

# Cairngorms National Park Authority

## INTERNAL AUDIT REPORT - FINAL

### Payroll Administration

October 2019

LEVEL OF ASSURANCE	
Design	Operational Effectiveness
Moderate	Moderate



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## REPORT STATUS

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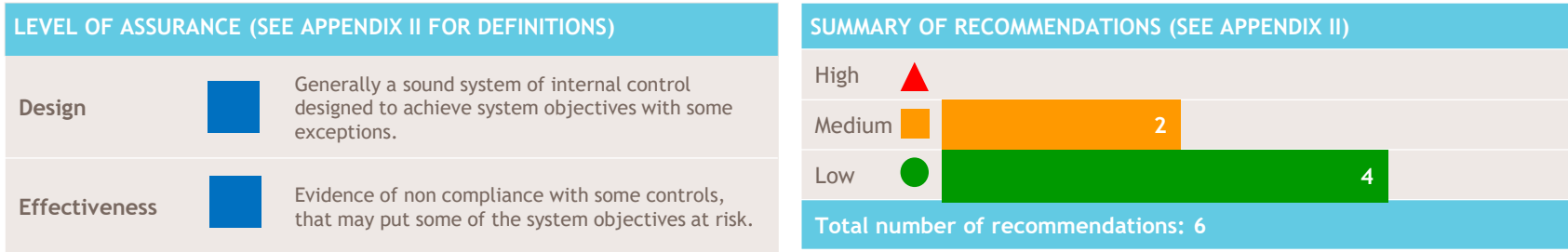
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David Cameron	Director of Corporate Services
Members of the Audit Committee	

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# EXECUTIVE SUMMARY



## OVERVIEW

**Background**

In accordance with the 2019-20 Internal Audit Plan, it was agreed that Internal Audit would review the design and operating effectiveness of the controls in place at Cairngorms National Park Authority ('CNPA/the Authority') surrounding payroll administration arrangements. The purpose of our review was to provide management and the Audit Committee with assurance that the Authority has appropriate arrangements in place in relation to their payroll administration.

Payroll at CNPA is, for the most part, processed by the Payroll & Finance Officer except on occasions of his absence, in which case the Finance Officer would process it. In addition to this, the Finance Officer will process at least one months payroll in the year to maintain familiarity with the process.

There is currently no payroll policy or procedure in place at CNPA, instead there is a set of "desk instructions" used at the Authority which describe in detail the steps for processing payroll and the related journals. These instructions were developed by the former Payroll Officer and are updated annually at the end of each tax year. Recent notable changes made to the instructions include the addition of the annual leave purchase scheme and also a change to the method of issuing payslips which were previously emailed to staff but are now made available on an online portal to increase security in response to the changes brought in by GDPR. Payroll documents are kept in physical form in folders for each four month period, each of these folders contains a physical copy of the desk instructions. The payroll files are stored securely in a locked cabinet on site.

Each month, a payroll amendment memorandum is prepared by the Head of Organisational Development which outlines any changes to salaries in the month. Examples of such changes are starters and leavers, employees changing roles, changes to working hours, absence due to sickness and maternity leave. The memo includes a calculation of the salary following the change which will be checked by the

# EXECUTIVE SUMMARY

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Payroll & Finance Officer prior to processing. Once the changes have been processed, the payroll run will be approved by the Director of Corporate Services and a signed copy is added to the payroll file. In addition to this, a report is run which provides analysis of the employer deductions broken down into four departments, being core staff, park convenors, board members and project staff. The BACS run is compared to the payroll run to ensure there are no discrepancies and is then authorised for payment by the Director of Corporate Services. Also included in the payroll file for each month is a P32 analysis of amounts owed to HMRC which is authorised by the Director of Corporate Services and a nominal link report which shows the amounts posted to each nominal code on the accounting system from the salary journal.

