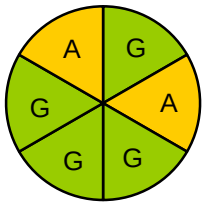
Internal Audit

Payroll

February 2017

Report Assessment



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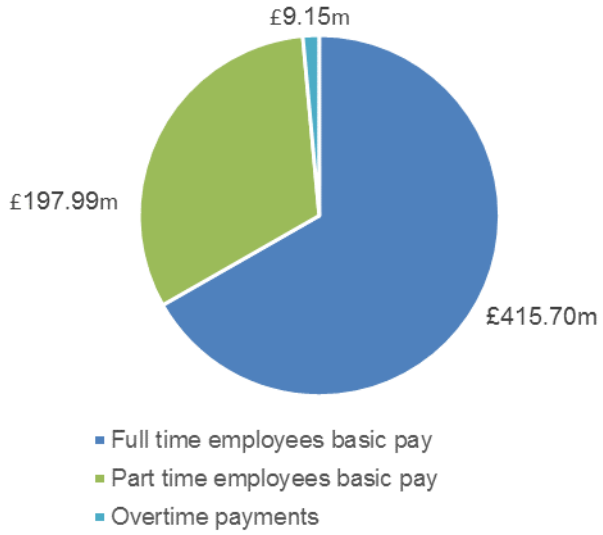
Introduction

Payroll uses the electronic ePayroll system (which is the national NHS Scotland system) to process salaries, with payments being processed monthly and weekly.

The Payroll Department process payments for around 24,000 members of staff who are paid monthly, and a further 9,000 paid weekly. In the period December 2015 - November 2016, NHS Lothian made payments to staff of over £622 million, excluding superannuation and tax costs.



Source: Downloads from Payroll system from December 2015-November 2016

The Scottish Standard Time System (SSTS) processes time and attendance information across NHS Lothian, including recording overtime. Overtime payments information is exported to ePayroll both weekly and monthly so that staff receive their additional payments in a timely manner.

The eExpenses system is used by staff to record expenses, and then have them authorised by their line manager. Payment information is then exported to ePayroll weekly and monthly.

Changes to staff members' standing data, e.g. pay grade or department, are communicated by their line manager to Payroll by paper documentation. Changes to employees' personal data, e.g. a change of home address, are communicated by employees themselves.

Scope

The objective of the audit was to evaluate the adequacy and effectiveness of the key internal controls over payroll processing.

Acknowledgements

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

Executive Summary

Conclusion

There are appropriate controls in place within the Payroll Department, which include the requirement that all claims for expenses and other additional payments must be approved by each staff member's line manager. In addition, there are checks by Payroll to confirm that all changes to staff members' standing data have been correctly processed. However, two significant, two important, and two minor control issues were noted which if addressed would further strengthen arrangements. The implementation of these recommendations will provide greater confidence that payments made by Payroll are complete, accurate, and timely.

Summary of Findings

The table below summarises our assessment of the adequacy and effectiveness of the controls in place to meet each of the objectives agreed for this audit. Definitions of the ratings applied to each action are set out in Appendix 1.

No.	Control Objective	Control objective assessment	Number of actions by action rating			
			Critical	Significant	Important	Minor
1	Employee standing data is complete and accurate.	**Green**			1	
2	Changes to employee standing data are authorised, and an audit trail is maintained.	**Amber**		1	1	
3	Payments to employees are complete and timely.	**Green**				
4	Additional payments to employees, including overtime payments, are accurate and authorised.	**Green**				
5	Reconciliations are performed for data transfers from SSTS and eExpenses to ePayroll.	**Green**				1
6	Travel and subsistence payments are all made in line with NHS Lothian policies and procedures.	**Amber**		1		1

Control Objective Ratings

Action Ratings	Definition
Red	Fundamental absence or failure of controls requiring immediate attention (60 points and above)
Amber	Control objective not achieved - controls in place are inadequate or ineffective (21 – 59 points)
Green	Control objective achieved – no major weaknesses in controls but may be scope for improvement (20 points or less)

Main findings

We noted a number of areas of good practice during the review.

After each weekly and monthly payroll run the Payroll Department generates a report which is a list of all staff members whose overall payment has increased or decreased by more than 25% from their previous payment. Payroll staff will then review each item on the list to confirm that the payment was valid.

Where staff members claim for additional payments, e.g. for expenses or overtime, their claims must be authorised by their line manager before they are submitted to Payroll for payment.

We identified two significant issues for improvement during the review:

- For all significant changes to employees' standing data the Payroll Department team leads will check that the changes have been made correctly in the ePayroll electronic system and will place a note in the system that they have performed the checks. However, taking a sample of significant changes which were made during 2016 showed that new starts were only checked 84% of the time, hours management 68%, pay details 27%, and terminations 94%
- expense claims made through eExpenses were not always checked by the Expenses Department in line with the current procedures.

