

Audit Committee, 15 June 2016

Internal Audit Report – Core Financial Controls

Executive summary and recommendations

**Introduction**

As part of the Internal Audit Plan for 2015-16, Grant Thornton have undertaken a review of the core financial controls, focussing on the payroll and partner payment process.

**Decision**

The Audit Committee is asked to discuss the report.

**Background information**

See Grant Thornton's report, attached

**Resource implications**

None

**Financial implications**

Grant Thornton's agreed fees for 2015-16 were £46k including VAT.

**Appendices**

Internal Audit Report – Core Financial Controls

**Date of paper**

03 June 2016



**Grant Thornton**

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## The Health and Care Professions Council

### Core financial controls review

Last updated 24 May 2016

Distribution		Timetable	
For action	Andy Gillies, Finance Director	Fieldwork completed	23 May 2016
		Draft report issued	24 May 2016
For information	Audit Committee	Management comments	01 June 2016
		Final report issued	02 June 2016

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## Glossary

- 1 The following terms are used in this report:
- 5 Access Access Group, formerly Action File Limited (current outsourced payroll provider)
- Core Core Computer Consultants Limited (new outsourced payroll provider with effect from November 2016)
- 16 HCPC The Health and Care Professions Council
- 19 HR Human Resources
- KPI Key Performance Indicator
- SLA Service Level Agreement

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It is the responsibility solely of the Health and Care Professions Council's management to ensure that there are adequate arrangements in place in relation to risk management, governance and control.

# 1 Executive Summary

## 1.1 Background

As part of our 2015-16 Internal Audit Plan, it was agreed with the Audit Committee and Management that Internal Audit would undertake a core financial controls review that would focus on payroll and partner payment processes would perform a review examining the policies, procedures and controls within Health and Care Professions Council's ('HCPC').

The HCPC is a regulator whose primary objective is "to safeguard the health and well-being of persons using or needing the services of registrants". To do this, HCPC maintain a register of health and care professionals who meet their standards for training, professional skills, behaviour and health. As of 31 March 2015, the HCPC regulated c 330,000 individuals, known as registrants, from the 16 professions they regulate.

HCPC's annual expenditure included the following two major sub categories:

- Employee costs, which represented c £10.5 million annual cost for 2015-16 across 215 FTE staff
- Partner payments, which were c £4.1 million for 2015-16. Partners are HCPC registrants, members of the public and legal professionals who play roles in the regulatory process. There are a number of partner roles including CPD assessors, Legal assessors, Panel chairs, Panel members, Registration assessors and Visitors.

HCPC has made changes to the processes through which both these key expenditure areas are controlled, with a view to making processes more efficient, timely and effective both from HCPC and from staff and partner perspective. This includes:

- For payroll, there are plans to move to the current outsourced partner to a new outsourced payroll provider in November 2016. The new outsourced provider (Core Computer Consultants Limited ('Core')) is also the same provider deploying the new Human Resources ('HR') system. Responsibility for executing payroll is split across HR, Finance and the outsourced provider
- For partner payments, HCPC has streamlined the process so that each commissioning department provides schedules of actual partner work undertaken to Finance who execute payments against these schedules. This payment process involves the commissioning department authorising payment via WAP system workflow. Under the new process, Finance pay partners proactively according to the schedules of actual partner work provided by commissioning Departments, rather than waiting for invoices to be received from partners.

All HCPC Departments that engage partners, with the exception of FTP, have moved to the new partner payment process. We understand that FTP will be moving to this new partner payments process over the next few months.

## 1.2 Scope

The objective of this review was to consider the following key areas of control in relation to employee payroll at HCPC:

- Payroll master data – Starters, leavers and changes to standing data; appropriate segregation of duties between HR and Finance regarding payroll processing tasks
- Payroll calculation – Deductions from pay; payroll calculations; payroll disbursements; and payroll account reconciliations
- Pension control account – Whether pension deductions are being made; pension control account
- Efficiency of HR data to payroll – Information flows between HR, Finance and the outsourced provider; identification and correction of errors; efficiency of split of roles and responsibilities, including a high level assessment of the new outsourced payroll provider.

