

Audit Committee 29 September 2011

Internal audit report – Payroll

Executive summary and recommendations

**Introduction**

Mazars have undertaken a review of Payroll, in accordance with the internal audit plan agreed by the Committee in March 2011. The report is attached as an appendix to this paper.

**Decision**

The Committee is asked to discuss the report.

**Background information**

None.

**Resource implications**

None.

**Financial implications**

None.

**Appendices**

Internal audit report.- Payroll

**Date of paper**

20 September 2011.



Internal Audit Report

**Core Financial Systems -  
Payroll (04.11/12)**

**September 2011**

**FINAL REPORT**

## CONTENTS

<b>1. Introduction</b>	<b>Page 1</b>
<b>2. Background</b>	<b>1</b>
<b>3. Scope and objectives of the audit</b>	<b>1</b>
<b>4. Audit Findings: One page summary</b>	<b>3</b>
<b>5. Summary of findings</b>	<b>4</b>
<b>6. Action plan agreed with management</b>	<b>5</b>

### Appendix 1 – Definitions of Assurance Levels and Recommendations

#### AUDIT CONTROL SCHEDULE:

<b>Client contacts</b>	Gary Butler: Director of Finance  Charlotte Milner: Financial Controller  Marc Seale: Chief Executive and Registrar	<b>Internal Audit Team</b>	Peter Cudlip: Partner  Graeme Clarke: Director  Peter Williamson: Assistant Manager  James Sherrett: Senior Auditor
<b>Finish on Site \ Exit Meeting:</b>	17 August 2011	<b>Management responses received:</b>	13 September 2011
<b>Draft report issued:</b>	5 September 2011	<b>Final report issued:</b>	13 September 2011

In the event of any questions arising from this report please contact Graeme Clarke, Director, Mazars LLP [graeme.clarke@mazars.co.uk](mailto:graeme.clarke@mazars.co.uk)

#### **Status of our reports**

*This report is confidential and has been prepared for the sole use of the Health Professions Council.*

*This report must not be disclosed to any third party or reproduced in whole or in part without the prior written consent of Mazars LLP. To the fullest extent permitted by law, no responsibility or liability is accepted by Mazars LLP to any third party who purports to use or rely, for any reason whatsoever, on this report, its contents or conclusions.*

## 1. INTRODUCTION

- 1.1 As part of the Internal Audit Plan for 2011/12, we have undertaken a review of the Health Professions Council's (HPC) arrangements for the authorised, accurate and timely payment of salaries to HPC's employees. This area was included in the Plan due to the significance of risks associated within this area in HPC's Risk Register.
- 1.2 This audit formed part of our rolling annual coverage of HPC's Core Financial Systems and will support the financial management objectives of HPC, the Statement of Internal Control within the financial statements, and inform the work of HPC's External Auditors.
- 1.3 We are grateful to the Finance department for their assistance provided to us during the course of the audit.
- 1.4 This report is confidential and for the use of the Audit Committee and senior management of the Council. The report summarises the results of the internal audit work and, therefore, does not include all matters that came to our attention during the audit. Such matters have been discussed with the relevant staff.

## 2. BACKGROUND

- 2.1 HPC's arrangements for the administration and processing of payroll is undertaken in-house within the Finance department.
- 2.2 The Sage Payroll system is used for the processing of the monthly payroll. This is used to pay the salaries and overtime payments to the 145 employees of HPC.
- 2.3 Staff overtime payments are paid on a monthly basis after an appropriately authorised overtime claim has been received by Finance. Deductions for employee pension contributions, Childcare Voucher and Corporate Gym Membership schemes and repayments of season ticket loans are also processed through the monthly payroll.
- 2.4 Gross monthly payroll costs have increased month-on-month this financial year-to-date from approximately £352,000 in April 2011 to £406,000 in July 2011. This reflects recruitment to and increases in the staffing establishment since the prior year.

## 3. SCOPE AND OBJECTIVES OF THE AUDIT

- 3.1 Our audit considered the following risks relating to the area under review:
  - Unauthorised payments to personnel (Risk 15.11);
  - Staff do not know what they are responsible for, or how they should carry out their duties, leading to non-compliance with legislation, laws or organisational policy and procedures;
  - Financial losses arising from fraud or error, inefficient processing or inappropriate activity (such as, ghost employees, payment of staff who no longer work at the Council, unauthorised payments, etc);
  - Financial charges and dissatisfied staff due to delayed payments to staff and/or third parties (such as payments to HMRC); and

- Poor decision-making due to poor quality or timeliness of information provided to management.

