

NHS Lothian

Internal Audit 2023/24

Updating HR and Payroll for Movers and Leavers

December 2023

Final Report

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Report Distribution

Executive Lead:

- Janis Butler, Director of Human Resources and Organisational Development

For action:

- Ruth Kelly, Deputy Director of Human Resources
- Olga Notman, Head of Financial Control

For Information:

- Calum Campbell, Chief Executive,
- Craig Marriott, Director of Finance
- Audit and Risk Committee

Executive summary



Background

The timely notification of employee departures or changes affecting pay is important to prevent potential salary overpayments, minimise financial consequences, and maintain employee trust. NHS Lothian implemented the eESS (Electronic Employee Support System) in March 2020. The system is designed to provide electronic support and streamline various HR processes, including the communication of leavers and pay changes to the HR and Payroll departments. We have been informed that currently, the eESS system is being used by approximately 50% of the organisation, with a target of achieving 100% usage by the end of March 2024.

Payment changes or employee departures are notified through an electronic form or direct input into eESS by the employee's manager. HR enters notifications made by form onto eESS before processing and forwarding them to Payroll.

This review aimed to assess the design and effectiveness of controls for informing HR and Payroll of employee departures and pay-affecting changes. It will evaluate the existing controls to ensure accurate capturing and processing of employee updates. Emphasis has been placed on timely notification of changes that impact pay to prevent potential salary overpayments, which can have financial consequences and affect employee trust.

The review assessed the robustness of the internal controls covering:

- The written procedures for communicating leavers and pay changes to HR and Payroll departments, ensuring clarity and comprehensiveness.
- The mechanisms for timely notification of pay-impacting changes, including communication channels and escalation procedures.
- The processing practices by HR and Payroll for leavers and pay changes including accuracy, completeness and timeliness.
- Regular checks and reconciliations for HR and Payroll data concerning leavers and pay changes.
- The adequacy of reporting mechanisms to communicate any identified overpayments or control deficiencies to the appropriate stakeholders.

Executive summary



Objectives

The objective of this review was to provide an independent assessment of the design and operational effectiveness of the Board's arrangements for the notification and processing of employee departures and changes that affect pay.

Our review focussed on the following key risks:

- Inadequate policies or procedures may lead to incomplete or untimely notification of leavers and pay changes.
- Inefficient notification mechanisms leading to delays in updating HR and Payroll systems resulting in overpayments.
- Untimely and inaccurate processing of pay change information by HR and Payroll may result in salary overpayments and compliance issues.
- Insufficient regular checks and reconciliations of HR and payroll data, including the nominal roll, may lead to errors going undetected.
- Inadequate reporting of identified overpayments or control deficiencies may result in avoidable financial losses from overpayments.



Limitations in scope

Our findings and conclusions are limited to the risks identified within the Audit Planning Brief (APB). The scope of this audit does not allow us to provide an independent assessment of all risks and controls associated with fraud.

Where sample testing is undertaken, our findings and conclusions will be limited to the sample tested only. Please note that there is a risk that our findings and conclusions based on the sample may differ from the findings and conclusions we would reach if we tested the entire population from which the sample is taken.

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



Acknowledgement

We would like to take this opportunity to thank your staff for their co-operation during this internal audit.

Headline messages



Conclusion

Significant Assurance

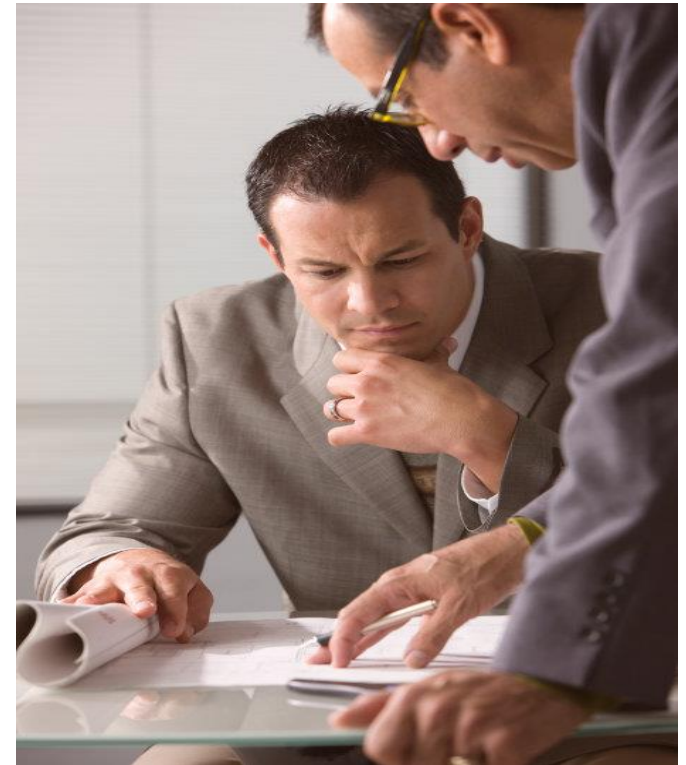
We have reviewed the processes and controls around Updating HR and Payroll for movers and leavers and have concluded that the processes have provided a **Significant Assurance**. This was confirmed through sample testing and discussions with management. This assurance covers NHS Lothian processes and does not extend to third-party services.