Our review also considered partner payments from Registration, Partners and Education Departments in relation to:

- Notification of actual partner work and payment schedule, and nature of validation checks
- Uploading partner payment details on the WAP invoice approval module by Finance
- Post payment checks and reconciliations.

Further details on responsibilities, approach and scope are included in Appendix A.

## 1.3 Overall assessment

Overall, it was evident during our review that the policies, procedures and controls surrounding the payroll and partner payment processes at HCPC were in the main well designed.

HCPC are in the early stages of defining their relationship with Core, their new payroll outsourced provider from November 2016. As a result, we were only able to conduct a high level assessment of how HCPC are anticipating the split of payroll responsibilities between themselves and Core, along with the transition plan from Access to Core. From this review we identified some areas for Management's attention. Furthermore, we also have identified a number of areas where the design of payroll processing controls could be improved under the new HR system and payroll provider, particularly around:

- Commencement of HR team led periodic reviews of payroll deductions to assess whether deductions from individual employees payroll are accurately calculated
- Ensuring that all pension and payroll control account reconciliations are independently reviewed, with evidence of preparer and approver review captured by the Finance team
- Formalisation of whether the HR or Finance team will hold the relationship with the new outsourced provider, and how this contract will be effectively managed e.g. via regular meetings and reporting
- Review of payroll reports provided by the outsourced payroll provider with the objective of simplifying how payroll information is presented to enable efficient and effective review by HCPC.

Our review also identified the following areas where partner payment controls should be improved:

- Ensuring that HCPC commissioning department conduct a quality control check of actual work completed by partners before this list is sent to Finance for processing and payment. Furthermore, individuals

collating this list of actual work completed should not also be responsible for authorising payments

- Sage system functionality to combine payment runs in the system before a payment file extract is run, in order to prevent manual manipulation of payment files.

Refer to Appendix B for definitions of internal audit issue ratings.

The table below details the key findings from our review.

### 1.4 Key findings

Risk / Process	High	Medium	Low	Info.
1. control account reconciliations	-	1		-
2. outsourced payroll provider	-	1	-	-
3. payroll deductions	-		1	
4. payroll reports provided by outsourced partner	-	-	1	-
5. HR review			1	
6. partner work completion		1		
7. payment files	-	-	1	-
8. policies and procedures	-	-	1	-
<b>Total</b>	-	<b>3</b>	<b>5</b>	-

The following findings were rated as Medium:

- **Payroll:** Pension and payroll control account reconciliations are performed on a monthly basis by the Finance team. Whilst we were able to obtain evidence that reconciliations had been completed, there was no sign-off by the preparer or reviewer to ensure that these had been performed in a timely manner and subject to independent review.

- **Payroll:** At the time of our review, HCPC:
  - Were not holding regular meetings with their outsourced payroll provider, Access.
  - Were not receiving any contract reports (including reporting on key performance indicators and service level agreement) from Access.
  - Were in the process of determining who within the organisation would be the relationship manager for the new outsourced payroll provider, Core. As a result, the nature of reporting and meetings for this new provider still needed to be determined.
- **Partners:** Schedules of work completed by partners are not always quality checked by the commissioning department before being sent to Finance for processing. Furthermore, authorisation of partner payments by Departments may be provided by the same individual who prepares the schedule of work that is submitted to Finance, leading to a lack of appropriate segregation of duties.

Further details of our findings and recommendations are provided in Section 2 of this report.

