

CBSL

Compliance Review of the New Payroll System - Key Controls

Police and Crime Commissioner for
Wiltshire and Chief Constable of Wiltshire
Police

DRAFT



March 2013

2012/13

Compliance Review of the New Payroll System - Key Controls

- EXECUTIVE SUMMARY -

INTRODUCTION

1. We have carried out a review of key controls in the New Payroll System at Wiltshire Police. Work was undertaken in April, May, July and September 2012 as part of the 2012/13 Internal Audit Plan. A re-visit was carried out in October 2012 to review the further progress made of the key controls.
2. One Key Risk Control Objective was tested and based on the findings from this work an overall evaluation of the overall compliance with the core internal controls was established. The (C) after the evaluation indicates that the assessment is from the compliance work only and not from a review of the system. The initial review work provided a 'limited assurance' assessment. Subsequent work by the Force has addressed a number of the outstanding core control issues, however it is recognised that the Force will need to continue operating these monitoring controls monthly, rather than once in a six month period, if the current assessment (figure 1 below) is to be maintained.

Figure 1 - Evaluation of the Effectiveness of the Internal Controls



KEY FINDINGS

3. The key control and operational practice findings that need to be addressed in order to strengthen the control environment are set out in the Management and Operational Effectiveness Action Plans. Recommendations for improvements should be assessed by the Authority for their full impact before they are implemented. The priorities of the recommendations are summarised below (figure 2):

Figure 2 - Summary of Priorities of Recommendations

Urgent	Important	Routine	Operational
1	3	1	1

RELEASE OF REPORT

4. The table below sets out the history of this report.

Date draft report issued:	24 th September 2012
Date revised draft report issued:	2 nd November 2012
Date second revised draft report issued:	14 th March 2013
Date management responses recd:	
Date final report issued:	

Compliance Review of the New Payroll System – Key Controls

MANAGEMENT ACTION PLAN
PRIORITY 1, 2 AND 3 RECOMMENDATIONS

Rec.	Finding	Recommendation	Priority	Head of Finance Comments	Treasurer Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
3	It was suggested in discussions with staff that the starting point for the controls that are put in place should be a log of the changes to the months payroll. It is unusual practice for a file of all payroll amendments to be held which includes the log of all changes to standing data during the month and the variable input; e.g. overtime, expenses etc. From August 2012, the payroll changes have been filed in a monthly file, however at the time of the review in early September, no report was being produced that detailed all monthly amendments to standing data. It would be very difficult to undertake a full Audit of the payroll if this data was not available as a starting point for the amendments to the payroll.	An exception report be generated from the Payroll system each month of all changes to standard payroll data and this be used as the starting point for the Audit Control checking process.	1	<i>Consideration has been given to changing the way that we file. It is in monthly files instead of alphabetically. In view of the fact that we can now produce the exception report mentioned in the point above it was deemed that monthly files would hamper our normal day to day working practises by having to find out the month of change for any query. A complete record of changes for each employee held in one place is also deemed to be of a huge benefit. Therefore, a decision was made that we will continue to file alphabetically.</i>	<u>It is not clear why the Internal Auditor's recommendation will not be adopted. This matter will be raised at the meeting of the Independent Audit Committee on 21/3/2013.</u>	Complete	Exchequer Manager Accountancy Manager
1	Control Check 1 – Verify Access	All Audit Control Checks	2	See above (Rec 1)	<u>See above.</u>		

PRIORITY GRADINGS

1	URGENT	Fundamental control issue on which action should be taken immediately.	2	IMPORTANT	Control issue on which action should be taken at the earliest opportunity.	3	ROUTINE	Control issue on which action should be taken.
----------	---------------	--	----------	------------------	--	----------	----------------	--

