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AUDIT COMMITTEE REPORT

Subject: Internal Audit Assignment – Payroll	**Purpose:** **For Approval** ☒ **For Discussion** ☐ **For Information** ☐
Prepared by: Peter D Smith, Vice Principal – Finance and Resources	**Date:** 04 May 2017

Purpose: To consider the findings of the internal audit assignment on Payroll and approve the management responses and any further actions.

Linked to Strategic Goal 5: Build Sustainability.

Executive Summary:

Attached is the Internal Auditor's report on the review of the College's Payroll arrangements. The report concludes that: -

"*We can provide strong assurance on the design and effectiveness of the key payroll controls, including the processing and authorisation of monthly payroll runs and any masterfile changes, including the processing of new starts and leavers and any other amendments.*"

There is one medium-level recommendation as a result of this audit and the management response to this is included in the report.

Eleven areas of good practice are also identified in the report.

Recommendation: Committee are invited to consider and approve the report and management response, with further actions as necessary.

Previous Committee Approvals: n/a

For publication ☒	**For publication with redactions** ☐	**Not for publication** ☐

Signed:

Vice Principal – Finance and Resources

Wylie+Bisset
Chartered Accountants, Business & Tax Advisers

Borders College

Internal Audit 2016-17

Payroll
March 2017

Overall Conclusion
Strong

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The matters raised in this report came to our attention during the course of our audit and are not necessarily a comprehensive statement of all weaknesses that exist or all improvements that might be made.

This report has been prepared solely for Borders College's individual use and should not be quoted in whole or in part without prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any third party.

We emphasise that the responsibility for a sound system of internal control rests with management and work performed by internal audit should not be relied upon to identify all system weaknesses that may exist. Neither should internal audit be relied upon to identify all circumstances of fraud or irregularity should there be any although our audit procedures are designed so that any material irregularity has a reasonable probability of discovery. Every sound system of control may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas that are considered to be of greatest risk and significance.

1 EXECUTIVE SUMMARY

Overview

Purpose of Review

The purpose of this review was to assess the design and effectiveness of the key payroll controls, including the processing and authorisation of monthly payroll runs and any masterfile changes, including new starts and leavers, and other amendments. We examined the reconciliation and reporting controls in place, and the integration of the payroll system with the HR and finance systems.

This review formed part of the 2016/17 Internal Audit Plan.

Scope of Review

Our objectives for this review were to ensure:

- Amendments to the payroll are appropriately reviewed and authorised prior to being processed through the payroll system.
- Wages and salaries are accurately stated in the accounting system.
- Staff are only paid for the hours that they have worked.
- Expense claims are appropriately authorised by the employees line manager and where necessary include the relevant supporting documentation.
- Gross and net pay are calculated correctly, with appropriate documentary evidence held to support any additions and/or deductions.
- Leavers are appropriately removed from the system and final payments are accurately pro-rated.
- New starts are accurately entered onto the payroll system and are paid appropriately.

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- The payroll is subject to checking and approval by a senior member of staff prior to being finalised.
- Severance packages have been calculated in accordance with the terms of the scheme.
- Access to the payroll system is restricted. There are appropriate access rights in place for payroll staff.
- The Payroll system is appropriately integrated with the HR and finance systems.

Our approach to this assignment took the form of discussion with relevant staff, review of documentation and where appropriate sample testing.

Limitation of Scope

There is was limitation of scope.

Background

Payroll within the College is the responsibility of the HR Department and operated through the HR system, Chris 21. There are five members of the HR Department, these being the HR Manager, the HR & Payroll Officer, the HR Advisor, the HR Officer and the Modern Apprentice. The HR Department are responsible for the calculation and processing of the monthly payroll. This involves ensuring:

- Payroll is calculated correctly;
- New starts are processed correctly on the system;
- Leavers are processed correctly and subsequently removed from the system;
- Timesheets and expenses have been correctly authorised by the staff members line manager and processed;
- Any amendments to personnel details have been correctly authorised and processed. Examples include a change in job title or change in pay grade.

1 EXECUTIVE SUMMARY

Following the calculation of the monthly payroll, the HR Department run reports for the Head of Finance & Procurement. These contain details of that month's payroll which are then reviewed and authorised. Following this the Head of Finance & Procurement will authorise the BACS run prior to it being paid. Once the payroll has been authorised the monthly payroll information is transferred to the SUN Accounting system from the Chris 21 system. The integration between the systems allows for this to be completed via the transfer of an interface file.

