

NHS Lothian Internal Audit Report 2021/22 Payroll

Assurance Rating: **Limited Assurance**

Date: February 2022

Final Report

Contents

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Timetable

- Date closing meeting held: 12/01/2022
- Date draft report issued: 19/01/2022
- Date management comments received: 03/02/2022
- Date Final report issued: 07/02/22
- Date presented to Audit and Risk Committee: 21/02/22

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Executive Summary

Introduction

NHS Lothian has recently implemented the Electronic Employee Support Service (eESS). eESS is the NHS Scotland Human Resource Information System which links to other systems such as the Scottish Standard Time System (SSTS), Payroll, and LearnPro. It is used for managing employee information and undertaking core Human Resource, Payroll and learning management transactions relating to an employee's employment with NHS Lothian.

SSTS processes time and attendance information across NHS Lothian, including overtime. Overtime payments are exported to ePayroll both weekly and monthly so that staff receive their additional payments in a timely manner.

A suite of standard operating procedures are available to support the use of eESS, however, the system should be configured to ensure compliance with local NHS Lothian policies.

Scope

The objective of the audit was to evaluate the adequacy and effectiveness (design and operation) of the key internal controls over payroll and overtime processing.

We have considered the controls in place to the following risks to the organisation:

- Employee standing data is incomplete and not accurate, which could result in a failure to pay employees, incorrect payments being made or failure to pay employees in a timely manner.
- Changes to employee standing data are not authorised, and an audit trail is not maintained. This could allow errors or fraudulent changes to be made to standing data resulting in compliance breaches and possible legislative action.
- Payments to employees are incomplete and not processed in a timely manner. This can result in missing payment deadlines which may create unrest amongst employee's, cause reputational damage to the organisation, be considered a breach of the employees contract leading to possible legal action, and result in delays submitting reports to HMRC.
- Pay-run checks are not performed, resulting in exceptions not being identified before processing and as such inaccurate payments being made resulting in dissatisfaction amongst employee's, possible reputational damage to the organisation, possible legal action by employees and errors in reporting to HMRC.

- Additional payments to employees, including overtime payments, are not accurate or authorised by an appropriate individual, in line with delegated authorities. This could allow fraudulent additional payments being entered into SSTS/ePayroll, resulting in financial and legal consequence to the organisation
- Changes to delegated authorities (by services) are not communicated in a timely manner to the SSTS/Finance team, resulting in delegated authorities being outdated and inaccurate. This may lead to finance/SSTS continuing to accept approval from employees who no longer have the authority to do so, and so allowing inaccurate changes to be processed.
- Reconciliations are not performed for data transfers from SSTS and Payroll, this may result in errors in payments occurring, resulting in financial consequence to the organisation.

Approach

We have undertaken interviews with staff and performed sample testing relating to the processing of changes and leavers. Additionally, we performed sample testing on overtime payments made and ensured they were appropriately authorised against the Authorised Signatories Database (ASD).

The period of testing covered by this review was 1 April 2021 to the 31 December 2021. As such, the controls in place during the COVID pandemic (hybrid/remote working) have formed the basis of our review.

A complete list of staff involved in the audit and documents reviewed can be seen at Appendix 1.

Acknowledgments

We would like to thank all staff consulted during this review for their assistance and cooperation.

Limitations in Scope

Please note that our conclusion is limited by scope. It is limited to the risks outlined above. Other risks that exist in this process are out with the scope of this review and therefore our conclusion has not considered these risks. Where sample testing has been undertaken, our findings and conclusions are limited to the items selected for testing.

Our work did not include input of hours worked to SSTS, however it did consider the approval of such payments in SSTS and them being transferred to payroll for processing.

Our work includes testing assurances over the resilience plans, the role of IA is not to test the plans themselves.

This report does not constitute an assurance engagement as set out under ISAE 3000.

Summary of Findings

We have concluded that the controls in place in respect of NHS Lothian's payroll function provides a **LIMITED** level of assurance. The table below provides a summary of the findings. The ratings assigned are based on the agreed internal audit rating scale (**Appendix 2**).

Detailed findings, recommendations and agreed management actions are found in Section 2 of this report.

