



Board of Management Audit Committee

Date of Meeting	Wednesday 19 February 2020
Paper No.	AC3-G
Agenda Item	5.6.1
Subject of Paper	Internal Audit Report – Payroll
FOISA Status	Disclosable
Primary Contact	Henderson Loggie
Date of production	February 2020
Action	For Discussion and Decision

Recommendations

The Committee is asked to consider and discuss the report and the management responses to the internal audit recommendations.

1. Purpose of report

The purpose of this review is to provide management and the Audit Committee with assurance on key controls relating to the curriculum and financial plans in place for City of Glasgow College and their alignment with the regional plan for Glasgow and the college student number targets.

2. Context and Discussion

This internal audit of Payroll provides an outline of the objectives, scope, findings and graded recommendations as appropriate, together with management responses. This constitutes an action plan for improvement.

The Report includes a number of audit findings which are assessed and graded to denote the overall level of assurance that can be taken from the Report. The gradings are defined as follows:

Good	System meets control objectives.
Satisfactory	System meets control objectives with some weaknesses present.
Requires improvement	System has weaknesses that could prevent it achieving control objectives.
Unacceptable	System cannot meet control objectives.

3. Impact and implications

Refer to internal audit report.

City of Glasgow College

Payroll

Internal Audit Report No: 2020/02

Draft issued: 10 February 2020

Final issued: 11 February 2020

LEVEL OF ASSURANCE

Good

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Level of Assurance

In addition to the grading of individual recommendations in the action plan, audit findings are assessed and graded on an overall basis to denote the level of assurance that can be taken from the report. Risk and materiality levels are considered in the assessment and grading process as well as the general quality of the procedures in place.

Gradings are defined as follows:

Good	System meets control objectives.
Satisfactory	System meets control objectives with some weaknesses present.
Requires improvement	System has weaknesses that could prevent it achieving control objectives.
Unacceptable	System cannot meet control objectives.

Action Grades

Priority 1	Issue subjecting the College to material risk and which requires to be brought to the attention of management and the Audit Committee.
Priority 2	Issue subjecting the College to significant risk and which should be addressed by management.
Priority 3	Matters subjecting the College to minor risk or which, if addressed, will enhance efficiency and effectiveness.

Management Summary

Overall Level of Assurance

Good	System meets control objectives
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Risk Assessment

This review focused on the controls in place to mitigate the following risk on the City of Glasgow College ('the College') Risk Register:

- Negative impact of statutory compliance failure (risk rating: medium).

Background

As part of the Internal Audit programme at the College for 2019/20 we carried out a review of the College's payroll arrangements. The Audit Needs Assessment, completed in March 2017, identified this as an area where risk can arise and where Internal Audit can assist in providing assurances to the Board of Management and to the Principal that the related control environment is operating effectively, ensuring risk is maintained at an acceptable level.

The timing of the fieldwork on this review was brought forward at the specific request of the HR Director; pending the transfer of responsibility for the payroll function from the Finance department to the Human Resources department.

Scope, Objectives and Overall Findings

The scope of this audit was to consider the key internal controls in place over the College's spend on staff costs of approximately £53m per annum. Our audit covered the current procedures in place within both Human Resources and Finance.

The table below notes the objectives for this review and records the results:

Objective	Findings			
The objectives of this audit were to obtain reasonable assurance that systems are sufficient to ensure:		1	2	3
1. Correct calculation of gross pay and deductions	Good	0	0	0
2. Correct calculation of employer national insurance and superannuation contributions	Good	0	0	0
3. Part-time lecturers, overtime and travel & subsistence payments are properly authorised	Good	0	0	0
4. Appropriate approval and checking of changes to employee standing data	Good	0	0	0
5. Starters and leavers are properly treated and enter and leave the system at the correct dates	Good	0	0	0
6. Any variations to core pay are appropriately authorised and supported by relevant documentation	Good	0	0	0
7. Pension enrolment processes are operating efficiently and effectively	Good	0	0	0
8. Processes around recording start and finish dates for agency staff are documented and are operating effectively in practice	Good	0	0	0
9. The current payroll configuration (with 3 separate payroll runs) is operating efficiently and effectively	Good	0	0	1
10. There is proper authorisation, processing and recording of payments	Good	0	0	0
11. There is clarity around roles and responsibilities within the payroll function and single points of failure have been identified and are being managed appropriately	Good	0	0	0
Overall Level of Assurance	Good	0	0	1
		System meets control objectives		

Audit Approach

From discussion with Human Resources and Finance staff, and review of procedures documentation, we identified the key internal controls in place within the College's Human Resources / Payroll systems and compared these with expected controls.

