



**NORTH YORKSHIRE
FIRE & RESCUE SERVICE**

Payroll System Review

North Yorkshire Fire and Rescue Service

Internal Audit Report 2021/22

Business Unit: Enable NY Finance
Responsible Officer: Chief Accountant
Service Manager: Head of Finance
Date Issued: 15 October 2021
Status: Final
Reference: 45500/014

	P1	P2	P3
Actions	0	1	4
Overall Audit Opinion	Reasonable Assurance		

Summary and Overall Conclusions

Introduction

Payroll is a key system operated by North Yorkshire Fire and Rescue Authority Service (NYFRS). The Service uses the ResourceLink payroll system which is hosted by North Yorkshire County Council (NYCC). Whilst NYCC process the payroll payments, it is NYFRS staff who validate and input changes to the payroll Masterfile.

A full appraisal of payroll procedure documents has taken place by the service. Whilst there has been no fundamental change to the system of administering payroll, some procedures have been updated, and others removed as they are no longer relevant, due to technological changes and new ways of working.

The high risk areas within these procedures have been discussed with officers and identified for review as part of this audit. These areas include sick pay, advance payments and their recovery, and home working arrangements. The audit also included a review of net pay adjustments and sufficiency of paperwork provided for advance payments.

Objectives and Scope of the Audit

The purpose of this audit is to provide assurance to management that procedures and controls within the system will ensure that:

- Sick pay is calculated and applied at the correct rate
- Standard operating procedures and procedure notes are in place and followed
- Advance payments are supported by sufficient evidence and approval, and are recovered efficiently.

Key Findings

Station and line managers' report sickness absences on the Fire Watch system. This information is then put into a spreadsheet by People Services and provided to the Fire Payroll team for input to employee payroll records for the 4 weekly and monthly payruns. The information received includes dates of absence, short and long term, light duties, and pandemic related absence. Our testing confirmed all the dates we reviewed input to ResourceLink corresponded with the information provided.

The rate of pay an employee receives is calculated within ResourceLink in accordance with the first date of absence. The amount in payment is checked by the Fire Payroll team after being processed and prior to the payrun. Our testing saw that rates of sick pay appeared appropriate, and included payment of Occupational Sick Pay (OSP) for initial absence, and OSP and Statutory Sick Pay (SSP) for short term absence, and OSP for longer periods.

The Fire Payroll team maintain spreadsheets which contain information of employees on long term sick, from this the future change date can be identified. When the employee rate of pay is to change due to the period of time the employee has been receiving sick pay then the Fire Payroll team should contact People Services six weeks prior to the end of the entitlement period. However from the sample of employee records tested we found no consistency in the amount of time prior to the change, that the request for information was being sent out. Some were being made a month in advance, whereas others were not issued in timely manner; for instance one was sent out after the date the pay was due to change. We also found no consistency in the amount of time People Services took in responding to the requests for confirmation of changes to rates of pay. One response was received the same day, another a month after the request.

There is no specific review of the amount of sick pay in payment, employees in receipt of sick pay may be included in the sample of employee transactions checked each payrun. The sample reviewed by the Management Accountant (Payroll) is based on significant variances which should help to highlight any significant transactional errors.

Procedures for the operation of the Fire Payroll team are in place. Most have been reviewed since March 2021, or are in the process of being reviewed. A schedule of review is in place to ensure the procedures remain valid and current and that all documents have either been reviewed by the team or are currently under review. We reviewed ten payroll procedure documents including those for sick pay adjustments, change of address and bank details, net advance recovery and overpayments and found that procedures have been updated, where appropriate, to include electronic record file paths and updates to approval methods since working from home.

We reviewed the Change of Employee Address and Bank detail procedures for inclusion of text as recommended in the previous audit. The requirement for specific checks for email address and bank account name, and red flags that may indicate a fraudulent request are included. Further steps include the process being electronic, and review of any requests takes place by a senior officer within the Fire Payroll team, and that there are checks that these are now being completed and a central log of bank account changes is maintained.

There are advance payment procedures which provide guidance as to the circumstances when an advance payment may be made, and how to recover payroll overpayments. Managers and employees can refer to a Net Pay Advance document which is available on the intranet which explains, in basic terms, when a net pay advance may be made, and why it may not be paid. We tested a sample of ten pay advances from 2020/21. All had evidence the advance was being processed for a valid reason outside the control of the employee, completed paperwork and approval within the team. Repayment detail was evident for all the test sample. However, there were issues with locating some supporting evidence and two members of the Fire Payroll team provided this separately. Evidence of originating request could not be provided for two of the sample, meaning that approval by employee line manager could not be confirmed.