Compliance Review of the New Payroll System – Key Controls

Rec.	Finding	Recommendation	Priority	Head of Finance Comments	Treasurer Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
	Levels to Payroll System It is planned to undertake a check of the persons who have access to make changes to any part of the payroll system. It is the intention that the access will be reviewed on a quarterly basis, but this had not been undertaken at the time of the review.	identified that have not commenced yet be started during September as part of the quarterly end process.					
4	From the work undertaken as part of this review and discussions with staff, it is apparent that there is a detailed level of understanding of the operational aspects of the payroll but less of an understating of the reporting available from the system. There are detailed checks on input by staff at operational level but not enough use being made of the exception reports that the system should be able to produce. The use of the exception reports for checking would be more efficient than the detailed checking of on screen input.	A review of the way the payroll is run currently and how the system can be used more effectively buy utilising the reporting facilities available be undertaken.	2	To date this has not been undertaken due to prioritisation of System Build, Implementation issues and ensuring that people have been paid correctly. We will now look to using the system more efficiently through its reporting and enquiry capabilities.	Head of Finance's comments are agreed.	End of January 2013 Still outstanding. Exchequer Manager to arrange additional training with Unit 4 and visit to Dorset. End of April 13.	Exchequer Manager

PRIORITY GRADINGS

1 URGENT Fundamental control issue on which action should be taken immediately.

2 IMPORTANT Control issue on which action should be taken at the earliest opportunity.

3 ROUTINE Control issue on which action should be taken.

Compliance Review of the New Payroll System – Key Controls

Rec.	Finding	Recommendation	Priority	Head of Finance Comments	Treasurer Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
	An operational review of the most effective use of the system and the reports needs to be undertaken as it is considered that significant time could be saved if the system is used more effectively.						

PRIORITY GRADINGS

1	URGENT	Fundamental control issue on which action should be taken immediately.
----------	---------------	--

2	IMPORTANT	Control issue on which action should be taken at the earliest opportunity.
----------	------------------	--

3	ROUTINE	Control issue on which action should be taken.
----------	----------------	--

Compliance Review of the New Payroll System – Key Controls

Rec.	Finding	Recommendation	Priority	Head of Finance Comments	Treasurer Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
5	The system went live in April 2012 and a number of detailed checks on the data were undertaken by staff as part of finalising the initial set up. It has been suggested to staff that details of the checks undertaken during April to September 2012 be filed in a monthly file for each month as appropriate in order that it can be established what monitoring checks were carried out during this intervening period as well as ensuring that this information can be reviewed by the External Auditors at the year end.	A risk exposure review should be carried to assess whether additional checks need be carried out by management on the payroll records for the period April to July 2012.	2	<i>A review of the controls now in place will take place in October. Those that have been undertaken and have a cumulative reconciliation ie salaries and wages Bank account will be treated as complete and will be undertaken on a monthly basis from now on. Other controls that are not cumulative will be reviewed and where possible any relevant paperwork will be filed in the payroll audit file.</i>	<u>Head of Finance's comments are agreed</u>	<i>End of October <u>Complete.</u> <u>Recs being completed on a monthly basis. All control accounts on a cumulative basis in prep for year end.</u></i>	<i>Exchequer Manager/ Payroll Supervisor</i>
2	Control Check 8 – Verify Accuracy of the Payroll The check involves selecting 15 individual claim forms (5 of each). Each of the 15 form is printed off and	A report be produced each month of all payments of expenses and Police Officers and Police Staff overtime, the data imported into a spreadsheet	3	<i>This recomendation will be taken on board and where possible better use of reports will be looked into.</i>		<i>End of October <u>Claims now keyed directly into Agresso.</u> <u>Continuing to spot</u></i>	<i>Payroll Supervisor</i>

PRIORITY GRADINGS

1	URGENT	Fundamental control issue on which action should be taken immediately.
----------	---------------	--

2	IMPORTANT	Control issue on which action should be taken at the earliest opportunity.
----------	------------------	--

3	ROUTINE	Control issue on which action should be taken.
----------	----------------	--

Compliance Review of the New Payroll System – Key Controls

Rec.	Finding	Recommendation	Priority	Head of Finance Comments	Treasurer Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
	attached to a copy of the payslip (the first exercise involved a selection of 15 of each but this was found to be time consuming). An alternative method would be to run a report of all expenses and overtime payments, import the data into a spreadsheet and select the payments. The selection can then be filtered, checked and a copy of the filtered spreadsheet printed off and signed by the person checking. This would be more efficient and cost effective by saving on printing costs and thus a minimum of 10 of each form could be checked. This spreadsheet could also be used to validate the total input to the output for the variable payments each month.	and the totals matched to the data input totals. The selection can then filtered, the sample checked and a copy of the filtered spreadsheet printed off and signed by the person checking.				<i>check 5 of each</i>	

