D

AUDIT COMMITTEE REPORT

Subject: Internal Audit Assignment - Payroll	**Purpose:** **For Approval** ☒ **For Discussion** ☐ **For Information** ☐
Prepared by: Hazel Robertson, Vice Principal – Finance and Corporate Services	**Date:** 8 May 2019
Purpose: To consider the audit report on the College's Payroll system.	
Linked to Strategic Goal 3: Provide a high quality College experience.	
Executive Summary: The audit report on the management of the College's payroll is attached. Overall conclusion is strong with one medium and one low recommendation.	
Recommendation: Committee consider and approve the findings of the report.	
Previous Committee Approvals: n/a	

For publication ☒	**For publication with redactions** ☐	**Not for publication** ☐

Wylie+Bisset
Chartered Accountants, Business & Tax Advisers

Borders College

Internal Audit 2018-19

Payroll
May 2019

Overall Conclusion
Strong

TABLE OF CONTENTS

Section **Page**

1 EXECUTIVE SUMMARY 2
2 BENCHMARKING 10
3 DETAILED RECOMMENDATIONS 11
4 AUDIT ARRANGEMENTS 14
5 KEY PERSONNEL 15

Appendix **Page**

A GRADING STRUCTURE 17
B ASSIGNMENT PLAN 19

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 the 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 assignment 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 will examine the reconciliation and reporting controls in place, and the integration of the payroll system with the HR and finance systems.

This assignment was agreed as part of the 2018/19 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.
- The Payroll system is appropriately integrated with the HR and finance systems.
- To gain assurance that there are appropriate procedures in place for the processing and recovery of overpayments.
- 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.
- 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.

1 EXECUTIVE SUMMARY

- 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.

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 was no limitation of scope.

1 EXECUTIVE SUMMARY

Background

The College's payroll is managed within the HR Team, which consists of the: Head of HR and Development, HR Officer, HR and Development Advisor, HR Administrator, vacant Information Officer and Job Evaluation officer (3 month contract). The College has two types of pay for its staff: salaried and part time/ fixed term, and these are managed separately. Salaried staff are paid the same amount every month and therefore are only subject to control checks such as month on month comparisons. Part time/ fixed term staff must submit timesheets monthly to be reviewed and signed by their line manager, before being added to the payroll. This is because these staff often submit varying hours (mostly due to changing teaching schedules). The HR Officer will not finalise their hours and include them in the payroll run unless their timesheet has been approved.

The College utilises the CHRIS HR and Payroll system, which only the staff within the Payroll Team have access to. Storage of the College's HR and payroll information is largely paper based and is all held in the HR Department's office in locked cupboards to ensure safekeeping. Due to the paper-based processes, the College's HR Officer does need to review all the timesheets manually and then enter the total into the system. A more integrated system (potentially where timesheets could be submitted electronically) would help simplify and refine the process.

The College pays its employee expenses in the monthly payroll run, and these require signing off from a member of the Senior Leadership Team (SLT) for approval before being processed. Much like timesheets, the payroll staff will not process an expense if it has not been sufficiently approved.

As the HR and Payroll processes involve the same staff, the College has put controls in place to prevent a member of the team falsifying an employee or inputting the incorrect details for a new start. These are prevented by the Head of HR and Development having to review and approve all new starts, with correspondence also involving the Senior Management Team (SMT) ie Principal or one of the two Vice Principals for the new start's department. In a similar way, all leavers are removed from the payroll by the HR officer following their last month of pay. Their files are then retained in line with GDPR; however, they no longer appear as live on the payroll.

To finalise the process, the HR Officer sits with the Finance Officer to finalise the payroll amount for the month, adding the figures to the final BACS run, noting any differences month on month to ensure all employees are being accurately paid. The relevant reports are then run by the HR Officer and the payment is signed off as authorised by the Head of Finance (or authorised deputy).

Any amendments or overpayments are identified during the control checks and where it is not possible to amend for the current month's payroll, the HR Officer will calculate the amendments which is then reviewed and approved by the Head of HR and Development before being added to the employee's payslip as an adjustment. Any adjustments will be communicated to the employee by either email or letter to ensure they are aware of the reason for which they are being over/ underpaid.

