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Cairngorms National Park Authority
Review of Payroll
Internal Audit 2004/05

March 2005
Strictly Private and Confidential

Contents

Appendices

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Section 1 - Executive Summary

1.1   Introduction

This review of payroll for the Cairngorms National Park Authority is part of our programme of coverage over core financial areas and is consistent with the audit plan approved by the Audit Committee. A Control Assessment, contained within Appendix A was completed during systems documentation and used as a basis for detailed testing. We have reported by exception only and where no comment is made, the results of our work indicate that the control objective was being met.

1.2   Background

Cairngorms National Park Authority employs 78 members of staff, 76 are paid monthly and 2 are paid on a weekly basis. Payroll is processed at headquarters in Grantown and relates to employees in the headquarters and also 8 employees in Ballater. The payroll officer is responsible for maintaining the payroll system.

Payroll is processed through the SAGE Accounting System. The payroll officer is responsible for recording new starts to the system and also removing employees who have left. In addition, she is also responsible for dealing with amendments and processing expense claims. Absence is recorded by line managers and in the payroll systems and records are maintained by the HR manager. Annual leave is also recorded within payroll and HR.

Hours paid are based on a standard contract. Contracts range from 10 to 37.5 hours. Overtime paid based on a standard rate for working hours during the week, time and a half for evenings and Saturdays and double time on Sundays. Flexi-time and time off in lieu (TOIL) are also available to all employees.

1.3   Approach

The overall scope of the audit was to evaluate the nature of the controls in place to ensure the adequacy and effectiveness of the payroll system. This was done by interviewing relevant staff and reviewing relevant documentation to identify the key controls within the system and the testing of these controls to determine compliance.

1.4   Overall Assessment

The following table summarises the areas of our review and our overall assessment of the control environment against process area:

Area of Control	Overall Assessment	Report Ref.
New Starts, Leavers and Amendments	****	
Payroll Processing	***	**2.2**
Journal Entries	****	
Overtime	****	
Payroll Review and Reconciliation	**	**2.3**
Access to Payroll Masterfile	****	
Payroll Reports	**	**2.4**
Absence Recording and Monitoring	***	**2.5**
Expense Claims	***	**2.6; 2.7**
Standing Financial Procedures	**	**2.1**

Key: ****   Arrangements accord with good practice and are operating satisfactorily (recommendations are in respect of minor matters).
             ***   Adequate arrangements are in place, but certain matters noted as requiring improvement.
             **   Arrangements in place offer scope for improvement.
             *   Inadequate level of control and unacceptable level of risk.

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Section 1 - Executive Summary (Continued)

1.4   Overall Assessment (continued)

In total, we identified **seven** recommendations as follows:

Description	Priority	Number
Major issues that we consider need to be brought to the attention of Management and the Audit Committee	1	1
Important issues which should be addressed by management in their areas of responsibility	2	6
Minor issues where management may wish to consider our recommendations	3	0
Key		**7**

1.5   Overall Conclusion

We can conclude that the controls in place for the management of the payroll system are adequate. However a number of weaknesses exist with regard to their effectiveness. We have summarised the weaknesses and issues below and further details of our findings and recommendations can be found within **Section 2** of this report.

Our key findings are as follows:

- No documented Standing Financial Procedures were available. *(Ref Recommendation 2.1);*
- 3 payment runs were not authorised by a senior member of staff. *(Ref Recommendation 2.2);*
- There are no reconciliations between information recorded in HR and information recorded in payroll. *(Ref Recommendation 2.3);*
- No exception, absence, expense or overtime payroll reports are produced. *(Ref Recommendation 2.4);*
- No official absence monitoring is carried out. *(Ref Recommendation 2.5);*
- Relocation expenses can be authorised by line managers. *(Ref Recommendation 2.6);*
- There are no authorised levels or signatory lists for the signoff of expenses. *(Ref Recommendation 2.7);*

Section 1 – Executive Summary (continued)

1.6   Acknowledgements

We would like to take the opportunity to thank all of the staff involved in assisting us in this audit. The findings and recommendations in this report were discussed with the Accountant at the conclusion of our fieldwork.

To assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

- *Priority One* - Major issues that we consider need to be brought to the attention of management and the Audit Committee,
- *Priority Two* - Important issues which should be addressed by the management in their areas of responsibility,
- *Priority Three* - Minor issues where management may wish to consider our recommendations.

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Section 2 - Detailed Findings and Recommendations (Continued)

2.1   Standing Financial Procedures - Payroll

Finding	Recommendation	Rationale
Discussions with the Finance Manager identified that there are no Standing Financial Procedures in place for the organisation including those to govern payroll processes.	Standing Financial Procedures should be completed and circulated to finance staff as soon as possible.	Standardisation of work and segregation of duties cannot be guaranteed.