The objectives reviewed are set out on the following page with the assurance rating we have assessed for each one and the number of recommendations raised. We have reported by exception against the areas where we consider that Management and the Audit and Risk Committee should focus their attention.

Before detailing specific areas of concern, it is worth noting that policies, procedures, and frameworks designed for better management of movers and leavers are in place. However, we have identified weaknesses in the application of these policies and frameworks, leading to various risk exposures. Four areas of concern were identified from our review, we have rated the first one as a medium risk issue and the other three as low risk issues:

- **Operational inefficiencies:** Delays by management in notifying changes in employee status have resulted in overpayments and contractual non-compliance, exposing the organisation to financial risks.
- **Limited KPIs:** The absence of productivity KPIs in the Service Level Agreement with National Services Scotland (NSS) inhibits management's ability to identify, scrutinise, and remediate inconsistent processing times.
- **Managerial training gaps in eESS:** Insufficient training in eESS, coupled with the continued usage and availability of paper-based notification methods, elevates the risk of late notifications and increases the administrative workload as paper notifications still need to be entered into eESS.
- **Overpayment register:** Weaknesses in data categorisation and recording within the overpayment register compromise data integrity. This hampers effective analysis and hinders management's ability to identify, investigate, and address the main causes of overpayments.

We will review progress made as part of our recommendation tracking during the remainder of 2023/24.



Headline messages



Conclusion

We have raised 4 recommendations. The grading of these recommendations based on risk, is summarised in the table below.

Risks	Assurance rating	Number of recommendations			
		High	Medium	Low	Imp
Inadequate policies or procedures may lead to incomplete or untimely notification of leavers and pay changes.	Significant Assurance			1	
Inefficient notification mechanisms leading to delays in updating HR and Payroll systems resulting in overpayments.	Moderate Assurance		1		
Untimely and inaccurate processing of pay change information by HR and Payroll may result in salary overpayments and compliance issues.	Significant Assurance			1	
Insufficient regular checks and reconciliations of HR and payroll data, including the nominal roll, may lead to errors going undetected.	Significant Assurance				
Inadequate reporting of identified overpayments or control deficiencies may result in avoidable financial losses from overpayments.	Significant Assurance			1	

Summary of findings



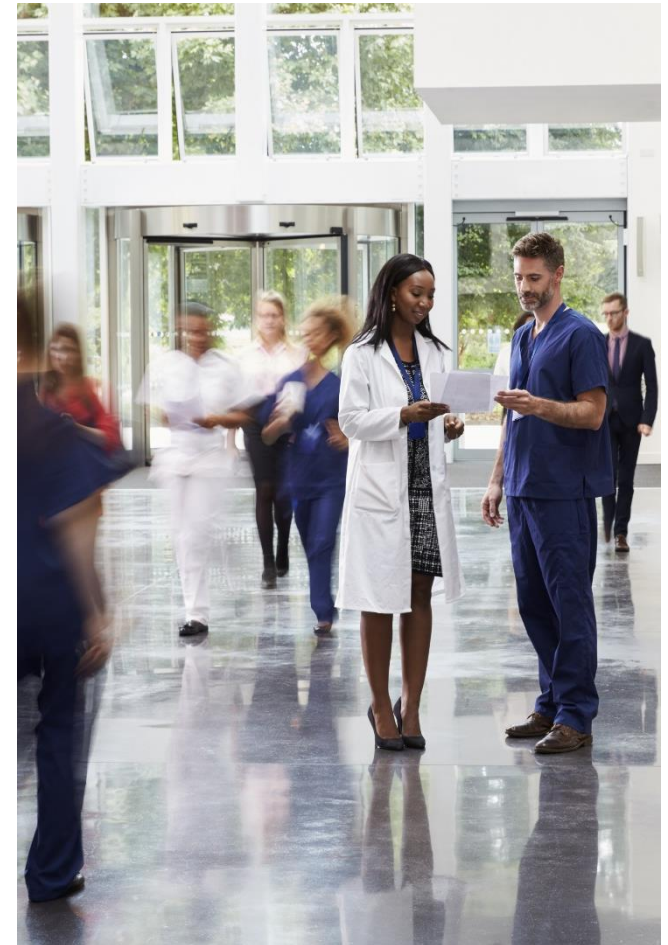
Examples of where recommended practices are being applied