Work Undertaken

Our work for this review included the following:

- Discussions with the Head of HR and Development and the HR Officer to establish the current arrangements for payroll.
- Evaluating these arrangements to confirm their adequacy in line with good practices.
- Review of the relevant documentation to confirm that policies and procedures are in place, up to date and comply with relevant legislation and good practice.
- Sample testing to confirm that procedures are being adhered to by relevant staff.
- Sample testing to confirm that payroll is being correctly calculated, authorised and recorded, and any errors are being identified and resolved.
- Review of the integration between the payroll system and the HR and finance systems, ensuring appropriate reconciliations are being carried out.

1 EXECUTIVE SUMMARY

Conclusion

Overall conclusion

Overall Conclusion: Strong
We are able to provide strong assurance over the controls and procedures in place surrounding the payroll process at the College. We have raised two recommendations for how the process can be improved.

Summary of recommendations

Grading of recommendations				
	High	Medium	Low	Total
Payroll	0	1	1	2

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.	The College holds all of its payroll information in the Human Resources office, which also has a walkway through to the Finance Department. As the majority of payroll information is stored in hard copy format (i.e. timesheets, payroll listings, reconciliations), these are all kept in locked cupboards which only the HR/ Payroll Team have access to as the door is otherwise locked. All cupboards are then locked by the HR Officer at the end of the day, and the keys stored in another locked drawer. The CHRIS Payroll System can only be accessed by the: Head of HR and Development, HR Officer, HR and Development Advisor, and the HR Administrator.
2.	We tested a sample of leavers in the year to determine if their severance pay had been correctly calculated. The Head of HR and Development calculates the employee severance and attaches the calculation to the employee's file on the payroll run. We noted that the outgoing employees' severance had been calculated in line with procedures.
3.	We tested a sample of payroll runs for sufficient authorisation and noted that once the figures have been reconciled and the totals agreed, the payroll is processed for payment. We noted that the payroll runs sampled had been sufficiently authorised by the Head of Finance (or authorised deputy) prior to payment.

1 EXECUTIVE SUMMARY

The following is a list of areas where the College is operating effectively and following good practice.	
4.	The College pays its salaries on a monthly basis, with all part-time staff (those who submit timesheets) being paid a month in arrears. All starters to the College provide the HR department with their personal details via a new start form, the remuneration for which is confirmed by the Head of HR with the relevant department. The information from this form is then input into the system by the HR Officer which is then reviewed by the Head of HR for accuracy, and the form is signed by both members of staff. The payroll runs for salaried staff are all filed in hard copies, and as such, prior to the month of starting, there will be no record of them on the payroll run. All timesheet employees can be seen in the CHRIS system and as such the employee's start date and first pay date can be seen at a glance. We tested a sample of starters in the year and agreed that their information was correct and that they had not been included on any payroll runs prior to joining.
5.	The HR Officer deals with processing leavers, and calculates their final pay based on their: salary/timesheet hours (prorated where necessary), any severance pay, any holiday pay, any expenses and any owings which they have to the College. This is then reviewed as part of the final payroll run. The total is then added to the payroll run and paid. The employee is then removed from the payroll runs in the future. We tested a sample of leavers and gained assurance that all leavers were paid and subsequently removed from the system.
6.	Any expense claims must be made via an expense claim form on which the employee states the nature of the expense, the cost and the total. This should then be taken to the staff member's SLT Manager for sign off and approval. This is then taken to the HR department for addition to the run. The team will not process the expense form until the SLT Manager approval has been given.
7.	All timesheets and overtime forms must be agreed and approved by the member of staff's Line Manager before being processed as part of the payroll. We tested a sample of both timesheets and overtime forms and agreed that all were sufficiently reviewed and approved and also that all hours per the timesheets were correctly recorded on the payroll processing form.

1 EXECUTIVE SUMMARY

The following is a list of areas where the College is operating effectively and following good practice.	
8.	We tested a sample of 3 payroll reconciliations in the year and agreed that the figures per the CHRIS System and those per the Finance system agreed. We also noted that this had been reviewed by the Head of HR and Development.
9.	We tested a sample of amendments and noted that the HR Officer has processed them in line with the Payroll Manual and they have been reviewed and approved by the Head of HR and Development.
10.	Per the Payroll Manual, the report from the CHRIS system is input into the SUN Finance system to finalise and run the payroll, as such the integration is sufficient for the job which is required by the staff. The figures are also reconciled which confirms that the migration of data is successful.
11.	We discussed the recovery process for the cases of overpayment with the Head of HR and Development and the HR Officer at the College. We noted that due to the checks made of the payroll figures for each employee month on month, identifying an overpayment manually is the most effective method. As part of our amendments sample, we tested the process for where an overpayment was identified and how it was resolved. This is done by identifying a difference in the payroll and being unable to justify it at first glance, then further investigation identifies there has been an error made. The item we tested was an overpayment due to an error in the CHRIS system regarding the employee's base rate. This was then resolved and the money was recouped in the following month's payroll. This was a figure lower than £1 and as such the College is demonstrating good practice by not making any material overpayments.

