Item 7A Appendix C1

Payroll Audit

Final Report

Auditor	Julie Wraithmell-Giggal/ Alice Gibson
Contact Details	01924 294061
Date of Review	October to November 2014
Draft Report Issued	December 2014
Final Report Issued	N/A

Final

1 Executive Summary

The objective of this review was to undertake a risk based systems audit of the payroll function on behalf of North Yorkshire Police (NYP) and North Yorkshire Police and Crime Commissioner (PCC). As one of the key financial systems, this audit will enable Internal Audit to provide assurance that key financial controls are operating satisfactorily and will support the opinion provided in the Annual Governance Statement.

The organisation upgraded their iTrent payroll system in January 2014.

The audit evaluated the key controls in respect of the payroll system . A summary of each area covered is set out below.

i. New Starters

There are adequate system controls to limit the setting up of new starters to only approved payroll team members. New starters are set up based on authorised documentation received from HR managers and new inputs are checked by another payroll team member to ensure they are set up correctly according to the supporting documentation. However, currently there is no exception reports run which can be used to verify that all new starters are supported by the relevant authorised documentation.

A sample of 40 new starters were selected and checked to verify if they had been set up on the payroll system with the correct details, start date, scale point, that any additional allowances were calculated correctly and that confirmation had been received that the individual had commenced employment. The audit found that all were correct.

ii. Leavers

Following receipt of a fully completed leaver form authorised by an HR manager, the individual is entered as a leaver on iTrent. This process should ensure that all relevant deductions or additional payments are identified and verified by HR. Another member of the payroll team checks that the entries on iTrent are correct and agree with the supporting leaver form. The organisation operates a centralised HR budget and currently does not provide HR budget reports at local level. Though the process is adequate, the reporting and monitoring of HR budget reports at a local level would provide additional assurance that leavers not removed from payroll would be promptly identified.

A sample of 30 leavers were selected and checked to ensure that no further salary or allowances, which they were not entitled to, was paid after their leaving date. This included checking to verify that payments for TOIL and annual leave were correct, leave dates corresponded on the payroll system with information provided by HR and that all relevant paperwork had been provided and authorised. The audit found all were correct.

iii. Overtime

Individuals record additional hours on the duties system and this is then checked and authorised by the relevant manager. The duties system cannot be locked down and as a result, the individual is required to complete a manual overtime form which is then authorised by the relevant manager. Upon receipt of the approved form, the payroll team then check that the claim matches the hours claimed on duties. Where there is a variance, this is queried with the authorising manager. Where the claim matches, it is then scanned into iTrent. Following a further check for scanning errors, the claim is then processed for payment. Whilst this duplicate authorisation provides good assurance that the claim is correct, the current process is extremely inefficient, particularly in respect of the manual checking completed by the payroll team. The auditor was advised the streamlining of the overtime claim process is to be considered as part of a later phase of the roll out of a new HR system.

25 overtime payments were checked to confirm that they had been authorised by an appropriate individual; the rates claimed were correct and the hours paid were the same as the claim form. All 25 had been paid correctly and had been authorised. As detailed later in this report, the procedure for claiming and processing overtime payments could be streamlined.

iv. Permanent Salary Changes

Permanent changes are input to iTrent following receipt of an appropriately approved request from a designated HR Manager. All inputs are checked by a second member of the payroll team to ensure they are correct and agree with the supporting request. As identifed earlier, no exception reports are currently run by the payroll team to ensure that all inputs can be verified to the relevant supporting request.

A sample of 15 permanent salary changes were checked to prove if confirmation had been provided by HR; that the 'effective from' date on payroll matched the information from HR and that any calculations to changes in pay were correct. The audit found that all 15 changes were correct.

v. Net Pay Control Account

The Net Pay Control Account for 2013/14 was reviewed for each month to ensure they were completed on a timely basis by the Management Accounts Team, signed as evidence of their completion and had been counter signed by an independent officer. In 1/12 there was no evidence of an independent check and in 5/12 instances there was a significant delay in the completion of the independent check (up to six months).

However, in relation to the year to date 2014/15, the auditor was advised that although the Finance Support Officer (Senior Accounting Technician) has completed the reconciliations electronically, these were not available for the

auditors inspection and had not been independently checked.

vi. BACs authorisation and ledger interface.

The payroll BACS run is faciliated by Midland HR on behalf of NYP and the OPCC. There are adequate controls to ensure that BACS requests are appropriately authorised and the transactions verified as correct.