There were five voluntary severance payments made within the year. The College received nine applications for voluntary severance but the Senior Management Team reviewed the applications and awarded this to 5 staff members. The severance payments were in line with the Scottish Funding Councils guidelines.

1 EXECUTIVE SUMMARY

Conclusion

Overall Conclusion

Overall Conclusion: Strong

We can provide strong assurance on the design and effectiveness of the key payroll controls, including the processing and authorisation of monthly payroll runs and any masterfile changes, including the processing of new starts and leavers and any other amendments. We have raised one medium grade recommendation for improvement, please see section 3.

Summary of Recommendations

Grading of recommendations

	High	Medium	Low	Total
Payroll	0	1	0	1

As can be seen from the above table there were no recommendations made which we have given a grading of high.

Areas of Good Practice

The following is a list of areas where the College is operating effectively and following good practice.	
1.	Access to the HR payroll software, Chris 21, is restricted to the HR Department and the Head of Finance & Procurement, with each member having their own login and password to ensure there is no unauthorised access.
2.	There were five severance payments made within the year. We note that all payments were calculated correctly and in accordance with the terms of the scheme and agreed by the SFC.
3.	From our sample of three months' payroll we can confirm that the payroll was appropriately reviewed and authorised before being processed.
4.	From our sample of five new starts tested we found that their details had been accurately entered on to the system and their first wage was calculated correctly.
5.	From our sample of five leavers tested we found that their final wage had been calculated correctly and following this they were removed from the payroll system.
6.	From our sample testing of five employees we found that their salary and deduction calculations were being carried out correctly.

1 EXECUTIVE SUMMARY

The following is a list of areas where the College is operating effectively and following good practice.	
7.	From our sample testing of five expense claims, we can confirm that each claim was completed and authorised correctly before being processed.
8.	From our sample testing of five employees we can confirm that each timesheet and overtime form was completed and authorised prior to being processed.
9.	From our sample of three monthly payroll reconciliation's, we can confirm they were carried out to a satisfactory level and no issues were found during our testing.
10.	From our sample of five amendments to the payroll tested we found that the amendments procedure had been followed with the change of details form being completed and authorised before being entered into the system by the HR & Payroll Officer.
11.	There is strong integration between the HR system, Chris 21, and SUN Accounts, the accounting system. The monthly payroll is imported on to the SUN Accounts by the HR & Payroll Officer.

2 BENCHMARKING

We include for your reference comparative benchmarking data of the number and ranking of recommendations made for audits of a similar nature in the most recently finished internal audit year.

Payroll

Benchmarking				
	High	Medium	Low	Total
Average number of recommendations in similar audits	1	1	3	5
Number of recommendations at Borders College	0	1	0	1

From the table above it can be seen that the College has a lower number of recommendations compared to those colleges it has been benchmarked against.

3 DETAILED RECOMMENDATIONS

IT Access			
Ref.	Finding and Risk	Grade	Recommendation
1.	When a staff member's employment is coming to an end the HR Department have a responsibility to inform the ISLT Department of the employees leaving date. The ISLT Department should be informed prior to their last day of work to ensure that system access is cancelled on this day. During our review we found that most of the leavers still had access to the College intranet system following their last day of work at the College until the payroll is run. From discussions with ISLT we note that this would allow the ex-employee to view the information on the College intranet but they would not be able to alter this information. Currently the HR Department inform the ISLT Department of the employees leaving date following completion of the last payroll run they are on. The HR Department informed us that this was to ensure that the employees still had access to their payslips via the College intranet system. However, following a discussion with the ISLT Department it was stated that staff do not need access to the College's system to access their payslips and this can be done through an external link on the College's website. There is a risk that confidential information could be accessed by non-staff members.	**Medium**	We recommend that the HR Department notify IT of staff leaving dates before or on the day of a staff member's employment being terminated so the system access can be closed appropriately. If ISLT are notified in advance of the employees last working day, they can program the system to ensure that the employees access is stopped on that day.

3 DETAILED RECOMMENDATIONS

Management response	Responsibility and implementation date
Agreed. A process has already been put in place to notify ISLT as soon as a leaver is identified.	*Responsible Officer:* Head of HR and Development *Implementation Date:* Complete

5 AUDIT ARRANGEMENTS

The table below details the actual dates for our fieldwork and the reporting on the audit area under review. The timescales set out below will enable us to present our final report at the next Audit Committee meeting.