Limited Assurance with improvement required			
HIGH	MEDIUM	LOW	ADVISORY
1	1	1	-

Ref	Issue	H	M	L	A
2.1	<p>Risk area as per scope: Payments to employees are incomplete and not processed in a timely manner.</p> <p>ePayroll not updated to reflect changes to December 2021 pay dates.</p>	1	-	-	-
2.2	<p>Risk area as per scope: Employee standing data is incomplete and not accurate.</p> <p>Finance dashboard audit reports are not scrutinised or monitored.</p>	-	1	-	-
2.3	<p>Risk area as per scope: Employee standing data is incomplete and not accurate.</p> <p>Payroll Desktop Instructions are not regularly reviewed and updated, nor is there evidence they have been read and understood by staff.</p>	-	-	1	-
TOTAL		1	1	1	-

Conclusion

Whilst there is a framework of control around the administration and management of Payroll, it was identified that no monitoring is undertaken to be assured that budget managers are reviewing the reports which inform them if their WTE payments against their budgets are accurate. The Payroll Desktop Instructions have not been updated to reflect the hybrid/agile working pattern. More significantly ePayroll was not updated to reflect the changes to the December 2021 paydate. This resulted in the intended pay date being missed by one day. Management are currently undertaking a lessons learned exercise to fully understand how the payment date was missed on this occasion.

Main Findings

Following the completion of our fieldwork we were made aware of an issue in December 2021, where pay dates were brought forward from 30 December 2021 to 23 December 2021, this is normal practice to allow staff to receive pay prior to Christmas. The change was not updated within ePayroll and as a result monthly paid staff were paid the day later than expected, on the 24 December 2021.

NHS Lothian have Payroll Desktop Instructions in place for the payroll function. Whilst these documents are available to applicable staff on the payroll departments shared drive there is no assurance that staff have read and understood these documents. The guidance has not been updated and reviewed since 2017, despite the introduction of eESS and introduction of agile working. As a result the guidance may not be reflective of current practice.

Assurance is not currently being sought to confirm budget managers have reviewed the reports which inform them if their WTE payments against their budgets are accurate.

Employee information is transferred to payroll through eESS, the system is populated with the information from the recruitment team. Staff are reminded on their payslip to keep their information up to date within eESS.

If payment information provided to payroll is not correct this is rejected by Treasury and Payroll contact eESS to confirm the information.

The Finance team within NHS Lothian perform monthly reconciliations against the payroll ledger and between the balances in NHS Lothians control accounts.

To ensure all exceptions and errors are identified the payroll department perform two pre-payroll runs one week and one day before the payroll payment run. The system identifies exceptions and these are investigated by payroll.

In addition to this, an interface report from Payroll is produced detailing additional payments and this is shared with staff members, it is the responsibility of staff to check the report is correct.

Follow Up

Approximately two weeks following issue of the final Internal Audit report, a member of the Audit Team will issue an 'evidence requirements' document for those reports where management actions have been agreed.

This document forms part of the follow up process and records what information should be provided to close off the management action.

The follow-up process is aligned with the meetings of the Board's Audit & Risk Committee. Audit Sponsors will be contacted on a quarterly basis with a request to provide the necessary evidence for those management actions that are likely to fall due before the next meeting of the Audit and Risk Committee.

Management Action Plan

Risk area as per scope: Payments to employees are incomplete and not processed in a timely manner.

Finding 2.1 – ePayroll not updated to reflect changes to December 2021 pay dates.

High

Control

There are agreed and documented timescales for payroll cut off, these are communicated to all staff via the payroll calendar which is accessible from NHS Lothian Intranet and HR/Payroll helpdesk pages.

Observation

We obtained a copy of the payroll calendar for 2021 and noted that the December cut off dates were not completed, the Payroll Manager explained that December is left blank as the pay date for the following December is not known at the time of publication. Once the dates are agreed by the board separate guidance is sent by both HR and SSTS confirming December pay dates.

Following the completion of our fieldwork we were made aware of an issue in December 2021, where pay dates were brought forward from 30 December 2021 to 23 December 2021, this is normal practice to allow staff to receive pay prior to Christmas. The change was not updated within ePayroll and as a result monthly paid staff were paid the day later than expected, on the 24 December 2021.

Risk

Without ensuring that amended payroll dates are updated within ePayroll employees may not be paid on time. This could be considered a breach of contract and create unrest amongst staff as well as reputational damage to the organisation.

Recommendation

A lessons learned exercise should be carried out to determine where errors occurred which allowed the updating of the December pay date to be missed.

Management Response

Lessons learnt review is currently underway with an overall objective to identify the improvements required within NHS Lothian and potentially nationally to avoid future errors, as well as to increase robustness of the payroll processes overall, including establishing emergency protocols to facilitate resolutions of similar errors across the Boards should they occur.

Management Action

More specifically as part of the lessons learnt the management will

-Evaluate current processes to determine where the errors occurred, identify weaknesses in existing controls and address them immediately in order to understand how the payroll pay date was missed on this occasion and eliminate the risk of this occurring in future ; and

-Investigate opportunities for establishing an escalation protocol with ATOS / bank / other parties as appropriate to enable Boards in extreme situations to issue instructions which can be authorised and actioned as a matter of urgency. This includes two aspects - investigating the contractual relationships between NSS/Atos as they affect Payroll payments and what can be done to establish an escalation procedure for local Board DoF/HRD authorisation 'in extremis' and contacting NHS Lothian Customer Relationship Manager at the bank to investigate that aspect of the process with the same overall objective.