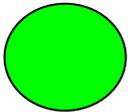
3.2 In reviewing the above risks, our audit considered the following areas:

- Financial Regulations, policies and procedures relating to payroll activities;
- Staff access to the payroll system and supporting records;
- Administration, processing and authorisation of starters, leavers and amendments to standing data including, segregation of duties;
- Processing and payment of staff overtime;
- Information flows between HR and Payroll teams, including timeliness;
- Review / authorisation of overall payroll / BACS payment;
- Management information covering payroll including financial and budgetary reporting; and
- Efficiency of payroll processes and use of Sage Payroll package.

3.3 The objectives of our audit were to evaluate the adequacy of controls and processes for the authorised, accurate and timely payment of salaries to HPC's employees, and the extent to which controls have been applied, with a view to providing an opinion on the extent to which risks in this area are managed. In giving this assessment, it should be noted that assurance cannot be absolute. The most an Internal Audit service can provide is reasonable assurance that there are no major weaknesses in the framework of internal control.

3.4 We are only able to provide an overall assessment on those aspects of the controls and processes for the authorised, accurate and timely payment of salaries to HPC's employees that we have tested or reviewed. The responsibility for maintaining internal control rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy of the internal control arrangements implemented by management and perform testing on those controls to ensure that they are operating for the period under review. We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone are not a guarantee that fraud, where existing, will be discovered.

#### 4. AUDIT FINDINGS: ONE PAGE SUMMARY

Assurance on effectiveness of internal controls	
	<b>Substantial Assurance</b>

Recommendations summary	
Priority	No. of recommendations
1 (Fundamental)	None
2 (Significant)	None
3 (Housekeeping)	3
<b>Total</b>	<b>3</b>

Risk management
<p>HPC's Risk Register identifies a specific risk around this area, 'Unauthorised payments to personnel' (Risk 15.11).</p> <p>Mitigating controls for this risk include: Effective expense claim and payroll authorisation processes and segregation of duties; Regular audits and whistle-blowing policy; and, Professional Indemnity &amp; fidelity (fraud) insurance for first £100k of loss.</p> <p>We have reviewed these control measures as part of our audit and found them to be in place and operating effectively to reduce the potential for this risk to occur.</p>

Value for money
<p>There is currently no interface between the Sage Payroll package and the HR system. This results in many pieces of information such as starters, leavers and amendments to data being entered into the HR system and then 're-keyed' into the Payroll system.</p> <p>Maintaining two databases with staff details and duplication of data entry are unlikely to be an efficient use of resources; although it is likely there would be financial costs associated with the implementation of such an interface.</p>

## 5. SUMMARY OF FINDINGS

### Overall conclusion on effectiveness and application of internal controls

- 5.1 Taking account of the issues identified in paragraphs 5.2 and 5.3 below, in our opinion the control framework for the authorised, accurate and timely payment of salaries to HPC's employees, as currently laid down and operated at the time of our review, provides **substantial** assurance that risks material to the achievement of HPC's objectives in respect of this area are adequately managed and controlled.

### Areas where controls are operating effectively

- 5.2 The following are examples of controls which we have considered are operating effectively at the time of our review:
- Access to the Sage Payroll package, electronic payroll records and hard copy records is restricted to appropriate members of staff;
  - All those starters, leavers and amendments to payroll data sampled during the audit had been appropriately authorised and processed in a timely manner;
  - Those deductions for employee pension contributions, Childcare Voucher s, Corporate Gym Membership schemes and repayments of season ticket loans sampled had been processed accurately and in a timely manner;
  - Overtime claims are submitted on a standard Overtime Claim Form and those sampled had been signed-off by the claimant and authorised by the claimant's line manager;
  - Information flows from HR to Finance are timely and enable the monthly payroll to be processed in order to meet payment deadlines; and
  - There is clear segregation of duties of preparation and approval of the BACS Batch Payment runs.

### Areas of good practice

- 5.3 Through our testing, we highlighted one particular area of good practice which related to Heads of Department receiving monthly Departmental Costing Analysis reports which enable them to confirm that staffing costs are appropriately allocated to their cost centres and to aid budgetary monitoring and control.