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	0	1	1	2
Number of recommendations at Borders College	0	1	1	2

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

3 DETAILED RECOMMENDATIONS

Digitisation			
Ref.	Finding and Risk	Grade	Recommendation
1.	A key part of the payroll process is the submission, review and authorisation of timesheets, which, in larger Colleges, is more commonly done online. This mitigates some of the risk of human error, and refines the process, allowing the staff more time for analysis. During our review, we found that the College operates a largely paper based timesheet and expenses system. This occupies a great deal of the HR Officer's time ensuring all of the documents have been authorised by the relevant staff member. The risk is that analysis time is restricted and the HR Officer does not get the opportunity to sufficiently analyse the data. There is also the risk that an employee's hours may be uploaded to the system incorrectly.	**Medium**	We recommend that the College considers the possibility of implementing a digital timesheet processing system.
Management response			Responsibility and implementation date

We agree that an electronic timesheet system would be more efficient however it is not a case of simply switching on this functionality. Further work is required to improve operational processes for completion and authorisation of timesheets. We do not agree that manual processes carry a higher risk of employee hours being incorrectly loaded to the system. This is evidenced by the lack of overpayments requiring recovery. The HR Officer is able to check against contract that the correct hours are being claimed. It is often the case that approved timesheets have hours claimed which should not have been (eg during holiday periods/strike days). If timesheets are electronically uploaded these checks will not be possible by the HR Officer therefore Increasing the risk of overpayments. The timesheet module is ready to be piloted and we will develop a plan for installation after an appointment has been made to vacant post within HR.	*Responsible Officer:* Head of HR and Development *Implementation Date:* We will develop an implementation plan by August 2019

3 DETAILED RECOMMENDATIONS

Overpayments Procedure			
Ref.	Finding and Risk	Grade	Recommendation
2.	Overpayments are not a common occurrence within the College, however, they are often identified during month on month checks carried out by the HR Officer. Despite the payroll staff dealing with overpayments in an appropriate manner, the procedure is not specifically documented within the manual. The risk is that the process could be applied inconsistently by different staff members, increasing the risk of error.	**Low**	We recommend that the Payroll Manual be updated with a procedure note for the overpayments process.
Management response			Responsibility and implementation date
We agree that there is a risk that processes are not clearly documented and understood. We do not believe that this introduces a risk that overpayments are not rectified, which is evidenced by this report. We are content that this is a low risk recommendation. This will be added to the payroll manual.			*Responsible Officer:* Head of HR and Development *Implementation Date:* May 2019

4 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	15 April 2019
Closing meeting	16 April 2019
Draft report issued	26 April 2019
Receipt of management responses	1 May 2019
Final report issued	3 May 2019
Audit Committee	16 May 2019
Number of audit days	2

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.

5 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
Senior Manager	Stephen Pringle	Senior Internal Audit Manager	stephen.pringle@wyliebisset.com
Senior	Andrew Collins	Internal Audit Senior	andrew.collins@wyliebisset.com

Borders College			
Key Contact	Debbie Kerr	Head of HR & Development	dkerr@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 assignment 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 assignment was agreed as part of the 2018/19 Internal Audit Plan.

Scope of review

Our objectives for this review are 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.
- The Payroll system is appropriately integrated with the HR and finance systems.
- To gain assurance that there are appropriate procedures in place for the processing and recovery of overpayments.
- 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.
- 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.

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 will be:

- 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.

It should be noted that any testing will be undertaken on a sample basis.

Potential key risks

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

- Unauthorised amendments may be processed, leading to unauthorised payments being made to employees or unauthorised deductions being made.
- The payroll system may not be properly integrated with the HR and finance systems.
- The risk is that overpayments could be made due to either processing errors or manual calculation errors.
- Staff are paid for hours that they have not worked.
- Expense claims are not genuine or are unauthorised expenses.
- 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 has 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.