Responsibility: Director of Finance.

Target Date: 31 March 2022

Risk area as per scope: Employee standing data is incomplete and not accurate.

Finding 2.2 – Finance dashboard payroll audit reports are not scrutinised or monitored

Medium

Control

Budget managers are provided with access to Tableau dashboards and can see an overall summary of their payroll charge and WTE for the month. They also have access to a list of the staff charged to their cost centre and their WTE. As a budget manager they have a responsibility to ensure that this information accurately reflects the staffing under their management. If errors to the staff list are observed or financial values are not reflective of their staffing, budget managers can raise this with the management accountant. If amendment is required, managers are responsible to ensure all relevant updates are made to eESS .

Individuals within the finance team have access to audit reports which show which budget managers have accessed the Tableau dashboards and can also determine the number of views made to the information detailing staff charged to cost centres and WTE.

Observation

We confirmed by viewing the current audit report that budget managers who have accessed the Tableau dashboards are identifiable. We understand from discussion with the Senior Finance Manager that following the outbreak of Covid there is no analysis of which budget managers have accessed the Tableau Dashboard.

As such staff within the Payroll Department are not seeking assurance that budget managers have reviewed the reports which inform them that the WTE payments against their budget are accurate.

Risk

Without adequate monitoring, budget managers who do not access their Tableau dashboard may go undetected. Where managers are not reviewing their finance dashboard, errors in payroll such as a staff member remaining on the departments payroll list after leaving the team/organisation may go undetected, this can result in overpayments to the ex-employee and financial consequence to the organisation.

Recommendation

The finance team should introduce monthly monitoring of the Tableau dashboard audit reports. If budget managers are flagged as repeatedly not accessing the Tableau dashboard, the manager should be reminded of their responsibility to do so and non-compliance should be escalated to suitable forum.

Assurance should be sought that budget managers are reviewing their Interface report following receipt.

Management Response

Due to the impact on the service caused by Covid, both in terms of the amount of additional work and the financial impact, the finance team have not been able to discuss budget management and control with service management teams. Regular meetings have been less frequent and some basic budget management principles have been less well supported as service managers have been under intense pressure to deliver services and maintain staffing levels. Going into financial year 22/23, there is a requirement and desire by the finance teams to re-establish good budget management and understanding and this will be a priority of the management accounting team for the year ahead, supporting budget managers as best as possible with understanding their financial position and financial information. There will be a more regular review of numbers accessing dashboards and more training and support offered to those less familiar with reviewing the information via the Dashboard. This will include what to look out for in terms of staff lists. The management accounting teams will promote to budget managers and service leads the importance of ensuring eESS paperwork for starters and leavers is completed in a timely fashion and that managers ensure interface systems such as eESS and E-rostering and SSTS include the staff names that they expect to see.

Management Action

- The Management Accounting Teams will look to promote and prioritise budget management and control during the year ahead.
- Training of budget managers on Tableau to understand and promote the finance dashboards will be offered by the teams – Part of Dashboard Improvement Group
- Regular review of KPI dashboard to review numbers accessing – Part of Dashboard improvement Group
- Promotion to budget holders about importance of updating eESS for staff changes in a timely manner to avoid over payments or incorrect payments.

Responsibility: Head of Management Accounting

Target Date: 31 August 2022

Risk area as per scope: Employee standing data is incomplete and not accurate.

Finding 2.3 – Payroll Desktop Instructions are not regularly reviewed and updated, nor is there evidence they have been read and understood by staff

Low

Control

NHS Lothian have Payroll Desktop Instructions. This document is available to all staff responsible for payroll processes within the organisation via the shared drive.

Observation

Despite HR information system eESS being introduced in 2018 and working from home being introduced in 2020 due to the pandemic the Payroll Desktop Instructions have not been updated. As a result the current instructions which were updated and approved in September 2017 may not be reflective of current practice.

Risk

Without updating the Payroll Desktop Instructions staff members may be following guidance which is out of date and not reflective of current practice and legislation. This can result in inconsistencies in practice and/or possible breaches in payroll processing responsibilities.

Recommendation

The payroll department within NHS Lothian should review and update the current Payroll Desktop Instructions to ensure that it is in line with current practice, in particular future hybrid/remote working practices which will be adopted going forward. This should be approved appropriately by management within payroll and going forward should take place in line with the review frequency specified.