### 1.5 Basis of assessment

Our review of the HCPC's payroll and partner payment arrangements has confirmed the presence of a number of control activities that support effective management of payroll and partner payments. Whilst we report by exception, in addition to the issues raised within the findings section of this report, we draw attention to the following areas of good or adequate control/risk management:

- All HCPC staff we spoke with during our review were aware of their roles, responsibilities and the processes to be followed with regards to payroll and/or partner payments

- HR maintains a centralised Lotus Notes database which captures all forms raised to amend payroll masterfile data, including new starters, changes to contractual terms, and leavers
- Season ticket loans are tracked on a monthly basis by Finance and compared against payroll deduction calculations of the outsourced payroll provider
- The Finance team utilise electronic storage of documentation, including payment run authorisation, wherever possible to promote efficiency and minimise storage requirements within the Department
- Finance holds monthly meetings with each Department to discuss expenditure including actual partner payments against budget, focussing on causes of variances and trends. A summary of these variances is also captured in monthly Management Accounts
- Departments have set up their own operational monitoring spreadsheets to track all work allocated to partners, and ensure that only where this work is completed to an acceptable quality will a payment request be sent to Finance for processing.

### **1.6 Acknowledgement**

We would like to take this opportunity to thank the staff involved for their co-operation during this internal audit.

## 2 Detailed Findings

### 2.1 Payroll

<b>1.</b>	<b>Medium</b>	<b>Sign off of control account reconciliations</b>
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Finding and Implication	Proposed action	Agreed action ( <i>Date / Ownership</i> )
<p>The HCPC Finance team conduct monthly reconciliations of payroll and pension control accounts. Testing during our audit identified that whilst control account reconciliations are being prepared by Finance, there is currently no sign-off by the preparer or reviewer. We acknowledge that recent changes in staffing, and financial year end, have put pressure on the Finance team and may have contributed to this issue.</p> <p>There is a risk that without independent review of control account reconciliations, any errors or issues in the reconciliation may not be picked up and further investigations conducted.</p>	<p>Finance should ensure that all control account reconciliations are signed off by both the preparer and the reviewer. Evidence of this sign off should be retained for audit trail purposes.</p>	<p>Finance will perform review of the balance sheet during and after the month end (as part of our new journal review process). Review of the balance sheet reconciliations will be documented electronically in the Finance drive.</p> <p><i>Date Effective:</i> 01/06/2016</p> <p><i>Owner:</i> Finance department</p>

<b>2.</b>	<b>Medium</b>	<b>Management of HCPC's outsourced payroll provider</b>
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Finding and Implication	Proposed action	Agreed action ( <i>Date / Ownership</i> )
<p>At the time of our review, HCPC were not holding regular meetings with their outsourced payroll provider (Access) to discuss common payroll processing errors and/or contract performance. Furthermore, HCPC are not receiving regular reports from Access on key performance indicators (KPI) or service level agreements (SLA).</p> <p>HCPC are in the process of determining who will be the relationship manager for the new outsourced payroll provider (Core). Until this relationship manager is appointed, KPI and SLA reporting, and regulation contract meetings need to be formalised.</p> <p>Without regular meetings and reports from Access, there is a risk that poor performance is not identified and resolved in a timely manner.</p>	<p>HCPC should appoint a relationship manager for the new payroll service provider as soon as possible. Consideration should be given to this role sitting with the HCPC HR team given the service provider are also developing and supporting a new HR system.</p> <p>HCPC should also agree with Core the nature of regular contract meetings and KPI / SLA reporting are required. These meetings and reports should be formally documented as part of the contract between HCPC and Core.</p>	<p>For the new payroll bureau system, a relationship manager will be appointed to deal with general queries with the supplier and to hold meetings with CoreHR. This person is likely to sit with HR, however Finance will communicate findings from monthly check to HR and assist in setting KPIs and attending meetings when required.</p> <p>HR department will hold the contract with Core.</p> <p><i>Date Effective:</i> Nov/Dec 2016 (Implementation of new payroll bureau system)</p> <p><i>Owner:</i> HR department</p>

