ledger (GL), manual inputs, emergency payments and establishment checks. It also considered compliance with relevant legislation and policies, including PAYE regulations, GDPR and Scottish Joint Council (SJC) agreements.

The audit also examined the effectiveness of internal controls and segregation of duties, focusing on system access, approval arrangements for sensitive changes, and the monitoring of exception reports and audit logs. It also considered access controls and business continuity arrangements within the ResourceLink (RL) payroll system.

2. Main Findings

2.1 *Payroll transactions are accurate, complete, processed promptly, and fully comply with all relevant legislation and internal policies.*

This audit objective was substantially achieved. Overall, appropriate controls were in place to ensure the accuracy of statutory payroll updates in RL, including changes to income tax, National Insurance (NI) and Statutory Sick Pay, with both ICT and Payroll undertaking documented checks and independent verification. However, improvements could be made in consistently recording how Payroll checks had been undertaken to confirm that pay award updates were correctly applied in RL across all pay and grading structures. This area for improvement has been addressed in the separate HC Payroll Internal Audit Report.

Under HMRC's Real Time Information (RTI) requirements, HC was required to submit payroll information to HMRC each time employees were paid. This submission contained detailed employee-level data, including pay, tax and NI contributions, together with starter and leaver information. An RTI return for 1 sampled payroll run was examined and found to have been submitted in accordance with HMRC requirements and prior to the relevant pay date. Evidence confirmed that the return had been successfully accepted by HMRC and any exceptions identified during processing were appropriately investigated and resolved before submission.

As part of the wider HC Payroll review, 5 employee grade/spinal point changes were examined. While no Assessors' staff changes were identified within the sample period selected for testing, the review provided assurance that payroll amendments were appropriately authorised, accurately processed and correctly reflected in employee pay. Assurance can be drawn from this, as any changes to the Assessor's staffing arrangements would be processed in accordance with the same procedures.

The key data protection and record management arrangements for Payroll were in place, including structured retention practices aligned to the Council's Corporate Retention Schedule, secure approaches to bulk data transfers, and appropriate consideration of Data Protection Impact Assessment requirements for significant system changes. The organisation of records by tax year and end-of-year housekeeping processes provided a clear framework for managing retention. However, testing of retention practices and record management within RL was not undertaken and controls relied largely on manual processes. A published privacy notice was in place covering HWIVJB's corporate, financial and human resources functions, including the processing of employee personal data.

For the sampled payroll run, BACS file totals were reconciled to payroll system outputs, with appropriate segregation of duties evidenced and dual authorisation in place. Payroll journals were successfully transferred to the GL via a secure automated interface, with system-generated confirmations and independent post-processing reconciliations demonstrating the completeness and accuracy of postings.

Payments processed outside the normal payroll cycle included emergency payments to address cases of financial hardship and bounced payments requiring reissue following verification of bank details. Testing of a sampled emergency payment confirmed that it was appropriately authorised, accurately recorded in CiA, paid to the verified bank account and recovered through the next payroll run.

2.2 *Adequate internal controls and segregation of duties exist within payroll processes.*

This audit objective was partially achieved. Testing of RL payroll system user access controls were examined as part of the wider HC Payroll audit. Where areas for improvement were identified, recommendations were made to address these and are detailed in the separate HC Payroll Internal Audit Report.

A sample of 3 manual changes to employee bank details was examined. Testing confirmed that, where supporting documentation was available, bank details had been updated accurately and that requests originated from trusted or otherwise verifiable sources. However, although management advised that all changes were subject to independent checking, no evidence of this being performed was available for any of the sampled transactions. One instance involved the transfer of bank details from an employee's existing payroll record to a new payroll record, and this type of change was not currently subject to an independent check. This area for improvement has been addressed in the separate Payroll Internal Audit Report to the HC.