Following update, all NHS Lothian payroll staff should be issued with the new Instructions and asked to confirm they have read and understood the updated guidance.

When staff join the payroll department reading and understanding the Payroll Desktop Instructions should form part of their induction process and a record of their understanding should be retained.

Management Response

Recommendation accepted. This is linked to Finding 2.1

Management Action

In line with the lessons learnt review Payroll Desktop Instructions are in the process of being reviewed and updated as a matter of priority.

Responsibility: Head of Financial Control

Target Date: 31 March 2022

Appendices

Appendix 1 – Staff Involved and Documents Reviewed

Staff Involved

- Head of Financial Control
- Payroll Manager
- Senior Finance Manager
- HR Systems Manager
- Senior HR advisor
- SSTS System Manager
- Financial Accountant/ Authorised Signatory Database Administrator

Documents Reviewed

- NHS Lothian Payroll Desktop Instructions v1 Sept 2017
- 2021 Payroll Calendar
- Finance and Resources Committee October 21 - Financial Position to 31 August 21 and Forecasts to Quarter 1
- Authorised Signatory Database 11 August 2021
- Authorised Signatory Database Amendments Request Form
- Starters and Leavers from April 2021- October 21
- Maternity Leave from April 2021- October 21
- Payroll changes from April 2021- October 21
- Payroll Notes Report
- Monthly reconciliations performed against the payroll ledger August, September and October 21
- Monthly reconciliations performed against the NHS Lothian control account August, September and October 21

Appendix 2 – Our IA Report assurance levels

The table below shows the levels of assurance we provide and guidelines for how these are arrived at. We always exercise professional judgement in determining assignment assurance levels, reflective of the circumstances of each individual assignment.

Rating	Definition	When Internal Audit will award this level
Significant assurance	<p>The Board can take reasonable assurance that the system(s) of control achieves or will achieve the control objective.</p> <p>There may be an insignificant amount of residual risk or none at all.</p>	<p>There is little evidence of system failure and the system appears to be robust and sustainable. The controls adequately mitigate the risk, or weaknesses are only minor (for instance a low number of findings which are all rated as 'low' or no findings)</p>
Moderate Assurance	<p>The Board can take reasonable assurance that controls upon which the organisation relies to achieve the control objective are in the main suitably designed and effectively applied.</p> <p>There remains a moderate amount of residual risk.</p>	<p>In most respects the "purpose" is being achieved. There are some areas where further action is required, and the residual risk is greater than "insignificant".</p> <p>The controls are largely effective and in most respects achieve their purpose with a limited number of findings which require management action (for instance a mix of 'medium' findings and 'low' findings)</p>
Limited Assurance	<p>The Board can take some assurance from the systems of control in place to achieve the control objective, but there remains a significant amount of residual risk which requires action to be taken.</p>	<p>This may be used when:</p> <ul style="list-style-type: none"> There are known material weaknesses in key control areas. It is known that there will have to be changes that are relevant to the control objective (e.g. due to a change in the law) and the impact has not been assessed and planned for. <p>The controls are deficient in some aspects and require management action (for instance one 'high' finding and a number of other lower rated findings)</p>
No assurance	<p>The Board cannot take any assurance from the audit findings. There remains a significant amount of residual risk.</p>	<p>The controls are not adequately designed and / or operating effectively and immediate management action is required as there remains a significant amount of residual risk (for instance one Critical finding or a number of High findings)</p>

Appendix 2 - Continued

The table below describes how we grade our audit recommendations based on risks

Rating	Description	Possible features
High	Findings that are fundamental to the management of risk in the business area, representing a weakness in the design or application of activities or control that requires the immediate attention of management	<ul style="list-style-type: none">▪ Key activity or control not designed or operating effectively▪ Potential for fraud identified▪ Non-compliance with key procedures / standards▪ Non-compliance with regulation
Medium	Findings that are important to the management of risk in the business area, representing a moderate weakness in the design or application of activities or control that requires the immediate attention of management	<ul style="list-style-type: none">▪ Important activity or control not designed or operating effectively▪ Impact is contained within the department and compensating controls would detect errors▪ Possibility for fraud exists▪ Control failures identified but not in key controls▪ Non-compliance with procedures / standards (but not resulting in key control failure)
Low	Findings that identify non-compliance with established procedures, or which identify changes that could improve the efficiency and/or effectiveness of the activity or control but which are not vital to the management of risk in the business area.	<ul style="list-style-type: none">▪ Minor control design or operational weakness▪ Minor non-compliance with procedures / standards
Advisory	Items requiring no action but which may be of interest to management or which represent best practice advice	<ul style="list-style-type: none">▪ Information for management▪ Control operating but not necessarily in accordance with best practice



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