Audit stage	Date
Fieldwork start	20 March 2017
Closing meeting	24 March 2017
Draft report issued	7 April 2017
Receipt of management responses	26 April 2017
Final report issued	28 April 2017
Audit Committee	18 May 2017
Number of audit days	2

6 KEY PERSONNEL

We detail below our staff who will undertake the review together with the College staff we shall require to speak to during our review.

Wylie & Bisset LLP			
Partner	Ross McLauchlan	Partner	ross.mclauchlan@wyliebisset.com
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Borders College			
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Key Contact	Debbie Kerr	Head of HR & Development	dkerr@borderscollege.ac.uk
Key Contact	Lesley MacAskill	HR & Payroll Officer	lmaca@borderscollege.ac.uk
Key Contact	Sara Halliday	Head of Finance & Procurement	shall@borderscollege.ac.uk

Wylie & Bisset appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and co-operation.

APPENDICES

A GRADING STRUCTURE

For each area of review we assign a level of assurance in accordance with the following classification:

Assurance	Classification
Strong	Controls satisfactory, no major weaknesses found, no or only minor recommendations identified.
Substantial	Controls largely satisfactory although some weaknesses identified, recommendations for improvement made.
Weak	Controls unsatisfactory and major systems weaknesses identified that require to be addressed immediately.
No	No or very limited controls in place leaving the system open to significant error or abuse, recommendations made require to be implemented immediately.

A GRADING STRUCTURE

For each recommendation we assign a grading either as High, Medium or Low priority depending on the degree of risk assessed as outlined below:

Grading	Classification
High	Major weakness that we consider needs to be brought to the attention of the Audit Committee and addressed by senior management of the College as a matter of urgency.
Medium	Significant issue or weakness which should be addressed by the College as soon as possible.
Low	Minor issue or weakness reported where management may wish to consider our recommendation.

Purpose of Review

The purpose of this review is to assess the design and effectiveness of the key payroll controls, including the processing and authorisation of monthly payroll runs and any masterfile changes, including new starts and leavers, and other amendments. We will examine the reconciliation and reporting controls in place, and the integration of the payroll system with the HR and finance systems.

This review will form part of the 2016/17 Internal Audit Plan.

Scope of Review

Our objectives for this review are to ensure:

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- Leavers are appropriately removed from the system and final payments are accurately pro-rated.
- New starts are accurately entered onto the payroll system and are paid appropriately.
- The payroll is subject to checking and approval by a senior member of staff prior to being finalised.

- Severance packages have been calculated in accordance with the terms of the scheme.
- Access to the payroll system is restricted. There are appropriate access rights in place for payroll staff.
- The Payroll system is appropriately integrated with the HR and finance systems.

Our approach to this assignment took the form of discussion with relevant staff, review of documentation and where appropriate sample testing.

Limitation of Scope

There is no limitation of scope.

Audit Approach

Our approach to the review has been:

- Discussion with key personnel to establish the current arrangements for payroll.
- Evaluating these arrangements to confirm their adequacy.
- Review of documentation to confirm that policies and procedures are in place, up to date and comply with relevant legislation and good practice.
- Testing to confirm that procedures are being adhered to by relevant staff
- Testing to confirm that payroll is being correctly calculated, authorised and recorded.
- Review of the integration between the payroll system and the HR and finance systems.

Potential Key Risks

The potential key risks associated with the area under review are:

- The payroll system may not be properly integrated with the HR and finance systems.
- Unauthorised amendments may be processed, leading to unauthorised payments being made to employees or unauthorised deductions being made.
- Staff are paid for hours that they have not worked.
- Expense claims are not genuine or are unauthorised expenses.
- Gross salaries and statutory deductions are incorrectly calculated resulting in incorrect payments being made to employees.
- Final salaries are not adjusted to reflect the employee's leaving date. Leavers continue to be paid after their last date of employment.
- Staff loans/equipment provided to employees are not recovered when the employee leaves the College.
- New starts salaries are not adjusted to reflect their start date.
- In the absence of approval at an appropriate level, the payroll may be manipulated with incorrect payments being made to certain employees.
- The College have not correctly applied the terms of their severance scheme resulting in incorrect payments being made to former employees.
- Unauthorised users gain access to payroll system and sensitive employee data.
- Payroll costs are not accurately recorded in the accounting system resulting in inaccurate management and year end statutory accounts.