PRIORITY GRADINGS

1	URGENT	Fundamental control issue on which action should be taken immediately.
----------	---------------	--

2	IMPORTANT	Control issue on which action should be taken at the earliest opportunity.
----------	------------------	--

3	ROUTINE	Control issue on which action should be taken.
----------	----------------	--

Compliance Review of the New Payroll System – Key Controls

OPERATIONAL EFFECTIVENESS MATTERS

Ref	Item	Management Comments
1	<p>Consideration be given to utilising the 'Calculator and Tools' facility on the HMRC website to carry out tax and NI calculations. The starters and leavers reports can be signed off by the person completing the checks as evidence which will negate the need for printing off payslips thus saving printing costs.</p>	<p><i>This tool will be investigated in October and consideration of its use will be reviewed.</i> <u><i>Tool does not calculate NI. Therefore Exchequer Assistants to continue to manually check starters and leaver pay for the month.</i></u></p>

ADVISORY NOTE

Operational Effectiveness Matters need to be considered as part of management review of procedures, rather than on a one-by-one basis

- DETAILED REPORT -

SCOPE AND LIMITATIONS OF THE REVIEW

5. The review encompassed advice on the proposed control arrangements for the new payroll system.
6. The review has been carried out by TIAA Ltd as the nominated sub-contractor of Capita Business Services Ltd ('CBSL'). The limitations and the responsibilities of management in regard to this review are set out in the Annual Plan.
7. The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. CBSL and TIAA neither owe nor accept any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

ASSESSMENT OF THE KEY RISK CONTROL OBJECTIVE

8. This review identified and tested the controls that are being operated by the Authority and an assessment of the combined effectiveness of the controls in mitigating the key control risks is provided. The assessments are:

Substantial Assurance	robust series of internal controls in place designed to achieve the system objectives and which are being consistently applied.
Reasonable Assurance	series of internal controls in place, however there are some control improvements that would assist in which ensuring the continuous and effective achievement of the system objectives.
Limited Assurance	the controls in place are not sufficient to ensure the continuous and effective achievement of the system objectives.
No Assurance	fundamental breakdown or absence of core internal controls.

MATERIALITY

9. The new Agresso finance system was fully implemented and operational from the start of the new financial year 2012/13. The new Payroll system was brought in-house as part of the implementation of the Agresso system.

AUDIT FINDINGS

Risk	Losses arising in the process from unauthorised action.
Risk Control Objective	Arrangements in place for the process provide for compliance with the procedures designed to safeguard the organisation’s assets and interests from avoidable losses.
Evaluation	Reasonable Assurance

10. The following matters were identified in reviewing the Key Risk Control Objective:

10.1 The new Payroll system was brought in-house in April 2012. The payroll is now fully processed in-house and payments are made to staff through the internal BACs system.

10.2 A number of visits were undertaken and discussions with Exchequer staff about the controls to be put in place during April, May, July and September. A visit in September 2012 reviewed the key controls set up and held on file. A file containing 11 audit control checks was set up from the August 2012 payroll and the file review is the basis of this report. Each control area has a “Reconciliation Cover Sheet” that details the title of the reconciliation/control area, produced by who, reason for the reconciliation/control area, procedure, authoriser and the signature and date of the authoriser. The 11 control checks are listed below.

10.3 A monthly file has been set up with each audit control check inserted.

Control Check 1 – Verify Access Levels to Payroll System

10.4 At the time of the review there were no separate access levels for any of the staff accessing the system. Each member of the payroll team had the same access to the system. This needs to be rectified and access levels commensurate with duties and grades be put in place.