There was satisfactory evidence that for each month's payroll, the BAC's authorisation was appropriately approved and that ITrent and ledger balances reconciled. The BACs transaction itself is undertaken by Midland HR and therefore testing of the BACS authorisation value and the amount showing on the bank statement were also reconciled.

Testing in relation to access controls proved satisfactory, with both read and write access appearing to be well controlled. Controls in relation to amendments to standard data also appear to be well controlled, with access limited to two senior members of the payroll team.

Payroll expenditure accounts for approximately 85% of Force expenditure and it is therefore vital that the payroll processes are sufficiently robust to provide adequate assurance to management that payments through the payroll are appropriate and accurate. It was confirmed during the audit that current processes within the payroll team involve a 100% independent secondary check of various inputs of data, including new starters and leavers. However, it is audit opinion that whilst these secondary checks provide additional assurance, they may not always demonstrate best use of resources and may not maximise the efficiency and effectiveness of the payroll team. It is audit opinion that the production and review of a number of risk based exception reports would provide increased assurance whilst maximising the efficiency and effectiveness of the payroll team.

In conclusion, the payroll system appears to be well controlled and the sample testing of payroll transactions confirmed that payroll operate to a high level of accuracy. No payroll processing errors were identified and the department operates in an effective manner.

Final

	Commentary
Effectiveness of Risk Management Approach	Whilst some minor issues were identified during the audit, overwhelming the audit confirmed that transactions are appropriately supported and processed correctly and promptly. Some areas for improvement are suggested, particularly in respect of the production and review of risk based exception reports. This will provide added assurance that controls are in place which would prevent or identify material erroneous or fraudulent transactions.
Efficiency of Risk Management Approach	There is reasonable assurance regarding the efficiency of the risk management approach but some areas for improvement are detailed in this report, specifically in relation to the efficient use of exception reports and considerations for improving the process for overtime claims.
Assurance Level	**2 – Reasonable Assurance**
Overall Risk	**5:7**

2 Scope and Approach of the Audit

The objective of the review was to undertake a risk based, system audit of the Organisations payroll system. Assurance can then be given to the Commissioner and Chief Constable that risks are controlled and the systems in place are operating efficiently and effectively.

Each recommendation is accompanied by an assessment of the likelihood and impact of the risk identified, to North Yorkshire Police/ the Commissioner as a whole.

3 Report Distribution

Name/Role	Draft	Final	Final with Response
Moira Hopwood, Acting Head of Payroll and Pensions	✓	✓	✓
Helen Raisbeck, Financial Support Services Manager	✓	✓	✓
Jane Palmer, Chief Constables Chief Finance Officer	✓	✓	✓
Michael Porter, Commissioners Chief Finance Officer	×	✓	✓
Risk and Assurance Unit	×	✓	✓

4 Observations

4.1 Overtime claims and processing

Risk Exposure			Root causes		
Failure to demonstrate effective use of resources.			Inefficiency in the overtime claim process.		
Probability	**Financial**	**Reputation**	**Operational**	**Legal**	**Rating**
Highly Probable	Negligible	Nil	Nil	Nil	5:7

Where an individual works overtime, this is recorded and authorised by relevant line managers on the electronic system - Duties. However, the system cannot currently be locked down and there is no interface with the payroll system iTrent. In order to claim payment for overtime worked, the individual is required to complete a manual overtime claim form which is then also authorised by a line manager.

The pro-forma claim form is then sent to the payroll team. A member of the team completes a check of the hours claimed on the form to the hours worked and signed off on the Duties system. Where the two agree, the claim is then scanned in and the claim is processed for payment. Where there are discrepancies, these are queried with the claimant prior to the claim being processed. The payroll team member has to then check that the details have correctly scanned and manually correct any errors that have occurred when the claim was scanned.

The iTrent system does not have the capability to identify or flag where a potential duplicate overtime claim has been made. This could mean that duplicate overtime claims are processed for payment. However, the auditor was advised that the organisation has recently developed a duplicate pay print which is reviewed by a member of the accounts team. The regular production and review of this report provides added assurance that robust controls are in place to identify and prevent duplicate overtime claims.

As identified above, there are a number of inefficiecies in the procedure for claiming and processing overtime claim, with the requirement to complete claims electronically and manually as a result of the limitations of the Duties system. A new HR system is currently being rolled out. Internal Audit was advised that the processing of overtime claims is being considered as later stage phase of the programme, possibly in late 2015. The capabiity of utilising the electronic HR system to claim and process overtime claims should provide added assurance regarding the efficiency of the claims process.