Recovery of overpayments is administered by the Fire Payroll team. Repayment of an overpayment may be by invoice when an employee has left the authority, or take place over a number of pay periods. We tested ten overpayments for evidence of notification being sent to the employee, timeliness of information received and the scheduling of recovery. Eight overpayments were notified to the employee immediately it was known and recovered in the next pay period or monthly as agreed with the employee. Supporting documents could not be found for the other two overpayments tested. No reducing balance is recorded on the central spreadsheet. Information was

provided that movement details and supporting documents are now saved to an archive file in a central location to reduce the risk of misplaced documents.

No management information is collated from the payment of advances and recovery of overpayments which may identify areas of weakness within the systems.

Overall Conclusions

There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited. Our overall opinion of the controls within the system at the time of the audit was that they provided Reasonable Assurance.

1 Timeliness of approval of changes to long term sick pay

Issue/Control Weakness

Requests for change to sick rate were not issued in timely manner
Responses to requests for approval of changes to sick pay were not received in a timely manner

Risk

Payments of sick pay is not at the correct rate for the length of absence of the employee

Findings

When an employee sickness absence is about to reach six months, or twelve months for industry related absence, to ensure that the correct pay rates are made when the rates require adjustment. As the Fire terms and conditions, and the start date of the payment year differ from those in place for NYCC (who operate the ResourceLink payroll system) then manual adjustments are required to the level of sick pay.

The Fire Payroll team maintain spreadsheets which contain information of employees on long term sick, from this the future change date can be identified. The team should send a memorandum to the Chief Fire Officer requesting confirmation of the rate of pay for ongoing absence; these requests are responded to by People Services. The rate of pay may reduce to half following six months of absence, but if approval is received the rate of pay may continue at full for an agreed length of time.

We tested a sample of ten employee sickness records, five of which were on extended long term absence. The Sickness Procedures state that six weeks prior to an individual reaching the end of their full pay entitlement a memo should be completed and emailed to HR, requesting their decision regarding the level of pay for the individual for the next 6 months. The dates of these documents showed requests for approval were sent out between a month prior to, and the day that the rate was due to change. We found responses (on behalf of the Chief Fire Officer) approving the future rate to be paid to the employee for all of the sample. Responses were received in time to process any adjustment for two employees and two were received four weeks after the request was made. There is no clear explanation for the reason for the delay in the memo being sent. Neither is there any clear explanation for the delay in response from the Group Manager or People Services to decide the level of pay for the individual. One of the sample fell outside the scope of the testing period.

The sample tested did not provide satisfactory assurance that the administration of requesting approval of changes to rates, or responses being received, were timely. Good practice would be to have better control over the initial correspondence requesting confirmation of rates and terms of pay, and not having to make retrospective changes which may cause hardship to employees.

It was explained to us that going forward the Fire Payroll team are to adopt the People Services position of making continuous payment based on existing rates of pay until approval of change to the rate is received.

Agreed Action 1.1

A process will be agreed and then followed between Fire Payroll and People Services which will ensure timely changes to pay are made on every occasion, and also all supporting documentation is tracked.

Priority

2

Responsible Officer

Payroll and Pensions Manager

Timescale

31st December 2021

2 Advance payments - lack of supporting information

Issue/Control Weakness

Approval of the request for an advance payment could not be confirmed.
Documents are not being stored in one set specific area.

Risk

Excessive pay advances are made to staff
Pay advances are not appropriately approved

Findings

There are advance payment procedures which provide guidance as to the circumstances when an advance payment may be made, and how to recover payroll overpayments. Advance payments will not normally be made if the underpayment is due to late submission of claims, or if the gross amount is less than £150. However due regard will be given to individual circumstances. Appropriate paperwork (a F21 form) is completed, checked and forwarded for approval. Once approved a request is sent to NYCC finance for payment direct to the employee and the team should retain a copy of the approved form.

We tested a sample of ten net advances in 2020. All payments made had valid reasons in line with the guidance, were either HR or Payroll related, and a 'F21 form' was evident approving the payment within the Fire Payroll team. The method of repayment was recorded for all pay advances. Evidence of the originating request and approval of the advance payment was provided for eight of the ten payments tested. The originating request documents for the remaining two advance payments could not be provided.

In completing the testing, we also saw that these documents are not stored in one specific area/ central repository.