The HWIVJB Staff Overtime Payments Memorandum (dated 2009) briefly defines overtime rules. An overtime policy had been drafted and was expected to be presented to the November 2026 meeting of the HWIVJB. A sample of 5 overtime claim forms was examined. All were found to have been appropriately authorised and accurately processed.

Processing activities included the collation of overtime data from overtime claim forms and its upload to a file for submission to Payroll. Where an officer entered their own overtime claim data for upload, there was no documented evidence of an independent review having been undertaken. In this instance, the review was reportedly performed by a more junior member of staff (see Action Plan M1).

Exception reports were generated for each payroll run to identify unusual or potentially incorrect transactions. Review of exception reports for the sampled payroll run confirmed that exceptions had been reviewed and actioned by Payroll. However, the evidence retained did not clearly identify the individual who had undertaken the secondary check. Weekly RL audit logs were generated but were not reviewed. Although an enhanced audit reporting tool had been procured, testing identified discrepancies in the data produced and it had not yet been implemented. This area for improvement has been addressed in the separate Payroll Internal Audit Report to the HC.

2.3 *Payroll systems and data are protected against unauthorised access and have backup and disaster recovery arrangements in place.*

This audit objective was substantially achieved. A review of RL payroll user access identified 58 active internal HC staff accounts, all of which were verified as belonging to current employees. Controls were in place to remove access through the formal leavers process and to automatically disable accounts following 60 days of inactivity, providing assurance that obsolete and dormant accounts were appropriately managed.

The HC Corporate Cluster Business Continuity Plan (June 2025) covered key payroll processes, including backup and recovery arrangements and contingency support through the external payroll system provider and scenario testing was undertaken in February and June 2026. However, comments within the

document indicated it remained under review, and there was no clear evidence of formal approval. This area for improvement has been addressed in the separate Payroll Internal Audit Report to the HC. It was unclear how these arrangements would apply to HIWIVJB payroll operations in the event of an incident affecting employee payments and management were not aware of the HC payroll disaster recovery arrangements (see action plan M2).

3. Conclusion

3.1 Payroll services are provided by the Highland Council (HC) Payroll Section to the HIWIVJB. The audit found that key payroll controls were largely operating effectively, supporting the accurate and timely processing of payroll and compliance with statutory requirements. Appropriate arrangements were in place for payroll reconciliations, system access management, statutory updates, and business continuity, providing assurance that core payroll activities were being delivered reliably.

Opportunities for improvement were identified within the wider HC Payroll report in areas where HC Payroll processes relied on manual intervention, including changes to employee bank details, monitoring of privileged user access, and the review of payroll system activity. HC Payroll has acknowledged these findings and is progressing agreed actions.

The reasonable assurance opinion reflects both the results of testing undertaken for HIWIVJB and the assurance obtained from the wider HC Payroll Internal Audit.

4. Action Plan

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
M1	Medium	There was no documented evidence of the independent review undertaken where an officer entered their own overtime claim onto the payroll upload template. In the instance identified, the review was reportedly undertaken by a more junior member of staff.	Where an employee enters their own overtime claim onto the payroll upload template, an appropriate senior officer should review the entry and formally evidence that the check has been completed.	Claims and authorised signatories to be embedded in overtime policy which will be presented to the Board at the November Board meeting. Once approved it will be circulated to all staff.	Assessor and ERO	20/11/26
M2	Medium	The HC Corporate Cluster Business Continuity Plan (June 2025) covered key payroll processes, including backup and recovery arrangements, contingency support from the external payroll system provider, and scenario testing. However, it was unclear how these arrangements would apply to HIWIVJB payroll operations, and there was no evidence that the HC's disaster recovery arrangements had been communicated to the HIWIVJB.	Assurance should be obtained that HC's business continuity and disaster recovery arrangements will support the HIWIVJB payroll operations in the event of an incident affecting employee payments. This assurance should be formally documented.	Written assurance to be sought from HC's Payroll Team which can then be included within the Board's disaster recovery arrangements.	Assessor and ERO	20/11/26