Further details of these points, two important points, and two minor points are set out in the Management Action Plan.

Management Action Plan

Control objective 1: Employee standing data is complete and accurate.	
1.1: There are no procedures in place for the Payroll Department	**Important**
Observation and Risk: Written procedures allow departments to set out how they will achieve their objectives, and specifically state what controls should be in place and how they will operate. Procedures help to guide existing staff and in particular can help with the training of new staff. Finally, stating the review date for procedures means that they continue to reflect best practice. However, there are no procedures in place for the Payroll Department. Managers agreed that up to date Procedures are important to a department. Procedures could increase the likelihood of the Payroll Department's objectives being achieved through the operation of effective controls.	
Recommendation: The Payroll Manager should create procedures for the Payroll Department. Specifically, these should include a list of all checks to be performed by team leads and managers, and when they should be performed.	
Management Response: It is acknowledged that the department does not have a standard set of procedures for all tasks within the department. **Management Action:** Written procedures will be introduced for the Payroll Department.	
Responsibility: Payroll Manager	**Target date:** 30th September 2017

Control objective 2: Changes to employee standing data are authorised, and an audit trail is maintained.	
2.1: Significant changes to employees' standing data are not always checked by Payroll	**Significant**
Observation and Risk: The Payroll Department process changes to staff members' standing data, which can include events such as new starts, terminations, a change to working hours, or a change of home address or bank account details. For all significant changes, Payroll Department team leads will check that the change has been made correctly in the ePayroll electronic system and will place a note in the system that they have performed the check. Significant changes are classed by Payroll managers as being within the following four categories: new starts, terminations, a change to working hours, or a change to pay details. However, a sample of significant changes which were made during 2016 showed that new starts were checked 84% of the time, hours management 68%, pay details 27%, and terminations 94%. In addition, team leads do not review ePayroll logs to confirm that they have checked the processing for all significant items. If team leads do not check all significant changes to employees' standing data there is an increased risk that changes have not been made correctly, resulting in incorrect payments.	
Recommendation: The Deputy Payroll Managers should instruct team leads to check all significant changes to staff members' standing data, specifically new starts, terminations, changes to hours worked, and pay details changes. In addition, the Deputy Payroll Managers should instruct the team leads to regularly check ePayroll to confirm that all significant changes have been reviewed.	
Management Response: All changes that have an impact on an employee's salary payments should be checked by a Team Leader. As part of the Procedure exercise Managers will review what changes that require to be checked and advise Team Leaders. **Management Action:** Team Leaders will be reminded that they are required to check all changes that have an impact on an employee's salary.	
Responsibility: Deputy Payroll Managers	**Target date:** 31st March 2017

2.2: No periodic checks are performed to confirm that users should continue to have access to electronic systems	**Important**
Observation and Risk: The three electronic systems ePayroll, eExpenses, and SSTS each have lists of users who have advanced access rights, e.g. system administrators. These lists should be regularly reviewed to ensure that staff who have left the organisation have their rights revoked, and that staff have access rights limited to what is required for their job. However, a review of the list of users with advanced access rights for ePayroll, eExpenses, and SSTS showed that they included one member of staff who had not required those access rights for over a year. Limiting advanced access to electronic systems reduces the likelihood that system information is accessed inappropriately.	
Recommendation: The Deputy Payroll Managers should review the lists of advanced users of the electronic systems ePayroll, eExpenses, and SSTS every three months to confirm these staff members only have the access they require for their jobs.	
Management Response: To a large extent we are reliant on departments notifying us if an individual employee no longer requires access to the payroll system. However, this is not a robust process and the Payroll department will undertake a six month user review. **Management Action:** Bi-annual review to be undertaken.	
Responsibility: Deputy Payroll Managers	**Target date:** 30th June 2017

Control objective 3: Payments to employees are complete and timely.
We identified no significant issues in relation to this control objective. Each year the Deputy Payroll Managers agree the timing of both the weekly and monthly payroll runs with Atos. In addition, Payroll Department staff inform line managers of the cut-off dates for the submission of both SSTS and eExpenses claims relating to additional payments to staff. We used IDEA software, a computer aided audit technique, to conduct a range of tests, including: • duplicate amounts paid at time and a half to one employee • duplicate amounts paid at double time to one employee • duplicate excess pay • duplicate values in the same period • duplicate descriptions in the same period. No errors were identified as part of this testing.

Control objective 4: Additional payments to employees, including overtime payments, are accurate and authorised.
We identified no significant issues in relation to this control objective. Where staff members claim for additional payments, e.g. for expenses or overtime, their claims must be authorised by their line manager before they are submitted to Payroll for payment. After each weekly and monthly payroll run the Payroll Department run a report which is a list of all staff members whose overall payment has increased / decreased by more than 25% from their previous payment. Payroll staff will then review each item on the list to confirm that the payment was valid.