Employees of the Authority work on flexi-time and therefore complete timesheets which are not used in the processing of payroll but to keep track of hours worked for the purposes of measuring employees flexi balance and ensuring compliance with the Working Time Directive. Each employee maintains their timesheet on a spreadsheet which is stored in their individual appraisal folder on the share drive. Timesheets are to be signed by both the employee and their line manager on a monthly basis and HR will do random spot checks of timesheets every three months.

Instructions for the processing of both starters and leavers are included in the payroll desk instructions. HR will provide payroll with an extract of the new starter form at which point the employee will be set up on the payroll system. Details of the new starter and a calculation of their first salary will also be included in the payroll amendments memo prepared by the Head of Organisational Development. Leavers will have an exit interview with either the HR Officer or the Head of Organisational Development and a termination checklist will be completed by the HR Officer. When the leaver is processed on the payroll system (Sage 200), their record is automatically removed from the system, when they are processed on the HR system (Snowdrop) their record is retained but they are shown to be a leaver. There is a leavers checklist to be completed by HR on termination of a contract which details the steps to be taken such as the calculation of leave entitlement, the updating of systems and documents, and the return of key fobs or id cards. Leavers are also included in the payroll amendments memo with a calculation of their final salary. A starters and leavers report is provided from the HR System and is authorised and signed by the Director of Corporate Services before being filed in the payroll folder.

There are three monthly checks which are done to test for any errors or potential fraud in the payroll, as follows:

### 1) Snowdrop Reconciliation

A report of the monthly salaries from Snowdrop is produced by the HR Officer. This is then reconciled to the payroll report run from Sage 200 in order to identify any unexpected differences. The Payroll & Finance Officer performs the reconciliation which is then checked and authorised by the Director of Corporate Services or the Finance Manager in his absence. Examples of common reconciling items include an on-call allowance for IT staff, Board costs, an allowance for staff staying with friends on work trips, any amendments and any pay increases.

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### 2) Random Check by HR

Each month the Head of Organisational Development will perform a payroll check on five random employees to evidence that they have been processed correctly. In choosing employees for this check, she aims to choose a spread that represents a true mix of grades in the organisation. She will check the employees salary on the HR system and ensure it corresponds with the payslip when any adjustments are taken into account. A cover sheet is completed which notes the employees whose salary has been tested and notes explaining any differences, both this sheet and the relevant payslips are signed by the Head of Organisational Development and placed in the payroll folder.

### 3) Comparison with Previous Month

Each month the Payroll & Finance Officer will perform an informal check by which he compares each employees salary with that of the previous month as a sense check to identify any unexpected differences.

Access to the payroll and HR systems is restricted to authorised users by being tied to their user account. Snowdrop users are the Head of Organisational Development, the HR Officer and the Payroll & Finance Officer. Users of Sage 200 are the Payroll & Finance Officer and the Finance Officer. Although the Payroll & Finance Officer has access to Snowdrop, they noted that they do not use it and instead go through the HR Officer or Head of Organisational Development for any HR information requests. The payroll system is only installed on the computers of these two users. Access to payroll and HR files on the share drive is also restricted and if an unauthorised member of staff tries to access them, they are presented with an error message.

# EXECUTIVE SUMMARY

## OVERVIEW

### Scope and Approach

The scope of our review was to assess whether:

- An adequate payroll policy and procedure is in place;
- Payroll payments are correct and authorised appropriately;
- Amendments are processed in a timely manner, notable in relation to new starters and leavers;
- Appropriate exception reports are produced and reviewed prior to payroll being transmitted; and
- Access to human resources and payroll systems are restricted appropriately.

Our approach was to conduct interviews to establish the controls in operation for each area of audit work. We then sought documentary evidence that these controls were designed as described. We then evaluated these controls to identify whether they completely address the risks.

We then sought to gain evidence of the satisfactory operation of the controls to verify the effectiveness of the control through use of a range of tools and techniques.

During the course of our testing we kept management informed of any issues which arose as a result of our testing.

