



TRANSPORT FOR THE NORTH

Core Financial Controls: Payroll

FINAL

Internal audit report: 5.18/19

3 June 2019

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1 EXECUTIVE SUMMARY

1.1 Background

A review of the payroll processes at Transport for the North (TfN) was undertaken as part of the approved 2018/19 Internal Audit Plan.

TfN uses the Talent module in the Dynamics 365 system to record employee data and payroll information. Access to the payroll processing rights in the Talent system is restricted to authorised staff. Responsibility for generating monthly payroll payment files has been outsourced to an external company (Hawsons), who generate the files based on payroll data provided by TfN. Responsibility and deadlines for carrying out monthly internal validation checks on the payment files is shared between TfN's Human Resources (HR) and Finance Team, as detailed in TfN's payroll process document. A range of validation checks are carried out before the payroll payment files are approved and processed in the Dynamics 365 system.

When TfN was established in 2018 several members of staff were transferred from Transport for Greater Manchester, West Yorkshire Combined Authority and Mersey Travel, under TUPE. These members of staff have therefore been excluded from our sample of new starters for this audit. TfN processed its first payroll payment in July 2018 and staff are paid on the 15th of each month. At the time of audit (week commencing 11 March 2019), 112 members of staff were employed by TfN. Since July 2018, there have been 22 new starters and 13 leavers. The values of the payroll payments (gross plus on-costs) from July 2018 to February 2019 are provided below:

Month	Budgeted Payroll Costs (£)	Actual Payroll costs (£)	Variance (£)
July 2018	548,349	525,717	22,632
August 2018	552,704	545,581	7,123
September 2018	597,498	558,426	39,072
October 2018	578,605	559,905	18,700
November 2018	602,588	567,347	35,241
December 2018	614,251	578,021	36,230
January 2019	611,068	585,752	25,316
February 2019	626,389	575,360	51,029
Total	4,731,452	4,496,109	235,343

New starter, leaver and amendment forms are used to obtain approval for changes to payroll data that are processed in Talent. A payroll signatory list is maintained that details staff that are authorised to approve and process payroll forms.

Our review has focused on the controls in place to ensure that payroll payments are correctly made in a timely manner and are adequately controlled and recorded within associated systems in accordance with agreed requirements and controls.

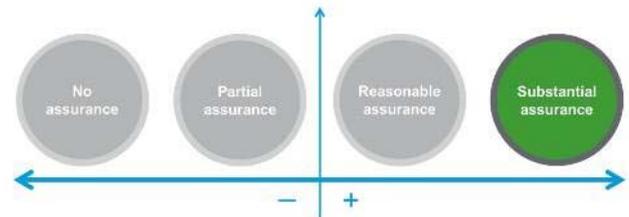
1.2 Conclusion

Through the work we performed we confirmed that TfN has a robustly designed control framework in place, to support its payroll activities, for example in relation to payroll policies and procedures and approval of payroll forms. We also noted that robust controls were in place to ensure that an appropriate level of validation and approval is conducted prior to the processing of monthly payroll payments. We identified one area relating to granting access to the payroll system where the control design could be strengthened through the development of a new user form. We have agreed a 'low' priority action in relation to this.

Through the sample testing we carried out we confirmed that controls were being consistently complied with for all areas tested. We have provided an overall 'substantial' assurance opinion.

Internal audit opinion:

Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage the identified areas are suitably designed, consistently applied and operating effectively.



1.3 Key findings

The key findings from this review are as follows:

Policies and procedures

- Documented Financial Procedures are incorporated within the TfN Constitution, which was approved by the Board in April 2018. The Financial Procedures include references to payroll activities and are accessible to staff via the TfN intranet.
- TfN Financial Procedures are supported by a range of payroll procedure notes detailing TfN's payroll activities. We confirmed that a payroll process document, detailing information on the monthly payroll activities, was in place and accessible to HR staff via the team's shared drive. We also confirmed that a range of procedure notes, relating to payroll worker set up, termination, bank detail and ledger journal uploads were in place and accessible to relevant staff.
- We confirmed that the TfN payroll authorised signatory list was up to date and all staff included on the list were still employed by TfN at the time of our review. From our review of the signatory list we noted that payroll responsibilities have been assigned to members of staff of significant seniority.
- We identified that four members of staff from TfN were granted access to the payroll processing module in Talent when the system was implemented in preparation for the first payroll payment run in July 2018. We confirmed that these members of staff were still employed by TfN and were of appropriate seniority for the responsibilities allocated to them. We confirmed that no additional member of staff had been granted access since the system was implemented. There are two members of staff that have administration rights in Talent that can provide staff with access to the payroll module. We were informed that approval from the Head of HR and Head of IT is required before staff are granted access. As there have not been any requests a request form has not yet been developed. We have agreed a management action in this area.