Control objective 5: Reconciliations are performed for data transfers from SSTS and eExpenses to ePayroll.	
5.1: Issues noted on interface reports are not always marked as having been dealt with	**Minor**
Observation and Risk: Prior to each weekly and monthly payroll run, payment information is transferred to ePayroll from SSTS and eExpenses respectively. ePayroll then generates an interface report which lists any items which have not transferred from SSTS and eExpenses, which is then checked by Payroll Administrators and each item dealt with. However, a sample of 4 interface reports between SSTS and ePayroll showed that of the 632 items, 17 (3%) were not marked on ePayroll as having been reviewed and dealt with by Payroll Administrators. The Deputy Payroll Managers stated that these items will have been dealt with but they simply had not been marked off on the system. If all items on interface reports are not dealt with then there is an increased risk that staff do not receive all payments.	
Recommendation: The Deputy Payroll Managers should remind Payroll Administrators to check all interface report entries and mark each entry as having been reviewed.	
Management Response: These checks are undertaken as routine tasks. However, Payroll Administrators will be reminded of the requirement to mark each entry as having been reviewed. **Management Action:** Reminder to be issued to Payroll Administrators.	
Responsibility: Deputy Payroll Managers	**Target date:** 31st March 2017

Control objective 6: Travel and subsistence payments are all made in line with NHS Lothian policies and procedures.

6.1: Checks on expense claims are not always performed	**Significant**

Observation and Risk:

When staff claim for expenses they can submit them electronically through eExpenses or complete a paper form. The staff member's line manager then approves the claim, either by signing the paper form or by approving on eExpenses, before it is passed to the Expenses Department for payment.

For paper claims Expenses will check the form before approving the payment, but for claims through eExpenses they will perform retrospective checking after payment has been made through ePayroll. These checks are stated in the Expenses Department procedures.

From December 2015 - November 2016, employees were reimbursed for expenses totalling almost £3.5 million, with the vast majority (99%) paid to monthly paid employees.

Source: Downloads from Payroll system from December 2015-November 2016

The Expense Department procedures outline a number of checks that should be performed on expense claims. These include checks on 20% of expenses made by monthly-paid staff, and checks performed on 100% of claims made by weekly-paid staff. However, a review of the retrospective checking of claims made through eExpenses showed the following:

- 20% check of claims from monthly-paid staff - these were not performed for February and March 2016, and July to November 2016. In addition, the checks for April to June 2016 were only partially performed
- 100% check of claims from weekly-paid staff – for a sample of 7 weeks during 2016, 2 of the weeks (29%) were not marked as having been checked. However, the Expenses Administrator stated that they had been checked
- Limited evidence of checks performed to ensure the correct treatment of tax on un-

receipted claims. Within our sample for weekly paid staff, for 6 of the 7 weeks there were no checks performed (86%) and for the other 1 only about half of them had been checked. For monthly paid staff there was no evidence of checks performed for 5 of the 8 months. If checks are not performed by Expenses Department staff of expenses claims made there is an increased risk that claims are false or that errors are undetected.
Recommendation: Expenses Department staff should perform all checks on expense claims as stated in the Expenses Department procedures.
Management Response: This occurred during a period of staff storage due to long term absence and it was essential to prioritise re-imbursement of expenses to staff. The staffing levels are now stable and all checks are being undertaken. In addition, we are also undertaking backdated checks that are referred to in this audit point. **Management Action:** We will continue to monitor the level of checks that are undertaken.

Responsibility: Payroll Manager	**Target date:** Immediate

6.2: The procedure used by Expenses staff has not been recently reviewed and does not reflect current practice	**Minor**
Observation and Risk: The Expenses Department procedure sets out the checks that Expenses staff will perform relating to claims submitted by NHS Lothian staff. However, the procedure has not been reviewed since October 2010. In addition, the Expenses Administrator has stated that one of the checks stated in the procedure is no longer performed. Revising the procedure would increase the likelihood that the Expenses Department's objectives are being achieved through the operation of effective controls.	
Recommendation: The Expenses Administrator should revise the Expenses Department procedure to ensure that it reflects current practice within the department. The procedure should then be approved by the Payroll Manager.	
Management Response: The current expenses procedures will be reviewed to ensure they are appropriate and up to date. **Management Action:** Review expenses procedures.	
Responsibility: Payroll Manager	**Target date:** 30th June 2017

Appendix 1 - Definition of Ratings

Management Action Ratings

Action Ratings	Definition
Critical	The issue has a material effect upon the wider organisation – 60 points
Significant	The issue is material for the subject under review – 20 points
Important	The issue is relevant for the subject under review – 10 points
Minor	This issue is a housekeeping point for the subject under review – 5 points

Control Objective Ratings

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