# EXECUTIVE SUMMARY

## OVERVIEW

### Key Findings

Our review highlighted a number of gaps within the payroll administration controls, which are summarised below:

- **Payroll policies and procedures:** There are a set of “desk instructions” created by the former Payroll Officer which sets out the procedure for payroll administration but this did not go through any formal approval process or peer review.
- **Access to systems:** The Payroll & Finance Officer currently has access to both the payroll and the HR system which could create an opportunity for fraud.
- **Amendments approval:** The Head of Organisational Development prepares a payroll amendment memo each month which contains details of any changes to salaries and a calculation of the resultant salary, the memo is checked and processed by the Payroll & Finance Officer. Amendments should be authorised by another member of staff who is not involved in processing payroll.
- **Post payment report:** There is no post payment report run or reviewed to ensure that no changes have been made to payroll after the BACS report is run.
- **Confidentiality agreement:** Staff involved in the payroll process are not required to sign a confidentiality agreement.
- **Automatic exception reporting:** The monthly reconciliations which are currently carried out are done manually, automatic exception reports generated by the payroll system would provide a more reliable report.

### Conclusion

At this stage, we can provide moderate assurance over the design and operational effectiveness of the controls in place in relation to payroll administration. We recommend management implement the noted control improvements to develop the current arrangements, and ensure they operate consistently across the Authority.



# EXECUTIVE SUMMARY

## RISKS REVIEWED GIVING RISE TO NO FINDINGS OF A HIGH OR MEDIUM SIGNIFICANCE


- ✔ An adequate payroll and expense policy and procedure has not been developed
- ✔ Amendments are not processed in a timely manner, notably in relation to new starters and leavers
- ✔ Inadequate exception reporting and supervisory controls may be in place, leading to failure to detect fraud or error
- ✔ Unauthorised access to the human resources and payroll system may lead to corruption of information or data theft



# EXECUTIVE SUMMARY

AREAS FOR IMPROVEMENT			
Ref.	Sig.	Finding Summary	Recommendation
1		<p>It is important that there is segregation of duties between payroll and HR to minimise the potential for fraud; no employee should be able to amend employee details on the HR system and also process payroll.</p> <p>During our review we found that the Payroll &amp; Finance Officer has access to both the payroll and HR systems.</p> <p>The risk is that an employee with access to both systems would be able to amend employee details such as their bank account or could create “ghost” employees.</p>	<p>We acknowledge that while the Payroll &amp; Finance Officer has access to the HR system, they do not use it. However, it is our recommendation that the Payroll &amp; Finance Officers access rights to the HR system be removed.</p>
2		<p>It is important that amendments to the payroll are properly approved to ensure that only accurate and authorised changes are processed.</p> <p>During our testing we found that amendments are calculated by the Head of Organisational Development and checked by the Payroll &amp; Finance Officer who also processes the payroll.</p> <p>The risk is that there is insufficient segregation of duties as the Payroll &amp; Finance Officer is checking the amendments and also processing them. There could be an opportunity for fraudulent or erroneous amendments to be processed without appropriate review and authorisation.</p>	<p>It is our recommendation that a third party with appropriate level of authority reviews and approves the monthly payroll amendment memo prepared by the Head of Organisational Development.</p>

# DETAILED FINDINGS AND RECOMMENDATIONS

RISK: Incorrect or unauthorised payments may be made			
Ref.	Finding	Sig.	Recommendation
1	<p>It is important that there is segregation of duties between payroll and HR to minimise the potential for fraud; no employee should be able to amend employee details on the HR system and also process payroll.</p> <p>During our review we found that the Payroll &amp; Finance Officer has access to both the payroll and HR systems.</p> <p>The risk is that the employee would be able to amend employee details or create ghost employees on the system.</p>		<p>We acknowledge that while the Payroll &amp; Finance Officer has access to the HR system they do not use it, however, it is our recommendation that the Payroll &amp; Finance Officers access rights to the HR System be removed.</p>
MANAGEMENT RESPONSE			RESPONSIBILITY AND IMPLEMENTATION DATE
<p>Recommendation agreed.</p>			<p><i>Responsible Officer:</i>  <i>Director of Corporate Services</i></p> <p><i>Implementation Date:</i>            November 2019</p>