<b>3.</b>	<b>Low</b>	<b>Periodic review of payroll deductions</b>
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Finding and Implication	Proposed action	Agreed action ( <i>Date / Ownership</i> )
<p>HR are responsible for managing pension and corporate gym membership payroll deductions from HCPC employees. The deductions themselves are calculated by the outsourced payroll provider (Access) as part of wider payroll calculations.</p> <p>A periodic review of pension and corporate gym membership payroll deductions is not being conducted by HR to ensure these remain up-to-date (e.g. corporate gym membership is still being used by the employee) and accurately reflect internal records held by the HCPC HR team (e.g. employee pension contribution levels).</p> <p>Pension reports are generated by both Access and HCPC Finance which set out the monthly pension deductions for each employee. Whilst these reports could be used to perform a reasonableness check of pension deductions, they do not enable completeness or accuracy of pension deductions to be assessed.</p> <p>Without regular, independent checks of payroll deductions by HCPC, there is a risk that payroll payments made to employees are not accurate.</p>	<p>HR should conduct a periodic review of all pension and corporate gym membership payroll deductions against outsourced payroll provider records. This review should look to ensure that payroll deductions are only being taken from employees who have corporate gym memberships and/or have not opted out of pension contributions. Furthermore, this review should also include a spot check of payroll deductions to ensure these align with supporting records maintained by HR (such as pension contribution levels).</p>	<p>The gym deduction amount is confirmed by HR and then communicated to Access.</p> <p>The gym deduction amounts have been confirmed with employees for 2015-2016. Next review is due November 2016.</p> <p>Currently Finance do checks on the payroll deductions, however this is not well documented and the checks only apply to changes recorded in the check report from HR.</p> <p>The rate of all current employee and employer pension contributions will be checked.</p> <p>Going forward under the new HR system, we will ensure deductions are reviewed and spot checks are done by the HR department each month. Checklists will be produced to ensure this is done and reviewed.</p> <p><i>Date Effective:</i> Pension contribution checks by end of June 2016. Other actions in Nov/Dec 2016 (aligned with the implementation of new payroll bureau system)</p> <p><i>Owner:</i> HR department</p>

<b>4.</b>	<b>Low</b>	<b>Payroll reports prepared by HCPC's outsourced payroll provider</b>
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Finding and Implication	Proposed action	Agreed action ( <i>Date / Ownership</i> )
<p>HR employees we spoke to as part of this review noted that the current payroll reports prepared by Access do not present information in a way that meet their needs. In particular, it was felt that current reports present information in an overly complex format, hindering HR's ease of payroll oversight and review.</p> <p>For example, Access generate a 'Net Pay' report which sets out the changes made to payroll masterfile that month. This report, whilst received by HR, is not currently being reviewed as part of the authorisation of payroll. HR are instead reviewing payslips for those employees whose payroll masterfile data has changed.</p>	<p>HCPC should work with the new outsourced payroll supplier, Core, to ensure that payroll reports are fit-for-purpose to allow oversight and review of payroll by HR.</p>	<p>Monthly checks are done on payslips and the payslips will show deduction items. The current reports are not user friendly and this is something we will focus on when designing the reports for the new system.</p> <p>During the designing phase of the new payroll system, we will hold several meetings with the supplier to ensure reports meet the need of both HR and Finance departments and will be user friendly.</p> <p><i>Date Effective:</i> June – October (Designing phase of the payroll bureau system)</p> <p><i>Owner:</i> HR/Finance</p>