Recommendation 1

Continued liaison should be undertaken with the Head of the HR IT Project to ensure that the capabilies around the processing of overtime claims are developed in accordance with an agreed timetable.

Final

4.2 Exception Reporting

Risk Exposure			Root causes		
Failure to demonstrate effective use of resources. Failure to prevent or identify erroneous or fraudulent transactions.			Labour intensive checking of payroll team input or amends to ITrent. No overarching production and review of exception reports.		
Probability	**Financial**	**Reputation**	**Operational**	**Legal**	**Rating**
Highly Probable	Negligible	Nil	Nil	Nil	5:7

Though inputs and amends to the iTrent system are independently checked by colleagues in the payroll team, these checks are reliant on each member of staff bringing to each others attention any work they have completed. There is currently no production and review of exception based reports which can be checked to determine that inputs and amends to the system are correct.

The 2013/14 Internal Audit report included the following recommendation 'NYP should ensure that a system of exception reporting from the payroll system is put in place once the current payroll system has been replaced. This would identify changes to relevant data that have been made in a pay period and these changes can then be checked by a second person against the original authorising document'.

Recommendation 2

It is recommended that further consideration is given to the production of exception reports. Where relevant, existing management checks could be formalised. Using a risk based approach, the transactions on the exception reports can then be independently checked to ensure they are fully supported and accurate. This approach will provide added assurance that material erroneous or fraudulent transactions would be identified and will also make more effective and efficient use of payroll team resource.

4.3 Change of bank details

Risk Exposure			Root causes		
Fraudulent or erroneous change of bank details is not identified/prevented leading to increased risk of financial loss.			Change of bank details are not confirmed with the employee prior to effecting the change on iTrent.		
Probability	**Financial**	**Reputation**	**Operational**	**Legal**	**Rating**
Unlikely	Negligible	Minor	Nil	Nil	5:5

Individuals are able to change their own bank details via the self-service option on iTrent. However, in some instances individuals still opt to send in their revised details for the payroll team to input the relevant amendment. Where this is the case, the payroll team take the request at face value and do not confirm the change of details with the individual.

Recommendation 3

Where change of bank detail requests are received by the payroll team, appropriate confirmation should be sought from the individual to verify that the request is genuine and the details supplied are correct.

4.4 Reconciliations

Risk Exposure			Root causes		
Increased risk that errors or omissions are not identified on a timely basis.			Monthly reconciliations not evidenced as being completed on a timely basis and not independently checked.		
Probability	**Financial**	**Reputation**	**Operational**	**Legal**	**Rating**
Probable	Nil	Minor	Nil	Nil	5:4

A review of the monthly payroll control account reconciliations performed by the Management Accounts Team were tested. The testing confirmed that the reconciliations had been completed by the finance officer (Senior Accounting Technician) on a timely basis for all periods in 2013/14, however there was a significant delay in the completion of the independent checks, with no evidence of the completion of the check for one month and delays of up to six months on the completion of the check where it was evident.

The auditor was advised that though the monthly reconciliations had been completed electronically for the year 2014/15, they were not available on a printed format confirming the date and completion of the reconciliation and none had yet been independently checked.

Recommendation 4

Reconciliations should be completed by the Management Accounts Team on a timely basis. To ensure that independent checking can be undertaken promptly, consideration should be given to delegating this checking role.

5 Recommendations

#	Recommendation	Category of Rec.	Management Action	Action Manager & Completion Date	Satisfactory Response (IA View)
1	Continued liaison should be undertaken with the Head of the HR IT Project to ensure that the capabilies around the processing of overtime claims are developed in accordance with an agreed timetable.	Merits Attention	A review is underway to look at ways of utilising information gathered electronically via Origin to automate data transfer between HR and Payroll. Initially this is looking at overtime processes, since this is the most labour intensive of the current processes and therefore has the greater potential for time savings. This will be developed further in due course to cover other data that is currently transferred using paper based procedures.	Review led by CC – CFO Overtime work to be completed by: 30/6/2015 Further work to be completed vby: 31/12/2015	Yes
2	It is recommended that further consideration is given to the production of exception reports. Where relevant, existing management checks could be formalised. Using a risk based approach, the transactions on the exception reports can then be independently checked to ensure they are fully supported and accurate. This approach will provide added assurance that material erroneous or fraudulent transactions would be identified and will also make more effective and efficient use of payroll team resource.	Significant	Exception reports available within the system will be reviewed and appropriate reports utilised to develop a formal checking process.	Financial Support Services Manager, Helen Raisbeck Reviewing of reports to be completed by: 31/3/2015 Process to be completed and implemented by: 30/6/2015	Yes