10.5 A recommendation that a “*A review of the access and specific permissions for all staff operating the payroll system be undertaken and put in place as soon as possible*” was initially identified and was discussed and accepted by management. The re-visit in October 2012 identified that all payroll users have now been categorised into job roles and responsibilities under three specific access areas; Payroll General, Payroll Supervisor and Exchequer Manager. Each access area has been allocated different functions/modules that link into their roles and responsibilities with the payroll supervisor having additional access areas. The Exchequer Manager status is set up for super users, who are the Exchequer Manager, Budget Accounting Technician - Systems Administrator, Senior Accounting Technician and Senior Accountant.

- 10.6 It is planned to undertake a check of the persons who have access to make changes to any part of the payroll system. It is the intention that the access will be reviewed on a quarterly basis, but this had not been undertaken at the time of the review.

Recommendation: 1

Priority: 2

All Audit Control Checks identified that have not commenced yet be started during September as part of the quarterly end process.

- 10.7 Now that all users have been set up specific access levels, which was confirmed during the October re-visit, a quarterly check is to be undertaken in December. The timing of this check will be appropriate given the current re-structuring that is in progress within the Finance Team.

Control Check 2 – Verify Monthly Payroll

- 10.8 This check is for the Exchequer Manager (EM) to sign off payments on the proposed run.
- 10.9 The check is to be undertaken each month and commenced for the August 2012 payroll.
- 10.10 The check involves producing a report of net pays over £3,500 compared to the previous month with reasons recorded, a report of the 10 lowest payments with reason recorded and a report of payments to leavers in a prior pay period with reasons recorded.
- 10.11 The EM has signed off each report and the Reconciliation Cover Sheet.

Control Check 3 – Verify Payments made to Employees via BACS

- 10.12 This check is a verification of payments to employees via BACS.
- 10.13 The check is to be undertaken each month and commenced for the August 2012 payroll.
- 10.14 The check involves the completion of a bank reconciliation to validate the total BACS amount being paid from the Salaries and Wages Account (currently creditors account). A copy of the Reconciliation Summary (with reasons for any variances), cash book transaction report, unmatched transaction report and bank statement are retained on file to support the reconciliation.
- 10.15 The reconciliation is signed off and dated by the person completing the reconciliation.
- 10.16 The EM has signed off the Reconciliation Cover Sheet.

Control Check 4 – Verify Payments made to Employees

- 10.17 This control is to validate payments to starters, leavers and to ensure leavers have been removed from the payroll.
- 10.18 The control is to be undertaken each month and commenced for the August 2012 payroll.

- 10.19 The control involves producing a report of new starters and a copy of every payslip with tax and NI checks recorded, a report of leavers and a copy of every payslip with tax and NI checks recorded and a list of starters and leavers from HR. The calculation and the printing of payslips can be time consuming exercise.

Operational Effectiveness Matter: 1

Consideration be given to utilising the 'Calculator and Tools' facility on the HMRC website to carry out tax and NI calculations. The starters and leavers reports can be signed off by the person completing the checks as evidence which will negate the need for printing off payslips thus saving printing costs.

- 10.20 The EM has signed off the Reconciliation Cover Sheet.

Control Check 5 – Verify Tax and NI

- 10.21 This check is to verify that the Tax and NI calculations are working correctly.
- 10.22 The check is to be undertaken each month and commenced for the August 2012 payroll.
- 10.23 The check involves the random selection of 5 employees' records and a copy of the exception report with action taken to resolve. (Operational Effectiveness Matter 1 refers).
- 10.24 The EM has signed off the Reconciliation Cover Sheet.

Control Check 6 – Verify Employee Bank Account Details

- 10.25 This control is to verify employee's bank account details and to check if duplicate bank accounts details are valid.
- 10.26 The control is to be undertaken each month with the duplicate check undertaken quarterly. The duplicate check commenced for the August 2012 payroll, however a verification check has not commenced yet as there is currently no report that can be produced with this data other than switching on an 'Amendment Log' facility which totally slows down the system. The EM is currently investigating this with Dorset Police Authority. (Reconciliation 2 refers).
- 10.27 The control involves producing a report of any bank account details and verifying those to Employees Bank Account Change Request forms with evidence of checks. The duplicate bank account control involves producing a report of all bank accounts, sorting them into account order to identify any duplicate accounts and verifying those to surnames and addresses on the with evidence of checks.
- 10.28 The EM has signed off the Reconciliation Cover Sheet.