<b>5.</b>	<b>Low</b>	<b>Evidence of HR review of payroll</b>
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Finding and Implication	Proposed action	Agreed action ( <i>Date / Ownership</i> )
<p>We were informed during our audit that HR Advisors, the HR Manager and Head of HR Operations review payslips for all employees who have had a change in the payroll masterfile data to ensure that payroll calculations appear accurate. However, this review is not currently being documented by HR and we were therefore unable to evidence that these reviews were occurring as part of our audit.</p> <p>Furthermore, our sample testing of new starters identified that a New Starter Form (available on Lotus Notes) had not been completed for one out of ten employees sampled. This employee had previously been a temporary employee and had changed into a permanent position. However, a New Starter Form should have been completed when they commenced permanent employment.</p> <p>Without regular reviews of payroll processing by HR, there is a risk that HCPC may not make accurate payroll payments to employees.</p>	<p>HR should commence documenting the payroll reviews they perform and retain these reviews for audit trail purposes.</p> <p>The Head of HR Operations should remind the HCPC Managers of the importance of completing New Starter Forms for all new starters, including where individuals move from temporary to permanent employment.</p>	<p>Currently the HR Co-ordinator checks the payslips against the changes and the HR Manager/ Head of HR Ops reviews any errors identified with the HR Co-ordinator.</p> <p>The Quality Monitoring Sheet is used to capture any issues/ errors which have been identified by HR and Finance during the checking process each month. An email is also sent by the HR Co-ordinator responsible for that month's payroll to Finance when the check reports have been checked and HR are happy that no further changes need to be made.</p> <p>Under the new payroll system, we will produce a monthly checklist and will ask the preparing and reviewer to both sign the checklist physically or electronically to show that review has been done.</p> <p>The incident where a new starter form was not completed was a one off. The employee in question was firstly a temp, then employed in a permanent position in a different department, and then transferred to another permanent role in the original department, . Upon moving back to this role, a new starter form was not completed. HR department would normally make sure new starter forms are filled out for all employees.</p> <p><i>Date Effective:</i> Nov/Dec 2016 (Implementation of new payroll bureau system)</p>

1.	Executive summary
2.	Detailed Findings
	Appendices

<b>5.</b>	<b>Low</b>	<b>Evidence of HR review of payroll</b>
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Finding and Implication	Proposed action	Agreed action ( <i>Date / Ownership</i> )
		Owner: HR department

## 2.2 Partner Payments

6.	Medium	Approval of partner work completed
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Finding and Implication	Proposed action	Agreed action ( <i>Date / Ownership</i> )
<p><b>Departmental Review</b></p> <p>HCPC Departments maintain their own operational spreadsheets which record the work completed by partners e.g. the date and length of training sessions partners attend. Extracts of these operational spreadsheet showing the nature of work performed by partners are sent to Finance for processing of payments. Discussions with the Registration Department and Partners Department during our review identified that quality assurance checks of the accuracy and completeness of spreadsheet records do not always occur until after these spreadsheets have been sent to Finance for processing.</p> <p>We acknowledge that Departments are required to authorise payments and therefore are provided with this further opportunity to assess the accuracy and completeness of partner work conducted before payments are processed. Additionally, partners are likely to raise their own queries where incomplete, or no, payment has been received (due to error in Departmental spreadsheets).</p> <p><b>Payment Authorisation</b></p> <p>Authorised Managers from the relevant HCPC Department must approve partner transactions before payments to partners are made. We understand from the Purchase Ledger Officer and Partners Department team that Authorised Managers can approve the same partner transactions they submitted to Finance. As a result there is a risk that inappropriate partner payments are made due to a lack of independent review.</p>	<p>HCPC Departments should conduct a quality check of spreadsheets setting out partner work completed before these are sent to Finance for processing. This check should include a reasonableness assessment of the total amount of partner work completed during the period against their general knowledge; along with a spot check of individual partner work to supporting documentation.</p> <p>Finance should review individuals who have the ability to approve partner payments in the WAP system, ensuring these are not the same individuals who submit spreadsheets to Finance for processing.</p>	<p>We are looking to implement checklist/sign off sheets for departments to complete before sending lists of partner fees payable to Finance, which can document the preparer of the data and the reviewer of the data. This will ensure the departments check the data for reasonableness.</p> <p>Individual who can both approve and submit only refer to one authorising manager in Education, where the person who sends us the information is also one of the final approvers on WAP for the entries.</p> <p>When finance post the records on the WAP system, they are checked and approved by a different person in first instance before this is then send back to the person who sent the information for final approval. Therefore there is independent review in place.</p> <p><i>Date Effective:</i> Departmental checklist/sign off sheet: Q2 2016</p> <p><i>Owner:</i> Finance department</p>