Compliance testing was then be carried out to ensure that the controls in place are operating effectively, concentrating on starters, leavers and variations to pay.

Summary of Main Findings

Strengths

- From our sample testing we confirmed that gross pay and deductions had been correctly calculated; and salaries, hourly rates and rates for non-statutory deductions agreed to the standing data held in the HR / Payroll system.
- From our sample testing we confirmed that employer national insurance and employer superannuation contributions had been correctly calculated;
- All part-time lecturers, overtime and travel payments tested had been correctly input into the HR / Payroll system and were appropriately authorised in line with the College's procedures;
- All changes to employee standing data selected for testing had been appropriately made to the HR / Payroll system and were independently checked and verified;
- Our sample of starters and leavers tested had entered and left the HR / Payroll system at the correct date with all details entered correctly;
- Variations to core pay were appropriately checked, authorised and supported by relevant documentation;
- Pension enrolment processes were operating efficiently and effectively;
- Processes around recording start and finish dates for agency staff were documented and were operating effectively in practice;
- There was proper authorisation, processing and recording of payments; and
- There was clarity around roles and responsibilities within the payroll function.

Opportunity

- We noted that three separate payroll runs are in operation; the 'Lecturers Monthly' payroll, 'Support Staff Monthly' and 'Support Staff 4 Weekly'. We noted that there was clear responsibility for each payroll run and these were operating effectively. However, we did note that there was potential scope to improve the efficiency of the payroll processes by operating one Support Staff payroll run instead of the current configuration of two.

Acknowledgements

We would like to take this opportunity to thank the staff at the College who helped us during our audit visit.

Main Findings and Action Plan

Objective 1: Correct calculation of gross pay and deductions

We reviewed the systems and procedures in place for ensuring that staff on the payroll are paid the correct amounts, including controls over increases in pay grades, and that deductions are made at the correct rates, and confirmed that these were appropriate.

A sample of 15 employees was selected at random from the College payroll (including both academic and support staff) and the calculation of statutory deductions (PAYE and national insurance) were re-performed and checked for accuracy. As part of our audit testing gross pay was verified to annual salary rates within the combined HR and Payroll system, iTrent. In addition, a sample of non-statutory deductions were checked back to source documentation to ensure accuracy. The results of our testing in this area proved satisfactory.

Objective 2: Correct calculation of employer national insurance and superannuation contributions

The calculation of employer national insurance contributions for the 15 employees in the audit sample were re-performed and checked for accuracy. The results of our testing in this area proved satisfactory.

Employees are now automatically opted into the Local Government Pension Scheme (LGPS) or the Scottish Public Pensions Agency (SPPA) and only contact HR if they want to opt out. For the 14 employees with pension deductions within our sample we agreed that the LGPS or SPPA employer and employee contributions had been correctly calculated in line with the agreed contribution rates and noted no exceptions.

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Objective 3: Part-time lecturers, overtime and travel & subsistence payments are properly authorised

Staff with variable contracted hours and staff working hours additional to those stated in their contract of employment are required to submit timesheets. The College procedures require that appropriate documentation, such as timesheets, are completed and signed by the employee and authorised by their line manager. Authorised documents are then passed the Payroll department for processing.

We selected nine employees who had worked additional hours and six employees that had received overtime payments and agreed the amounts claimed to the relevant supporting documentation. We confirmed that all had been appropriately authorised. We also obtained the support and teaching grades and spinal point annual salaries for the sample of 15 employees tested and agreed these to the HR / Payroll system with no issues noted.

Travel and subsistence claims must also be signed by the employee and authorised by their line manager. Mileage claims are processed through the HR / Payroll system, but all other expense claims are processed through the Finance system. We reviewed a sample of 15 travel claims (mileage) processed through the HR / Payroll system and confirmed that all had been appropriately authorised.

Objective 4: Appropriate approval and checking of changes to employee standing data

Staff update key standing data such as bank details through the HR / Payroll system Employee Self Service portal. Payroll staff receive an automated email notification from the HR / Payroll system when a change is made by an employee. Payroll then contact the staff directly by telephone to verify the change.

We selected a sample of 10 changes to employee standing data and confirmed that all were appropriately verified and authorised and applied correctly to the HR / payroll system. The results of our testing in this area did not identify any issues.

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Objective 5: Starters and leavers are properly treated and enter and leave the system at the correct dates

A sample of five new starts was selected at random from a new starts report generated from the HR / Payroll system. The starters selected were successfully traced to their personnel file and contract of employment. We found that each new start had been entered on to the HR / payroll system at the appropriate date and in line with the contract start date. We re-calculated the first pay for each new start and did not note any issues.