### Areas for further improvement

- 5.4 We identified certain areas where there is scope for further improvement in the control environment. The matters arising have been discussed with management, to whom we have made a number of recommendations. The recommendations have been, or are being, addressed as detailed in the management action plan (Section 6 below).

6. ACTION PLAN

**Risk 3:** Financial losses arising from fraud or error, inefficient processing or inappropriate activity (such as, ghost employees, payment of staff who no longer work at the Council, unauthorised payments, etc).

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
6.1	<p><i>Observation:</i> In review of a sample of 20 'acting-up payments' made in the current financial year it was noted:</p> <ul style="list-style-type: none"> <li>- In one case (employee reference 313) an allowance had been correctly calculated and pro-rated for the part of May 2011, however, in June 2011 the pro-rated amount was paid again rather than a full month resulting in an underpayment of £57.68;</li> <li>- of the nine members of staff for which the payments related to, six received 15% of their employee's salary in their substantive position as stated in the Employee Handbook. In the remaining three cases one member of staff received 20% and two received 5%.</li> </ul> <p>During the audit we were informed that the Acting-Up Allowance policy is currently being reviewed and updated.</p> <p><i>Risk:</i> Acting-Up Allowances are not correctly calculated or paid potentially resulting in financial loss and / or reputational damage.</p>	<p>The underpayment of £57.68 should be corrected in the next payroll run. Care should be taken to ensure that the correct acting-up allowance is paid.</p> <p>The Employee Handbook should be updated to reflect the practice of acting-up allowances not always being paid at 15% of the salary of the employee's substantive position. In addition, the sections relating to Overtime / TOIL and Redundancy should be updated when these policies are reviewed.</p>	<p>Housekeeping</p> <p>Housekeeping</p>	<p>Item noted. Correction was made in following month.</p> <p>Noted. Policies have been reviewed and employee handbook was updated in August 2011.</p>	<p>N/a</p> <p>N/a</p>

**Risk 3:** Financial losses arising from fraud or error, inefficient processing or inappropriate activity (such as, ghost employees, payment of staff who no longer work at the Council, unauthorised payments, etc).

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
6.2	<p><i>Observation:</i> Finance receive an HR Pack on a monthly basis which includes the HR Summary spreadsheet and relevant supporting documentation detailing starters; leavers; contractual variations; acting-up allowances; changes to address etc.</p> <p>Whilst our review confirmed that this information was received by Finance , in a timely manner and before the deadline of the 15<sup>th</sup> of the month , as there is currently no direct interface between the HR Systems and Sage, the information has to be entered again on to Sage.</p> <p>It is noted that a review of the HR system is planned to be undertaken.</p> <p><i>Risk:</i> Holding two databases with staff details and duplication of data entry are unlikely to be an efficient use of resources.</p> <p>Errors are more likely to arise where data is re-keyed.</p>	As part of the planned review of the HR system, consideration should be given to a more effective interface between the HR and Payroll systems to avoid duplication in entry of data.	Housekeeping	Project proposal to review HR & partners information systems, including link to payroll to be submitted to Executive team in November 2011. If agreed will form part of 2012/13 project plan.	Director of Finance Timescales pending outcome of Executive Team meeting November 2011

## Appendix 1 – Definitions of Assurance Levels and Recommendations

We use the following levels of assurance and recommendations in our audit reports:

Assurance Level	Adequacy of system design	Effectiveness of operating controls
Full Assurance:	There is a sound system of control designed to achieve the system objectives.	All controls operate effectively promoting the achievement of system objectives.
Substantial Assurance:	While a basically sound system of control exists, there is some scope for improvement.	While controls are generally operating effectively, there is some scope for improvement.
Adequate Assurance:	While a generally sound system of control exists, there are weaknesses which put some of the system objectives at risk.	While controls are generally operating effectively, there are weaknesses which put some of the system objectives at risk.
Limited Assurance:	Control is generally weak leaving the system open to significant error or abuse.	Control is generally weak leaving the system open to significant error or abuse.
No Assurance:	No controls are in place.	Controls are ineffective or it is not possible to assess their effectiveness.

Recommendation Grading	Definition
Priority 1 (Fundamental)	Recommendations represent fundamental control weaknesses, which expose . HPC to a high degree of unnecessary risk.
Priority 2 (Significant)	Recommendations represent significant control weaknesses which expose . HPC to a moderate degree of unnecessary risk.
Priority 3 (Housekeeping)	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.