# DETAILED FINDINGS AND RECOMMENDATIONS

RISK: Incorrect or unauthorised payroll payments may be made.			
Ref.	Finding	Sig.	Recommendation
2	<p>It is important that amendments to the payroll are properly approved to ensure that only accurate and authorised changes are processed.</p> <p>During our testing we found that amendments are calculated by the Head of Organisational Development and checked by the Payroll &amp; Finance Officer who also processes the payroll.</p> <p>The risk is that there is insufficient segregation of duties as the Payroll &amp; Finance Officer is checking the amendments and also processing them. There could be an opportunity for fraudulent or erroneous amendments to be processed without proper review and authorisation.</p>	■	<p>It is our recommendation that a review of the monthly payroll adjustment memo and spot check of changes is incorporated into the Director of Corporate Services review and authorisation of monthly payroll and the monthly payroll amendment memo prepared by the Head of Organisational Development.</p>
MANAGEMENT RESPONSE			RESPONSIBILITY AND IMPLEMENTATION DATE
<p>Recommendation agreed.</p>			<p><i>Responsible Officer:</i>  <i>Director of Corporate Services/ Payroll &amp; Finance Officer</i></p> <p><i>Implementation Date:</i>  <i>November 2019</i></p>

# DETAILED FINDINGS AND RECOMMENDATIONS

RISK: Incorrect or unauthorised payroll payments may be made			
Ref.	Finding	Sig.	Recommendation
3	<p>It is important that there is sufficient review and authorisation of the payroll at each stage of the process to ensure that payments made are accurate.</p> <p>During our review we found that there is no post payment report run or authorised.</p> <p>The risk is that changes may be made after the BACS report is run prior to processing the payment.</p>	●	<p>We recommend that in addition to the payroll report and BACS reports run each month, CNPA produce a post payment report which should be reviewed and signed by the Director of Corporate Services.</p>
MANAGEMENT RESPONSE			RESPONSIBILITY AND IMPLEMENTATION DATE
<p>Recommendation agreed</p>			<p><i>Responsible Officer:</i>  <i>Director of Corporate Services/ Payroll &amp; Finance Officer</i></p> <p><i>Implementation Date:</i>  <i>November 2019</i></p>

# DETAILED FINDINGS AND RECOMMENDATIONS

RISK: An adequate payroll and expense policy and procedure has not been developed			
Ref.	Finding	Sig.	Recommendation
4	<p>It is important that there is a clear policy and procedures in place regarding payroll administration to provide employees with guidance on the process to be followed.</p> <p>During our testing we found that there is no policy in place at the Authority, instead guidance is provided through a set of "desk instructions" created by the former Payroll Officer.</p> <p>The risk is that the current guidance has been developed by the payroll staff and has not been through the review and approval process of a policy.</p>	●	<p>We recommend that CNPA conduct a regular peer review of the desk instructions to ensure that they remain accurate and up to date. Evidence of the review should be seen on the instructions with version control and the date reviewed noted.</p>
MANAGEMENT RESPONSE			RESPONSIBILITY AND IMPLEMENTATION DATE
<p>Recommendation agreed.</p>			<p><i>Responsible Officer:</i>  <i>Director of Corporate Services or Head of Organisational Development</i></p> <p><i>Implementation Date:</i>            April 2020</p>