Control Check 7 – Verify Integrity of Payroll

- 10.29 This is a check of the integrity and confidence of the payroll.
- 10.30 The check is to be undertaken each month and commenced for the August 2012 payroll.

- 10.31 The check involves a Budget Technician randomly selecting 10 members of staff from their budget area and to verify the employees pay with payroll staff. Payslips for each employee selected is printed off and signed by the Budget Technician.
- 10.32 The Budget Technician has signed off the payslips and the EM has signed off the Reconciliation Cover Sheet.

Control Check 8 – Verify Accuracy of the Payroll

- 10.33 This check is to verify the accuracy of payroll input of expense forms, Police Officers and Police Staff overtime forms.
- 10.34 The check is to be undertaken each month and commenced for the August 2012 payroll.
- 10.35 The check involves selecting 15 individual claim forms (5 of each). Each of the 15 forms is printed off and attached to a copy of the payslip (the first exercise involved a selection of 15 of each but this was found to be time consuming). An alternative method would be to run a report of all expenses and overtime payments, import the data into a spreadsheet and select the payments. The selection can then be filtered, checked and a copy of the filtered spreadsheet printed off and signed by the person checking. This would be more efficient and cost effective by saving on printing costs and thus 10 of each form could be checked. This spreadsheet could also be used to validate the total input to the output for the variable payments each month.

Recommendation: 2

Priority: 3

A report be produced each month of all payments of expenses and Police Officers and Police Staff overtime, the data imported into a spreadsheet and the totals matched to the data input totals. The selection can then filtered, the sample checked and a copy of the filtered spreadsheet printed off and signed by the person checking.

- 10.36 At the time of the re-visit a report for overtime had been produced and is to be used for selection and checking purposes.
- 10.37 All forms are now filed monthly, with files set up for expenses and overtime.
- 10.38 The EM has signed off the Reconciliation Cover Sheet.

Control Check 9 – Payroll Account Reconciliation

- 10.39 This control is to reconcile the control accounts on Agresso.
- 10.40 This control is being undertaken on a monthly basis, but not all have started as at the August payroll.
- 10.41 The controls involve a reconciliation of the Payroll Adjustment Account, (this needs to be signed off by the person completing, a previous recommendation in the Creditors review refers). The controls also involve reconciliations of account codes 21612 – Payroll Recoverable (not used), 21613 – Student Loans, 30403 - Payroll Deductions and 30404 – Payroll Childcare and Other deductions and also to ensure account codes 9998 and 9999 have a zero balance.

- 10.42 It was noted that the production of a control account for codes 30403 and 30404 has not yet started. Issues have been experienced with payments to third parties whereby a commission payable to Wiltshire Police is applicable.
- 10.43 All third party deductions have a separate Payment and Deductions Code (PD code) within the 30403 so a payroll control account reconciliation of each account can be undertaken as part of the month-end process.
- 10.44 A recommendation that “*Reconciliations of the control accounts of each individual Payment and Deduction codes within code 30403 be undertaken each month as part of the month-end process*” was initially identified and was discussed and accepted by management. A cumulative reconciliation for this year up until September has now been completed in October, which was verified during the re-visit. The reconciliation revealed that the balance related to pension contributions for September that were still to be paid out to the relevant funds. The Exchequer Manager stated that it is the intention to create further codes for each type of deduction are currently within code 30403 thus creating individual control accounts for each third party deduction.
- 10.45 The EM has not signed off the Reconciliation Cover Sheet as the control has not been completed (Recommendation 2 refers).

Control Check 10 – Verify HR Data to Payroll Data

- 10.46 This control is to reconcile the data on the HR system to the data on the Payroll system.
- 10.47 This control is to be undertaken on a quarterly basis but has not commenced to date (Recommendation 2 refers).