<b>6.</b>	<b>Medium</b>	<b>Approval of partner work completed</b>
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Finding and Implication	Proposed action	Agreed action <i>(Date / Ownership)</i>
<p>We acknowledge that notification of payments requiring approval will be sent to multiple Authorised Managers in each Department which enables oversight from multiple employees, not just the individual who provides the final approval. This is also to provide cover for authorised for when they are on leave or out of office, by having a few delegate meant partner payment is not delayed.</p>		

<b>7.</b>	<b>Low</b>	<b>Payment files</b>
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Finding and Implication	Proposed action	Agreed action ( <i>Date / Ownership</i> )
<p>In order to process partner payments, a .txt payment file must be extracted from the Sage Finance system and uploaded into the Lloyds banking system. The partner payment file is combined with up to three other payment files whilst in .txt format to minimise the number of Lloyds payment files that signatories must authorise.</p> <p>Due to Finance's manual amalgamation of the .txt partner payment file with other payment files, there is a risk that the value or bank account details of individual payments could be altered. In other organisation, we see hash total control checks be introduced, which raise an alert when a .txt payment file is entered into Lloyds that differs from what was extracted from the Sage Finance system. However, as the .txt payment file is being combined with other payment files, it is not currently possible to implement this control in the HCPC environment. We do acknowledge that documentation is provided when the paperwork is presented to the signatories in an appropriate format.</p>	<p>The Finance team should investigate whether the Sage Finance system can combine multiple payment files together before extracting this combined payment run as a .txt file.</p> <p>If Sage Finance system functionality allows a single payment file to be created, the Finance team should implement a hash total check on this .txt file. This hash total would identify any amendments made between the export from Sage and input into the Lloyds banking system.</p> <p>In the interim, the Finance team should consider implementing a spot check of individual line items from the Lloyds partner payment report against the partner payment file in Sage to ensure no amendments have been made. This spot check should not be undertaken by the Treasury Accountant in order to ensure segregation of duties are in place.</p>	<p>Currently, we cannot create one file that holds partners, suppliers and staff payment details, which are split into their own groups.</p> <p>The way Sage is set up we would be forced to import three separate files into Lloydslink, resulting in there being 4 payment files, including one-offs and refunds, for signatories to approve. This will also result in higher bank charges due to the volume of transaction.</p> <p>We can use hash totals to check files have not been manipulated. The payment signatories check the BACS total to the underlying listings, providing an independent review.</p> <p><i>Date Effective:</i> N/a</p> <p><i>Owner:</i> Finance department</p>