Starters, leavers and amendments

- For samples of ten new starters, ten leavers and ten amendments to payroll data (each selected from system-generated reports for the period 1 July 2018 to 1 March 2019), we confirmed that a new starter/leaver/amendment form had been fully completed, signed and dated by a member of HR, in accordance with the payroll signatory list. We confirmed that all forms had been approved by a member of HR and Finance and processed by HR, in accordance with the payroll signatory list. In addition, all forms had been processed on Talent in a timely manner.
- For all ten new starters reviewed in our sample, we confirmed that the employee's start date, salary and grade details had been accurately recorded in Talent and all new starters received their first payment in the correct month, in accordance with the payroll cut off dates.
- For all ten leavers reviewed in our sample, we confirmed that leave dates and last day of service had been accurately recorded in Talent. We also confirmed that none of the ten leavers had been paid following their leaving date and their final salary payment included necessary deductions such as holiday pay, course fees and remaining salary sacrifice schemes.
- For all ten amendments to payroll data reviewed in our sample, we confirmed that these had been accurately recorded in Talent and the changes had been reflected in the subsequent payroll payments.

Review, authorisation and payments

- Payroll variance reports are generated each month to compare actual pay with base pay and actual pay with the previous month's pay, for each employee. For a sample of five payroll payments processed since July 2018, we confirmed that variance reports had been produced for four of the five months in the sample and all variances over £1 had been investigated. Variance reports had not been produced for one month in the sample (August 2018). We were informed that variance reports were introduced for the September 2018 payroll and therefore were not produced prior to this date. Therefore, no management action has been raised. We have at section 1.5 below suggested that management consider a higher threshold than £1 for investigation of variances, as this may make the process more efficient.
- For the sample of five payroll payments reviewed, we confirmed that verification checks had been carried out each month. The checks consisted of bank details reviews, payroll files reviews, multiple bank and payment checks, payslip reviews and salary payment template checks. We confirmed that independent review of the payroll files generated by Hawsons had been carried out by Finance and HR each month.
- For the sample of five payroll payments reviewed, we confirmed that a salary payment template had been approved by HR and Finance in accordance with the payroll signatory list for all five months. We also confirmed that for each month reviewed, the BACs salary payment had been approved by two authorised approvers prior to the BACs payroll payment being made.
- For the sample of five payroll payments reviewed, we confirmed that a payroll payment journal had been uploaded to the general ledger. In all instances the payroll payment journal reconciled to the payroll salary payment template and the general ledger control account, providing assurance that the correct amount had been posted.
- For the sample of five payroll payments reviewed, we confirmed that monthly establishment reviews had been carried out as part of the payroll review and validation process. Where necessary, narrative was included on the establishment reports to indicate changes from the previous month such as new starters.

1.4 Additional information to support our conclusion

The following table highlights the number and categories of management actions made. The detailed findings section lists the specific actions agreed with management to implement.

Area	Control design not effective	Non-Compliance with controls	Agreed actions		
			Low	Medium	High
Policies and procedures	1	0	1	0	0
Starters, leavers and amendments	0	0	0	0	0
Review, authorisation and payments	0	0	0	0	0
Total			1	0	0

1.5 Additional feedback

We have identified the following examples of good practice during this audit:

- New starter, leaver and amendment forms are well designed to ensure that they are approved in accordance with the payroll signatory list, prior to forms being processed. The forms contain the job title of staff that need to approve the forms to mitigate the risk of processing forms that have not been appropriately approved.
- A range of automated checks, such as multiple bank and payment checks for employees, are performed each month using pre-defined formulas, as part of the monthly payroll payment validation checks. This enables verification checks to be carried out on all employees data to identify errors before the payroll file is processed.

We have also identified innovation or good practice at similar organisations that TfN may wish to consider:

- We noted that monthly reports are generated to identify variances in staff pay compared to base pay and previous months pay. Variances over a threshold of £1 were investigated. This threshold is considered reasonable given the relatively low number of individuals employed at TfN (112 at the time of our audit). If staff levels increase the current threshold for the investigation of variances may become excessive and TfN could at that stage consider increasing this to a higher value.