- **Comprehensive policy documentation:** The organisation's policies and procedures for handling employee leavers and pay changes are thorough and detailed.
- **Specification of responsibilities:** The Payroll Desktop Procedures and HR Online Guidance explicitly mention the responsibilities of the Department Managers and other staff involved in the process.
- **Establishment review by budget holders:** Budget holders are expected to review their establishment and expenditure routinely through Tableau Dashboards, aiding in financial oversight.
- **Overpayment register:** Although weaknesses were identified, the existence of an overpayment register demonstrates an effort towards monitoring and reporting financial irregularities.



Areas requiring improvement

- **Operational inefficiencies:** Delays by management in notifying changes in employee status have resulted in overpayments and contractual non-compliance, exposing the organisation to financial risks.
- **Processing delays:** The absence of productivity KPIs in the Service Level Agreement with National Services Scotland (NSS) may have contributed to inconsistent processing times, increasing overpayment cases.
- **Managerial training gaps in eESS:** Insufficient training in eESS, coupled with the continued usage and availability of paper-based notification methods, elevates the risk of late notifications and increases the administrative workload as paper notifications still need to be entered into eESS.
- **Overpayment register:** Weaknesses in data categorisation and recording within the overpayment register compromise data integrity. This hampers effective analysis and hinders management's ability to identify, investigate, and address the main causes of overpayments.



Detailed findings & action plan

1.1

Significant Assurance

Inadequate policies or procedures may lead to incomplete or untimely notification of leavers and pay changes.

Finding and implication	Audit recommendation	Management response, including actions
<p><u>Managerial Training Gaps in the Electronic Employee Support System (eESS).</u></p> <p>We identified a training gap among managers in the use of the eESS system coupled with the continued usage and availability of paper-based notification methods, elevates the risk of late notifications and increases the administrative workload.</p> <p>Current procedures comprehensively outline the tasks payroll staff must undertake upon receiving change or termination notifications. However, these procedures highlight a dual notification route. The main and preferred option is direct notification using eESS, however, there is an alternative submission route via an MS Word document for managers untrained in eESS. It is stated on the NHS Lothian Intranet “we acknowledge that not all managers will have received training on eESS and may wish to submit a MS Word document detailing the change or termination”.</p> <p>There are inherent risks associated with the continued use of paper-based methods, these include data security, document retention, workflow inconsistency (dual system), administrative burden, and monitoring completion.</p> <p>The overarching risk is the identification of a training gap for managers concerning the eESS system and ensuring all managers have the necessary skills to use the eESS system, making it the requisite submission route.</p>	<p>Recommendation 1.</p> <p>Target training to managers using the MS Word method for HR and Payroll notifications, focusing on transitioning them to using eESS. Concurrently, set a clear, phased timeline for discontinuing the MS Word submission option.</p>	<p>Actions: Short Training Videos on all aspects of payroll changes that require to be processed through eESS have now been made widely available. These will be targeted at those services still using the MS Word Method for submitting changes and encouragement given to make future payroll changes through eESS. Plan is to move to all payroll transactions being processed through eESS by all service areas by 31 March 2024.</p> <p>Responsible Officer: Ruth Kelly, Deputy Director of HR</p> <p>Executive Lead: Janis Butler, Director of HR and OD</p> <p>Due Date: 31 March 2024</p>

Detailed findings & action plan

2.1

Moderate Assurance

Inefficient notification mechanisms leading to delays in updating HR and Payroll systems resulting in overpayments.