Management Response		Responsibility/ Deadline	Priority
As discussed prior to the audit, the need to have Financial Regulations in place has already been highlighted by the external auditors and these will be in place prior to the start of the new financial year. There are, however, written procedures in place detailing the steps necessary to complete the normal monthly payroll cycle. These have been drafted by the Accounts Officer and, following the Finance Manager's appointment last year, have been tested by these two members of staff to ensure they are an accurate record of the process.		Finance Manager to finalise Financial Regulations (March 2005)	One

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Section 2 - Detailed Findings and Recommendations (Continued)

2.2   Payment Run Authorisation

Finding	Recommendation	Rationale
From a sample of payment runs selected from April to January, 3 were documented as not having senior management review or authorisation, although BACS transmission forms were authorised by the Finance Manager or Head of Corporate Services.	All payment runs should be reviewed and signed by Head of Corporate Services.	Incorrect or inappropriate payments may be made to staff.

Management Response		Responsibility/ Deadline	Priority
Agreed that all monthly payment runs should be reviewed and evidenced as such. The period for which the payment runs themselves were not signed coincided with a change of personnel but, as recognised in the finding above, BACS transmission forms were duly authorised. The BACS forms themselves set out a detailed listing of all payments to be made within a payroll, and their prior authorisation to a great extent replicates the authorisation of payment runs. In addition, monthly reviews of all expenditure by the Finance Manager present an additional cross-check of payroll which will highlighted unusual expenditure, albeit after payment has been made.		Head of Corporate Services (Monthly)	Two

Section 2 - Detailed Findings and Recommendations (Continued)

2.3   HR to Payroll Reconciliations

Finding	Recommendation	Rationale
There are no reconciliations between HR records and the Payroll system identifying starters, leavers and any amendments that have taken place.	A regular reconciliation should be carried out between the HR staff records and the payroll records to ensure all starters are included on both systems, all leavers are removed from both systems and that any amendments recorded in the HR system are recorded accordingly in the payroll system.	The accuracy of payroll processing cannot be guaranteed.

Management Response	Responsibility/ Deadline	Priority
The general principle that improved reconciliation between HR and payroll records is required is agreed. The HR Manager is currently progressing procurement of an HR system for the Authority. Reconciliation procedures will ultimately be designed around that new system and payroll. In the meantime, the HR Manager sends a memo to payroll each month notifying changes required. An independent reconciliation of changes made to payroll to this memo should be undertaken as part of the month-end sign-off process considered under finding 2.2.	Head of Corporate Services (monthly)	Two

Section 2 - Detailed Findings and Recommendations (Continued)

2.4   Payroll Reports

Finding	Recommendation	Rationale
Discussions with the payroll officer identified that other than the payment listing prior to the BACS run. No other payroll reports are produced from SAGE. The payroll officer is also unaware of the types of reports that can be produced.	Reports should be produced on a monthly basis through SAGE for: • Exceptions (e.g. all pays £100 or more over last pay); • Report on amendments for the month; • Staff Listings; • Levels of overtime; • Amount in expenses claimed each month; • Levels of absence. These should be passed to the accountant or Head of Corporate Services following the payroll run.	Effective monitoring of payroll may not be possible without reports.

Management Response	Responsibility/ Deadline	Priority
Initially, it is proposed that an exception report identifying all pays in excess of 5% above the previous month should be prepared in order to allow identification and investigation of any potential errors. The Finance Manager and Accounts Officer will undertake a review of the Authority's use of SAGE payroll to identify any further reports required and any associated training requirements in use of SAGE payroll.	Accounts Officer (Monthly from April 05) Finance Manager and Accounts Officer (by end April 05)	Two

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Section 2 - Detailed Findings and Recommendations (Continued)

2.5   Absence Monitoring

Finding	Recommendation	Rationale
Discussions with the HR manager identified that there are no formal monitoring procedures in place with regard to absence. Occasional checks are made of the absence certificate file to identify regular absences, but no reports are produced for local or senior management review.	Formal reports should be produced detailing levels of absence for the organisation and also by department. It is acknowledged that as no HR system is in place at present this may be difficult but this should be implemented as soon as possible to allow for effective monitoring procedures with regard to HR.	General monitoring of absence can indicate problems in effectiveness or prompt investigation into the underlying causes of absence, for example, workload.