Agreed Action 2.1

Supporting information for all advance payments will be centrally stored to help confirm and demonstrate all advance payments have been authorised.

Priority

3

Responsible Officer

Payroll Administrator

Timescale

30th November 2021

3 Recovery of overpayment - lack of supporting documents and repayment detail

Issue/Control Weakness

Lack of balance remaining due where an overpayment is repaid over a number of payruns.
Lack of supporting documents to evidence the employee has been notified of the overpayment

Risk

Overpayments are not recovered in a timely manner, or not recovered once an employee has left

Findings

Overpayments, when identified, are processed by the Fire Payroll team. Reasons for overpayments include errors in processing by the Fire Payroll team, or notifications of a change to a past period of pay by People Services, involving overpayment of basic pay, retaining fee or temporary basic pay. Overpayments are recorded on a spreadsheet maintained by the Fire Payroll team.

If an employee has left the service then an invoice is sent to recover the overpayment. If the overpayment relates to a current employee they are notified the overpayment will be recovered in the next pay run. If the payment is a large amount and may cause hardship, then it may be recovered over the same number of pay periods as it was overpaid, i.e. if it was overpaid April to June and identified in the June pay run, it would be recovered over a period of 3 months commencing July. The employee also has the option to request that they repay the sum as one payment which is done by requesting an invoice to be raised by the Finance team.

There were 26 overpayments in 2020/21. We tested ten for timeliness of notifying the employee of the overpayment and the speed of notification of the overpayment by the originating service.

Notification of the overpayment was sent to the employee at the time of the following payrun for 8/10 of the sample. It was not possible to evidence the date of the notification for the remaining employees as the supporting documents could not be located. Recovery for 8/10 of the sample was evidenced as commencing within one pay period of the overpayment. Recovery of the remaining two overpayments was put in place as soon as the Fire Payroll team had identified and processed the overpayment. The delay in identifying the overpayments is recorded on the spreadsheet as being an error by People Services.

The spreadsheet entry for the overpayment amount is the total amount overpaid. Where the repayment has been by an arrangement of instalments, the dates of the payment are indicated but there is no breakdown of amounts paid per pay day, or the balance of any amounts remaining outstanding. The recording of individual repayment amounts, or a reducing balance would inform of any balances due to be repaid and taken from final pay if an employee left.

Agreed Action 3.1

The overpayments spreadsheet will be redesigned to include a calculation of reducing balances which will be used by the officers responsible for overpayments to determine amounts remaining outstanding after each pay day.

Priority

3

Responsible Officer

Payroll Administrator

Timescale

30th November 2021

Agreed Action 3.2

Supporting overpayment information will be centrally stored to support a clear audit trail.

Priority

3

Responsible Officer

Payroll Administrator

Timescale

30th November 2021

4 Management information

Issue/Control Weakness

Management information is not routinely collated or used to help understand the underlying reasons of, and to help reduce the number of advance payments and overpayments.

Risk

Repeated reasons for advance payments are not identified and corrected
Lack of management oversight

Findings

Understanding the what and why that has caused an advance and overpayment may help an organisation prevent instances happening in the future.

Between April 2019 and March 2021 there were 45 net advance payments. We reviewed the reason for net advances being paid, and found seven basic reasons, these were underpayment, non-payment, paperwork not received, refund, late payment, over deduction and recalculation. Over the same period 57 overpayments were processed, which were due to error in processing by the Fire Payroll team, or notification of change received relating to a past pay period by People Services.

The Payroll team maintain a spreadsheet which contains detail of advance payments and recovered overpayments. This spreadsheet provides a record of the employee, reasons for the advance or overpayment, pay day for the transaction, the amount, the service that created the error, and the date(s) or method of recovery. Whilst some anecdotal information relating to pay advances and overpayments is provided to the Head of Finance, no formal management information is collated from the payment of advances, and recovery of overpayments which may identify areas of weakness within the systems. An understanding of, and review of cases could provide understanding of whether any improvements can be made.

Agreed Action 4.1

A quarterly review of the advance and overpayment information will be undertaken by the Payroll Administrator (first review 31st December) and an overview of the reasons for the transactions, and suggested improvements to the process will be prepared for the Payroll and Pensions Manager.

Priority

3

Responsible Officer

Payroll Administrator

Timescale

31st December 2021

Audit Opinions and Priorities for Actions

Audit Opinions

Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of the audit.

Our overall audit opinion is based on 4 grades of opinion, as set out below.

Opinion

Assessment of internal control

Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

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