Control Check 11 – Verify & Sign off Monthly Payroll

- 10.48 This control is for the Head of Finance & Logistics and/or the Accountancy Manager to authorise the monthly payroll before employees are paid.
- 10.49 The control is to be undertaken each month and commenced for the April 2012 payroll.
- 10.50 The control involves a Payroll Analysis report of net payments/deductions per PD code together with a comparison to the previous months which is to be reviewed and signed off.
- 10.51 The EM has not signed off the Reconciliation Cover Sheet, however all reports since April 2012 have been authorised by either the Head of Finance & Logistics or the Accountancy Manager.
- 10.52 This control report is only partly effective as it has been identified the report can be improved as it includes a large number of payroll deduction and not all categories of payroll payments made.
- 10.53 A recommendation that “*The report of the monthly payroll variations signed off by the Head of Finance and Logistics be improved as planned to include all categories of allowances paid*” was initially identified and was discussed and accepted by management. The re-visit revealed that the monthly variation report has been

improved to include all payroll payments and the data agreed with the Head of Finance & Logistics. The total net pay report from Agresso together with the BACs payment reports are held on file as part of Control Check 3.

Additional Findings

- 10.54 As stated a decision has been taken not to turn on the amendment / transaction log on the system. The implications of this and the subsequent lack of audit trail of transactions need to be fully considered and understood.
- 10.55 A recommendation that “*The full implications of not turning on the transaction log need to be fully considered and understood*” was initially identified and was discussed and accepted by management. At the time of the re-visit the audit trail has now been switched on and various reports can now be extracted at any time for any period.
- 10.56 It was suggested in discussions with staff that the starting point for the controls that are put in place should be a log of the changes to the months payroll. It is unusual practice for a file of all payroll amendments to be held which includes the log of all changes to standing data during the month and the variable input; e.g. overtime, expenses etc. From August 2012, the payroll changes have been filed in a monthly file, however at the time of the review in early September, no report was being produced that detailed all monthly amendments to standing data. It would be very difficult to undertake a full Audit of the payroll if this data was not available as a starting point for the amendments to the payroll. The EM stated that the only report that can be obtained is by ‘switching on’ the Amendment log, as stated in paragraph 10.24 and 10.49. This is an audit trail of all ‘keystrokes’ made on the system. Most payroll systems can generate an exception report of all changes made to standard data and this needs to be investigated as soon as possible.

Recommendation: 3

Priority: 1

An exception report be generated from the Payroll system each month of all changes to standard payroll data and this be used as the starting point for the Audit Control checking process.

- 10.57 At the time of the re-visit reports were still being developed. Two reports had been developed; an Employee Relations report which included tax code changes, attachment of earnings orders, and child support deduction changes and a Position Relations report. It was identified that the Position Relations Report did not include changes to standard data such as salary changes, hourly rate changes, re-grading changes. Assistance was provided by Internal Audit into what data should be extracted in to the reports and these were being developed during the visit for use in the next payroll run.
- 10.58 From the work undertaken as part of this review and discussions with staff, it is apparent that there is a detailed level of understanding of the operational aspects of the payroll but less of an understating of the reporting available from the system. There are detailed checks on input by staff at operational level but not enough use being made of the exception reports that the system should be able to produce. The

use of the exception reports for checking would be more efficient than the detailed checking of on screen input. An operational review of the most effective use of the system and the reports needs to be undertaken as it is considered that significant time could be saved if the system is used more effectively.

Recommendation: 4

Priority: 2

A review of the way the payroll is run currently and how the system can be used more effectively by utilising the reporting facilities available be undertaken.

- 10.59 The above recommendation was given a target date of January 2013 and therefore was not considered during the re-visit.
- 10.60 As stated the majority of the checks have been put in place from the August 2012 payroll. The system went live in April 2012 and a number of detailed checks on the data were undertaken by staff as part of finalising the initial set up. It has been suggested to staff that details of the checks undertaken during April to September 2012 be filed in a monthly file for each month as appropriate in order that it can be established what monitoring checks were carried out during this intervening period as well as ensuring that this information can be reviewed by the External Auditors at the year end.

Recommendation: 5

Priority: 2

A risk exposure review should be carried to assess whether additional checks need be carried out by management on the payroll records for the period April to July 2012.

- 10.61 At the time of the re-visit the Audit Control Checks for April to July 2012 were still being completed, although significant progress was being made and it is anticipated that they will be completed by the end of October 2012.