Finding and implication	Audit recommendation	Management response, including actions
<p><u>Operational inefficiencies resulting from delays in notification of employee changes and terminations by management.</u></p> <p>The audit has identified control weaknesses in the timing of notifications by managers to HR and Payroll for pay banding changes and employee terminations resulting in overpayments and operational inefficiencies for the organisation.</p> <p>The audit assessed 25 selected changes in pay banding and 25 instances of employee terminations:</p> <ul style="list-style-type: none"> In the case of pay banding changes, 21 records included the necessary details to identify the number of days between notification and the effective change date. We noted 12 out of these 21 changes were communicated after the effective date, with the delay ranging from 1 to 100 days. The sample average was 7 days after the effective date. While no overpayments were identified late notification exposes the organisation to the risk of financial irregularities, including incorrect salary disbursements. In our analysis of 25 staff terminations, we identified 6 cases of management notifying HR after the actual leave date. This delay led to overpayments for two individuals, for whom recovery processes are currently in progress. The late notifications leading to overpayment were 26 and 64 days. For the remaining 19 cases, management notifications were timely. <p>The Intranet and 'Payroll Desktop Instructions' offer guidance on immediate telephone notification in cases where an employee leaves without notice.</p>	<p>Recommendation 2.</p> <p>Provide managers with feedback on the audit findings, stressing the importance of timely notifications for employee changes and terminations. Highlight that failure to notify upon awareness, resulting in significant or repeated overpayments, coupled with not detecting these through budget report reviews, will lead to consequences for the managers involved.</p>	<p>Actions: A Leaders and Managers Brief will be issued providing feedback on the findings of the audit and advising leaders/managers of the actions that they need to take in terms of timely notification of all payroll changes and in particular terminations. Leaders/Managers will also be advised that they need to be routinely checking budget statements to ensure they are up to date and accurate and all relevant changes have been made.</p> <p>Responsible Officer: Ruth Kelly, Deputy Director of HR and Olga Notman, Head of Financial Control</p> <p>Executive Lead: Janis Butler, Director of HR and OD</p> <p>Due Date: 31 December 2023</p>

Detailed findings & action plan

3.1

Significant Assurance

Untimely and inaccurate processing of pay change information by HR and Payroll may result in salary overpayments and compliance issues.

Finding and implication	Audit recommendation	Management response, including actions
<p><u>Delays in processing termination forms.</u></p> <p>We identified delays in processing termination forms by Payroll.</p> <p>The Payroll function is outsourced to National Services Scotland (NSS) under a Service Level Agreement (SLA) which specifies KPIs are under three headline areas: Query Management, Productivity, and Accuracy. However, no KPIs for productivity are included in the SLA which we would expect to include processing time targets.</p> <p>In the sample of 25 terminations processed by HR:</p> <ul style="list-style-type: none"> • 22 were processed on the same day or next day of receipt. • 3 were processed later than the next day of receipt (6, 18 and 48 days). No overpayments occurred. <p>In contrast, Payroll processing by NSS for terminations was less efficient:</p> <ul style="list-style-type: none"> • One of the sample was removed as a potential data error. The Payroll processing date was 14 days before the notification date. • Of the remaining 24 terminations in our sample the average processing time was 32 days, ranging from the same day to 111 days. No overpayments were attributed to late processing. <p>The 2 overpayments in our sample were processed timely by both HR and Payroll and can clearly be attributed to late notification by management.</p>	<p>Recommendation 3.</p> <p>Revise the SLA with National Services Scotland to include KPIs specifically for termination form processing times. This will help mitigate delays.</p>	<p>Actions: We will discuss and revise the KPIs as appropriate at the next SLA revision date.</p> <p>Responsible Officer: Olga Notman, Head of Financial Control</p> <p>Executive Lead: Craig Marriott, Director of Finance</p> <p>Due Date: 31 March 2024</p>

Detailed findings & action plan

5.1

Significant Assurance

Inadequate reporting of identified overpayments or control deficiencies may result in avoidable financial losses from overpayments.