**2.3 General**

<b>8.</b>	<b>Low</b>	<b>Procedural documentation – payroll and partner payments</b>
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Finding and Implication	Proposed action	Agreed action ( <i>Date / Ownership</i> )
<p><b>Payroll</b></p> <p>HCPC's outsourced payroll provider (Access) have developed procedural documentation for the payroll activities they complete on behalf of HCPC. At the time of our audit this procedural documentation had recently been updated and had yet to be reviewed by HCPC to ensure that changes appear appropriate. In our experience, changes to procedure documentation (particularly that of third party service providers) must be reviewed and agreed upon in a timely manner as changes to processes may weaken the control environment and could lead to payroll processing errors.</p> <p>Furthermore, the current internal process flow documentation maintained by HCPC does not cover all payroll activities performed by HR and Finance teams. For example, this does not detail the nature of checks performed by HR and Finance over payroll before this is processed by Access.</p> <p>Without up-to-date and comprehensive guidance material, there is a risk that a change in staff involved in payroll processing may lead to key activities not being performed efficiently or key controls within the payroll process not being adhered to.</p> <p><b>Partner Payments</b></p> <p>The current partner payment process flow documentation maintained by HCPC does not cover all partner payment activities performed by Finance and relevant Departments. For example, it does not currently include how to input</p>	<p>The HCPC HR and Finance teams should review recent amendments to Access's payroll procedural documentation to ensure that these appear reasonable, and feedback any changes they feel should be made to ensure a robust control environment is in place.</p> <p>The HCPC HR and Finance teams should provide formal approval for all amendments required by Access to their procedural documentation going forward.</p> <p>The HCPC HR and Finance teams should expand the current payroll flow documentation to cover all key payroll processing activities. Additionally, this procedural guidance should be updated to reflect changes in processes due to movement to the new outsourced payroll provider.</p> <p>The HCPC Finance team, and other relevant Departments across the organisation involved in partner payments, should expand the current partner payment flow documentation to cover all key activities in this area.</p>	<p>A new detailed process note for payroll will be produced as part of the new payroll and HR system. We will ensure that if CoreHR propose a change to the procedures in the future, this will get sign offs from HCPC first.</p> <p>The only amendment to Access's payroll procedures was the change to the calculation for mid-month salary increase. This is updated in the payroll procedures manual and have now been reviewed by HCPC.</p> <p>We will look to update the process notes for partner payments once FTP has been transferred to this process and checklist/sign off sheet has been agreed with all departments.</p> <p><i>Date Effective:</i></p> <ul style="list-style-type: none"> <li>Payroll: Nov/Dec 2016 (Implementation of new payroll bureau system)</li> <li>Payment process – Q2/3 2016</li> </ul> <p>Owner: Finance department</p>

<b>8.</b>	<b>Low</b>	<b>Procedural documentation – payroll and partner payments</b>
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Finding and Implication	Proposed action	Agreed action ( <i>Date / Ownership</i> )
<p>partner payments into WAP, and how Departments should maintain their own records of partner work completed.</p> <p>Without up-to-date and comprehensive guidance material, there is a risk that a change in staff involved in processing partner payments may lead to key activities not being performed efficiently or key controls within the partner payment process not being adhered to.</p>		

## A Internal audit approach

### Approach

Our role as internal auditor is to provide objective and independent assurance to the Audit Committee and Management that risks are being managed successfully for each of the areas being audited.

As part of our 2015-16 Internal Audit Plan, it was agreed with the Audit Committee and Management that Internal Audit would perform a review examining the policies, procedures and controls in place over key elements of HCPC's payroll and partner payment processes.

We achieved our audit objectives by:

- Meeting with audit sponsors and other key contacts to gain an understanding of the processes in place and the risk areas, building upon information gained through the audit planning process
- Reviewing key policies, procedures and other documents to support management's representations
- Assessing the adequacy of design and operational effectiveness of key controls through testing a sample of items.

The findings and conclusions from this review will support our annual opinion to the Audit Committee on the adequacy and effectiveness of internal control arrangements.

### Additional information

#### Client staff

The following HCPC employees were consulted as part of this review:

- Andy Gillies, Finance Director
- Marche Thomas, Purchase Ledger Officer
- Daniel Dawit, Treasury Accountant
- Suellen Vassell, Financial Accountant
- Georgia Akuffo-Kumih, Head of HR Operations
- Kim Wilcox, Human Resources Manager
- Samuel Yemane, Registration Department
- Deborah Dawkins, Partners' Department.

#### Documents received

The following documents were received during the course of this audit:

- Payroll process and procedure documentation
- Partner payment process and procedure documentation
- Payroll masterfile change forms
- Starters, leavers and payroll masterfile data change log for FY 2015-16
- Supporting documentation for masterfile changes selected for testing
- Outsourced payroll provider contracts
- Tender and project documentation for new payroll project
- Departmental operational spreadsheets tracking work completed by partners

- Departmental spreadsheets sent to Finance with work completed by partners
- Supporting documentation for partner payments selected for testing.