2 DETAILED FINDINGS

Categorisation of internal audit findings

Priority	Definition
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible regulatory scrutiny/reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, regulatory scrutiny, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
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Area: Procedural documentation

2.1	<p>Payroll system access</p> <p>Access to the payroll system is restricted to authorised staff. To gain access to the payroll system authorisation from management is required. A new user form has not been developed to ensure that</p>	Partial	N/A	<p>We obtained a system-generated report detailing staff with access to the payroll processing module in the Talent system and confirmed that four members of TfN staff have been set up as users.</p> <p>All four members of TfN staff with access to the system were granted access when the system was set up for the first payroll payment in July 2018. Therefore, new user requests were not required to set up these users. We reviewed the job titles of the four staff members with access to the system and confirmed that all four members of staff are</p>	Low	Management will develop a new user request form to ensure that documented authorisation is obtained for staff granted access to payroll processing module in the Talent system.	End of May 2019	Head of HR/ Head of IT (Jointly)
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Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
	documented authorised is obtained for new users.			<p>of appropriate seniority for the responsibilities given to them.</p> <p>We confirmed that no additional members of staff have been granted access to the system since the system went live. We obtained a report from the system which confirmed that two members of TfN staff (Head of IT and IT Data and Security Officer) are set as system administrators and therefore authority to allocate user access to the payroll system is restricted to these two members of staff.</p> <p>Through discussion with the Financial Controller and the Head of IT we were informed that access to the payroll processing module can only be granted following authorisation from the Head of HR and the Head of IT. As there has not been any requests to date, a new user request form has not been developed.</p> <p>Without the use of a new user request form to document authorisation to grant new users access to the system, there is a risk that access to the system may be granted without the necessary authorisations.</p>				

APPENDIX A: SCOPE

The scope below is a copy of the original document issued.

Scope of the review

The scope was planned to provide assurance on the controls and mitigations in place relating to the following areas:

Objectives of the area under review

To ensure that payroll payments are correctly made in a timely manner and are adequately controlled and recorded within associated systems in accordance with agreed requirements and controls.

When planning the audit, the following areas for consideration and limitations were agreed:

Areas for consideration:

- Policies and procedures
 - Financial Regulations detail the requirements for the maintenance and management of the payroll system.
 - Policies and procedures held that details the day to day processes.
 - Access to the payroll system is restricted to nominated staff with user rights allocated according to roles and responsibilities.
 - An authorised signatories list is held that provides information on staff who can authorise payroll related documents.
- Starters, leavers and amendments
 - Authorisation is held to support all new starters, including salary/grade etc.
 - Data is input accurately to the payroll system.
 - Authorisation is held to support all leavers, including last date of service. Identification and recovery of outstanding monies as a result of late submission of documentation.
 - Data is input accurately to the payroll system and leavers removed from the system on a timely basis
 - Authorisation is held to support all amendments to standing data.
 - Data is input accurately to the payroll system.
- Review, authorisation and payments;
 - Exception reports are produced from the payroll, i.e. nil payments, changes from last month etc.
 - Proposed payroll reports are subject to verification checks.

- Payment authorisation is obtained before the payroll run is processed.
- The payroll control account is reconciled following each payment run.
- Payroll reports are subject to completion and independent review.
- Establishment checks.

Limitations to the scope of the audit assignment:

- The review will only consider staff paid through the payroll system.
- We will not consider the appropriateness of payments made to staff, only that these are the correct amounts due to them.
- The audit will not include any recalculation of PAYE deductions.
- This audit will not include expense payments made to staff.
- We will not test the accuracy of National Insurance or pension deductions or those amounts paid over to relevant third parties.
- Testing will be against authorised starter leaver and amendment forms, not to contracts.
- We will not comment on the organisation's recruitment process.
- We will not make comment on the operation or appropriateness of the pension fund.
- We will not re-perform reconciliations.
- Any testing undertaken will be done so on a sample basis.

Our work does not provide absolute assurance that material errors, loss or fraud do not exist

APPENDIX B: FURTHER INFORMATION

Benchmarking

We have included some comparative data to benchmark the number of management actions agreed, as shown in the table below. In the past year, we have undertaken a number of audits of a similar nature in the sector.

Level of assurance	Percentage of reviews	Results of the audit
Substantial assurance	42.27%	✓
Reasonable assurance	44.33%	
Partial assurance	13.4%	
No assurance	0%	

Management actions	Average number in similar audits	Number in this audit
	4.1	1

From our review of the above benchmarking the data, we ascertained that TfN is performing well compared to other organisations, regarding both the assurance opinion and number of management actions raised.

FOR FURTHER INFORMATION CONTACT

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