Final

#	Recommendation	Category of Rec.	Management Action	Action Manager & Completion Date	Satisfactory Response (IA View)
3	Where change of bank details requests are received by the payroll team, appropriate confirmation should be sought from the individual to verify that the request is genuine and the details supplied are correct.	Significant	a) The majority of changes are effected by self service in the payroll system or via the NYP email account of the individual. Where hard copy requests are received, validity checks will be performed and noted by the payroll team. b) We will request a slot for a corporate communication encouraging the use of self service facilities to minimise risk exposure. c) We will implement validity checks for all paper notifications.	Temporary Head of Payroll & Pensions, Moira Hopwood 28/2/2015 Financial Support Services Manager, Helen Raisbeck 28/2/2015 28/2/2015	Yes
4	Reconciliations should be completed by the Management Accounts Team on a timely basis. To ensure that independent checking can be undertaken promptly, consideration should be given to delegating this checking role.	Significant	a) Reconciliations up to November were brought up to date in December. The independent checking has been delegated from the Chief Accountant to the Senior Accountant. b) Further delegation will be considered as part of the upcoming finance review.	Senior Accountant, Jane Osborne Complete 30/9/2015	Yes

Final

Classification of Recommendations	
Fundamental	Action is needed to address risks that could impact on the organisation's ability to achieve its objectives. Action will typically be organisation-wide and be necessary at the highest level. Other fundamental recommendations will be made in regard to potentially serious breaches of statutory obligations.
Significant	Action is needed to address risks that impact primarily on one major business area or to address lower risks on an organisation-wide basis.
Merits Attention	Action is advised to enhance control, remedy minor breaches of current controls or to improve efficiency.

Final

6 Appendix: Assurance Level

Internal Audit assesses the effectiveness of internal control, within the scope of what is audited. This measure is therefore a relative one.

Category	Description
1	Reasonable assurance can be provided that the main risks considered are being effectively managed; action may still enhance the management of risk in a small number of areas. In addition Internal Audit has identified that the approach taken to address risk as representing good practice in this area.
2	Reasonable assurance can be provided that the main risks considered are being effectively managed. Limited management action may be required to address a small number of significant issues.
3	Limited assurance can be provided that the main risks considered are all being effectively managed. Significant management action is required to address some important weaknesses.
4	Inadequate assurance can be provided that the risks identified are being effectively managed. Significant weaknesses have been identified in the risk management action, these are likely to involve major and prolonged intervention by management. These weaknesses are such that the objectives in this area are unlikely to be met.

7 Appendix: Overall Assessment Criteria

Risks in this report have been assessed using the following criteria. It is the same criteria as that used by North Yorkshire Police to assess risk for the Risk Register.

Probability	Highly Probable	Nil	5:7	4:12	2:14	1:16
	Probable	Nil	5:4	5:8	3:13	2:15
	Unlikely	Nil	6:2	5:5	5:10	4:11
	Highly Improbable	Nil	6:1	6:3	5:6	5:9
	Nil	Nil	Nil	Nil	Nil	Nil
		Nil	Negligible	Minor	Significant	Catastrophic
		Impact				

Probability	Nil	< 20% Highly Improbably (HI)	20% - 40% Unlikely (UL)	40% - 60% Probable (P)	> 60% Highly Probable (HP)
Impact Categories	**Nil**	**Negligible**	**Minor**	**Significant**	**Severe**
Financial (£) - Default - Mandatory	Nil	0 => 100k Increased financial impact less than £100000	100k => 250k Increased financial impact between £100k and £250k	250k => 2.5m Increased financial impact between £250k and £2.5m	2.5m => 3.75m Increased financial impact greater than £2.5m
Reputation	Nil	Negligible adverse publicity. Minimal impact upon public perception	Localised adverse publicity. Minor/transient impact upon public perception of Force or PCC	Criticism at local level. Lasting impact upon public perception of Force or PCC	Intense national media. Criticism at national level
Operational	Nil	Negligible impact upon ability to deliver service and meet Force targets	Minor impact upon ability to deliver service and meet Force targets	Significant impact upon ability to deliver service and meet Force targets	Catastrophic impact upon ability to deliver service and meet Force targets
Legal/Compliance	Nil	Negligible prospect of legal challenge	Minor/Transient prospect of legal challenge	Serious non compliance. Litigation/challenge.	National legal issue.