# DETAILED FINDINGS AND RECOMMENDATIONS

RISK: An adequate payroll and expense policy and procedure has not been developed			
Ref.	Finding	Sig.	Recommendation
5	<p>It is important that, due to the sensitive nature of information held by staff involved in the payroll process, confidentiality is maintained.</p> <p>During our testing we found that staff involved in the payroll process are not required to sign a confidentiality agreement.</p> <p>The risk is that staff may discuss confidential information regarding payroll which could lead to reputational damage.</p>	●	We recommend that all staff with access to payroll information are required to sign a confidentiality agreement.
MANAGEMENT RESPONSE			RESPONSIBILITY AND IMPLEMENTATION DATE
Recommendation agreed			<p><i>Responsible Officer:</i>  <i>Director of Corporate Services and Head of Organisational Development</i></p> <p><i>Implementation Date:</i>            March 2020</p>

# DETAILED FINDINGS AND RECOMMENDATIONS

RISK: Inadequate exception reporting and supervisory controls may be in place, leading to failure to detect fraud or error			
Ref.	Finding	Sig.	Recommendation
6	<p>It is important that exception reporting is used to identify any unexpected discrepancies in the payroll. Many payroll systems perform automatic exception reporting which will identify any changes to salaries from the previous month.</p> <p>During our testing we found that while the Authority perform monthly reconciliations between the HR and payroll systems and random checks on employee salaries, there is no automatic exception reporting carried out.</p> <p>There is a risk that using manual checks rather than automatic exception reporting could mean that some differences are missed out or not investigated.</p>	●	<p>It is our recommendation that the Authority investigate the potential for making use of automatic exception reporting. This may be within the capabilities of the current payroll system; a report would be generated of all the differences from the previous months payroll which could be reviewed and authorised.</p>
MANAGEMENT RESPONSE			RESPONSIBILITY AND IMPLEMENTATION DATE
<p>Recommendation agreed.</p>			<p><i>Responsible Officer:</i>  <i>Payroll and Finance Officer</i></p> <p><i>Implementation Date:</i>            March 2020</p>

# OBSERVATIONS

1. During our review we found that while timesheets are required to be signed by both the employee and their line manager, this is done inconsistently. Timesheets do not form part of the payroll process but are used to keep track of employees TOIL from working flexi-time and monitor compliance with the Working Time Directive. Given that this did not impact on the payroll process, it has fallen out of the scope of the review, however, we would recommend that employees are reminded of the importance of having their timesheet appropriately approved to verify their hours worked. We would also recommend that HR perform regular spot checks on timesheets and return them to employees if not appropriately authorised.










# APPENDIX I - STAFF INTERVIEWED

NAME	JOB TITLE
Mark Tucker	Payroll & Finance Officer
Kate Christie	Head of Organisational Development
Pip Mackie	HR Officer
Sandy Allan	IT Service Manager

BDO LLP appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and cooperation.

# APPENDIX II - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
<b>Substantial</b> 	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
<b>Moderate</b> 	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
<b>Limited</b> 	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
<b>No</b> 	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

Recommendation Significance	
<b>High</b> 	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
<b>Medium</b> 	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
<b>Low</b> 	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

# APPENDIX III - TERMS OF REFERENCE

## BACKGROUND

In accordance with the 2019-20 Internal Audit Plan, it was agreed that Internal Audit would review the design and operating effectiveness of the controls in place at Cairngorms National Park authority surrounding payroll administration arrangements.


## PURPOSE OF REVIEW

The purpose of this review is to provide management and the Audit & Risk Committee with assurance that Cairngorms National Park Authority has well designed, effective controls in place in relation to their payroll administration.

## KEY RISKS

Based upon the risk assessment undertaken during the development of the internal audit operational plan, through discussions with management, and our collective audit knowledge and understanding, the key risks associated with the area under review are:

- An adequate payroll policy and procedure has not been developed;
- Incorrect or unauthorised payroll payments may be made;
- Amendments are not processed in a timely manner, notably in relation to new starters and leavers;
- Inadequate exception reporting and supervisory controls may be in place, leading to failure to detect fraud or error; and
- Unauthorised access to the human resources and payroll system may lead to corruption of information or data theft.



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