Finding and implication	Audit recommendation	Management response, including actions
<p><u>Weakness in maintenance of the Overpayment Register.</u></p> <p>The audit identified control weaknesses in the overpayment register, including inconsistent categorisation of overpayment reasons and frequent omissions in recording the overpayment route, thereby compromising data analysis and accountability.</p> <p>The review of the overpayment register for amounts exceeding £50 identified the following:</p> <ul style="list-style-type: none"> • 2022/23: 120 overpayments, totalling £292,234 (Average overpayment = £2.4k) • 2023/24 (part year): 22 overpayments, totalling £50,874 (Average overpayment = £2.3k) • Grand total across both periods: £343,108.29 and 142 overpayment incidents. <p>While there appears to be a slight reduction in both the frequency and value of overpayments in the current part-year compared with the prior full year, we noted an issue concerning the categorisation of reasons for overpayments in the register. Specifically, the register features non-standard reasons for overpayments, making it challenging to perform a detailed analysis on the cause. For example, there is not a single, unified heading for late notifications.</p> <p>Additionally, we noted that the field for the overpayment route is frequently not recorded; 71 of 142 entries failed to record the route, e.g. department or payroll.</p>	<p>Recommendation 4.</p> <p>For the overpayment registers implement standardised categories for overpayment reasons and ensure complete recording of overpayment routes to improve data integrity and enable accurate analysis to support management in addressing weaknesses more efficiently.</p>	<p>Actions: From discussions with NSS we understand there is currently a workstream underway to identify the most useful and relevant information to provide to all customers, including NHS Lothian.</p> <p>We will feed back this recommendation into the workstream to ensure information we receive allows us to undertake appropriate analysis.</p> <p>Responsible Officer: Olga Notman, Head of Financial Control</p> <p>Executive Lead: Craig Marriott, Director of Finance</p> <p>Due Date: 31 January 2024</p>

Appendices

Appendix 1: Staff involved and documents reviewed



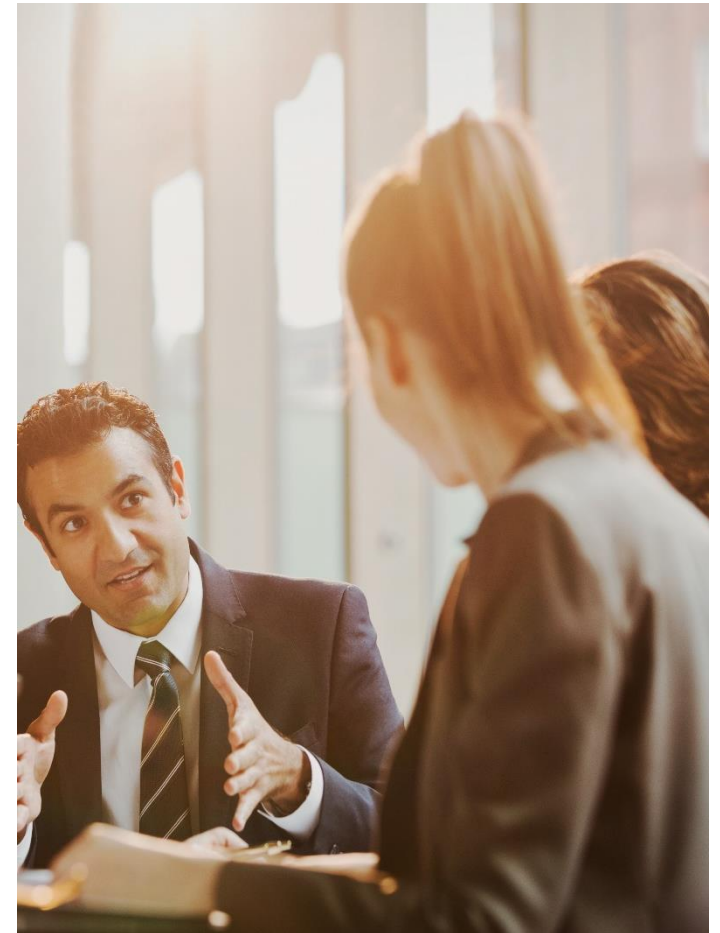
Staff involved

- Paul Shek, HR System Analyst
- Craig Black, Payroll Manager
- Olga Notman, Head of Financial Control
- Margaret Wolfenden, Senior Finance Manager, Management Accounts
- Angela Paton, Head of HR Management Information Systems



Documents reviewed

- Payroll export data and supporting documentation
- 2023 Payroll SLA
- Debtor Accounts - 2022/23 and 2023/24
- Overpayments Register over £50 - 2022/23 and 2023/24
- Overpayments Register under £50 - 2022/23 and 2023/24
- HR Guidance documents
- NHS Lothian Payroll Desktop Instructions Procedure documentation



Appendix 2:

Our 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	Description
Significant Assurance	<p>The Board can take reasonable assurance that the system(s) of control achieves or will achieve the control objective. 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. 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 a number of HIGH rated recommendations)</p>

Appendix 2:

Our recommendation ratings

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
Improvement	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