**Locations**

The following location was visited during the course of this review:

Health and Care Professions Council  
Park House  
184 Kennington Park Road  
London SE11 4BU

## B Definition of audit issue ratings

### Audit issue rating

Within each report, every audit issue is given a rating. This is summarised in the table below.

Rating	Description	Features
<b>High</b>	Findings that are fundamental to the management of risk in the business area, representing a weakness in control that requires the immediate attention of management	<ul style="list-style-type: none"> <li>• Key control not designed or operating effectively</li> <li>• Potential for fraud identified</li> <li>• Non compliance with key procedures / standards</li> <li>• Non compliance with regulation</li> </ul>
<b>Medium</b>	Important findings that are to be resolved by line management.	<ul style="list-style-type: none"> <li>• Impact is contained within the department and compensating controls would detect errors</li> <li>• Possibility for fraud exists</li> <li>• Control failures identified but not in key controls</li> <li>• Non compliance with procedures / standards (but not resulting in key control failure)</li> </ul>
<b>Low</b>	Findings that identify non-compliance with established procedures.	<ul style="list-style-type: none"> <li>• Minor control weakness</li> <li>• Minor non compliance with procedures / standards</li> </ul>
<b>Improvement</b>	Items requiring no action but which may be of interest to management or best practice advice	<ul style="list-style-type: none"> <li>• Information for department management</li> <li>• Control operating but not necessarily in accordance with best practice</li> </ul>

## C Improvement already being progressed at time of the audit (for information)

**During our audit we identified a number of areas where management were already making progress on enhancing processes and controls. Rather than making these format recommendations, we note below our observation and action already being progressed.**

### **BACS authorisation**

#### *Our observation*

Our sample testing of BACS partner payments identified that three out of the ten BACS payment approvals were approved by 'KHAIRASA'. We understand that this approver is Sarita Wilson who has recently changed her name. This individual's new name has been captured on the HCPC Delegation of Authority, however this had not been updated within the Lloyds BACS payment authorisation system at the time of our review.

#### *Management's action and closing comment*

What is showing on Lloydslink is only a user name. These wouldn't necessarily show full names of the signatories. Furthermore, we have full documentation to prove who all the Lloydslink approvers are. Having spoken with Lloydslink, we cannot change Sarita's username unless we remove her altogether and set her up again, this would be time consuming and inefficient.

### **Validation of bank account changes**

#### *Our observation*

HCPC's payroll masterfile is maintained by the outsourced payroll supplier (Access). Changes to this masterfile are captured on a monthly change spreadsheet by HCPC HR and Finance teams and sent to Access for processing.

Bank account numbers for new HCPC employees, and changes to existing employee bank account numbers, are not currently being checked for validity by HCPC before these are sent to Access. We have seen other similar organisations perform this review using tools within their Finance/HR systems, or external tools used solely for this purpose.

Without a check of this nature there is a risk that employees do not receive their pay due to invalid bank account details being captured in the payroll masterfile.

*Management's action and closing comment*

As mentioned by the HR manager during the audit, Core HR already contains this validation tool. Additionally, an employee will be required to enter their system password when changing their bank account details for a further level of security.

## **Electronic payslips**

*Our observation*

HCPC employees are currently provided with a physical payslip, printed by the outsourced payroll provider (Access). The cost of this printing is passed onto HCPC, increasing the overall cost of monthly payroll processing. Across the sector we are seeing more organisations moving towards electronic payslips which can be either sent directly to employees, or downloaded by employees directly from a system.

*Management's action and closing comment*

HCPC is planning to work with the new outsourced payroll supplier, Core, to enable payslips to be retrieved by employees electronically through the new HR system. This will reduce printing costs for HCPC and may enhance payroll processing efficiency as the Finance team will no longer need to distribute payslips to employees..



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