A sample of five leavers was selected at random from a leavers report generated from the HR / Payroll system and each was successfully traced to their notice of termination. It was found that the leavers had been appropriately removed from the HR / payroll system in line with the last day of employment. We re-calculated the last pay for each leaver and did not note any issues.

Objective 6: Any variations to core pay are appropriately authorised and supported by relevant documentation

Any contractual changes are authorised by HR and then communicated to payroll through a 'Payroll Changes Form'. We selected a sample of 10 contractual changes resulting in variations to core pay within the financial year and agreed all to supporting documentation to confirm that all were appropriately authorised. We then confirmed that these changes were applied correctly to the HR / payroll system. The results of our testing in this area proved satisfactory.

Objective 7: Pension enrolment processes are operating efficiently and effectively

We reviewed the pension enrolment process with the Senior Payroll Officer for both the SPPA and LGPS Pension schemes. All employees are automatically and contractually enrolled on to the appropriate pension schemes and must contact HR if they wish to opt out. Pension information for the SPPA scheme is provided to the scheme administrator directly using the scheme administrator's portal. Pension information for the LGPS is provided to the scheme administrators. This information is encrypted and sent via email. A reconciliation is carried out between each pension provider's data and the College's data as part of the preparation of the annual return on pension data. Based on our review of the systems in place these controls are considered to be adequate.

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Objective 8: Processes around recording start and finish dates for agency staff are documented and are operating effectively in practice

We reviewed the process around the recording of start and finish dates for agency staff with the Head of HR and it was confirmed that a written process is in place. Requests for agency staff should only be generated in the following circumstances: as cover for sickness absence; as cover for a vacancy currently going through the recruitment process; and for additional and unexpected short-term increase in workload. If a requirement for agency staff is identified, and is deemed valid, an Authority to Recruit (ATR) form is completed by the relevant line manager which identifies the start / end dates and working pattern. Once an ATR is authorised by HR, the Agency framework is utilised. Agency staff are not paid through the routine payroll arrangements and instead the Agency submits an invoice to the College which includes details of periods worked. Timesheets are completed by the agency staff and are submitted to line managers for review. Invoices are passed to HR alongside authorised timesheets and they confirm that invoice details are correct before they are processed through the Finance system. Based on our review of the systems in place these controls are considered to be adequate.

Payroll

Objective 9: The current payroll configuration (with 3 separate payroll runs) is operating efficiently and effectively				
Observation	Risk	Recommendation	Management Response	
We noted that three separate payroll runs are in operation; the 'Lecturers Monthly' payroll, 'Support Staff Monthly' and 'Support Staff 4 Weekly'. We noted that there is clear responsibility for each payroll run and they are operating effectively however we noted that there was scope to improve the efficiency of the payroll processes by operating one Support Staff payroll run.	Operating multiple payrolls which are paid at different points in the month may not be the most efficient use of payroll staff resources.	R1 Consider whether it would improve efficiency to operate one Support Staff payroll rather than the current configuration of two.	We have previously reduced the number of payroll runs and acknowledge that there is the potential for limited further efficiency improvement by operating one Support Staff payroll run. There is however a significant challenge in achieving this efficiency saving due to strongly held preferences from a range of staff and unions. To be actioned by: HR Director No later than: 30 September 2020	
			Grade	3

Payroll

Objective 10: There is proper authorisation, processing and recording of payments

Prior to processing monthly payroll payments, a variance analysis is carried out between the current month and prior month's payroll figures. Any differences are agreed back to source documentation, for example contractual changes or overtime / additional hours worked per authorised timesheets, to confirm they are valid. The payroll is then reviewed and authorised by the Finance Manager.

We reviewed the August 2019 to December 2019 payroll runs and for each month confirmed we that there was evidence to show that the above checks had been completed.

We reviewed the monthly payroll BACS runs for the period August 2019 to December 2019 and noted that in all instances these had been appropriately authorised by the Finance Manager, Management Accountant and Head of Finance.

Objective 11: There is clarity around roles and responsibilities within the payroll function and single points of failure have been identified and are being managed appropriately

Our review noted that the College has well documented Payroll Procedures in place and detailed processes that support these. Roles and responsibilities are well defined within the procedures and during our review we noted that these were clearly understood by staff. Our audit testing confirmed that procedures were operating well in practice and we confirmed that any potential single points of failure, such as reliance on key members of the Payroll team, were being mitigated through knowledge sharing within the team.

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