Management Response		Responsibility/ Deadline	Priority
It is already planned that half-yearly management reports on absences and other HR related information (e.g. staff turnover, recruitment and retention) will be prepared for Management Team and the Board's Staffing and Recruitment Committee. It should also be noted in this regard that the Staff Handbook (December 2004) identifies that line managers have a responsibility for monitoring and managing absence levels.		Head of Corporate Services and HR Manager (By August 2005)	Two

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2.6   Relocation Expenses

Finding	Recommendation	Rationale
Our testing identified that expense claims for relocation expenses are signed off by Heads of Group. These are for amounts ranging from £500 to £1,500.	All expense claims for relocation fees and also all expenses over a value of £1,000 should be authorised by the Chief Executive or Head of Corporate Services.	At present there are no procedures as to the amount that should be claimed for relocation, however it is possible that larger amounts could be claimed than are acceptable without the authorisation of Head of Corporate Services or the Chief Executive.

Management Response		Responsibility/ Deadline	Priority
The rationale above is incorrect, in that there is a policy for reimbursement of relocation expenses, as set out in the Relocation Expenses Form. Limits for delegated authority for expenditure are being worked on for all aspects of expenditure and relocation costs will be included within that overarching regulation.			Two

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Section 2 - Detailed Findings and Recommendations (Continued)

2.7   Authorised Signatory List

Finding	Recommendation	Rationale
Our testing identified that all expenses were authorised by senior members of staff; however there is no list in place detailing authorised levels of authority and approved signatories.	An authorised signatory list should be created detailing staff authorised to sign off expense claims and any thresholds for authorisation.	Inappropriate payments may be authorised.

Management Response	Responsibility/ Deadline	Priority
Agreed that this is a worthwhile additional control, although given the scale of the operation and the full coverage shown by the testing of claims, there is some question as to whether this should be a priority three recommendation rather than priority 2 as shown. Authorised signatory list will be developed following finalisation of delegated authority limits referred to in response to 2.6.	Finance Manager / July 2005	Two

Section 3 - Statement of Responsibility

We take responsibility for this report, which is prepared on the basis of the limitations set out below.

Enterprise Risk Services

Deloitte & Touche LLP
Inverness

March 2005

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full financial and operational impact before they are implemented. This report has been prepared solely for use by Cairngorms National Park Authority and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose.

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Appendix A - Control Assessment

Payroll - Assynt House *KEY CONTROLS*	CONTROL IN PLACE?				YOUR EFFECTIVENESS ASSESSMENT			
	YES	NO	N/A		OPTIMAL	ADEQUATE	NEEDS IMPROVING	INADEQUATE
Responsibility: All new employees and changes to pay rates are subject to structured authorisation and approval procedures.	✔					✔		
Responsibility: All changes to the payroll masterfile are approved by an senior member of the relevant department	✔					✔		
Responsibility: A masterfile changes or edit report is reviewed each pay period by a senior / independent person to ensure no unauthorised or unsubstantiated changes to the payroll masterfile take place.		✔						
Responsibility: Access to the payroll masterfile is appropriately restricted to relevant members of staff (and minimised where possible).	✔				✔			
Responsibility: Hours worked and sickness absence are accurately captured each period and reviewed by relevant local supervisors / managers before being used as the basis of the payroll run.		✔						
Responsibility: Absence is accurately captured each period and reviewed by relevant local supervisors / managers before being used as the basis of the payroll run.		✔						
Responsibility: A payroll exception or detail report is reviewed by an independent / supervisory team member prior to payroll processing to identify any unusual payroll amounts with respect to hours paid or payroll amounts.		✔						
Responsibility: The total payroll payment print is reviewed and signed by a senior finance team member before processing.	✔						✔	
Responsibility: A reconciliation is undertaken to check that the payroll amount actually processed and paid through the bank is consistent with the amount on the payroll print.	✔					✔		
Responsibility: A reconciliation of the number of staff on the payroll to previous period, adjusted for starters and leavers, is completed monthly and any differences investigated.		✔						

Appendix A - Control Assessment

Payroll - Assynt House	CONTROL IN PLACE?			YOUR EFFECTIVENESS ASSESSMENT			
KEY CONTROLS	YES	NO	N/A	OPTIMAL	ADEQUATE	NEEDS IMPROVING	INADEQUATE
Responsibility: Payroll journals are posted to the Nominal Ledger accurately and timeously each month and this verified by a senior member of the finance team	✔				✔		
Responsibility: Payroll and insurance taxes due to government agencies are paid timeously.	✔				✔		
Responsibility: All expense claims are submitted on a standard form with receipts attached and are reviewed by a manager or director senior to the person claiming the expenses before approval for payment.	✔				✔		
Responsibility: There is positive reporting of all staff attendance on appropriately authorised documents.		✔					
Responsibility: Where independent, the payroll and personnel systems should be reconciled regularly.		✔					
Responsibility: Exception reports are produced showing, for example, negative net pay, gross greater than a given percentage of basic pay etc. and are independently investigated and resolved.		✔					
Responsibility: Overtime is appropriately authorised and reflected in the payroll on a timeous basis.	✔				✔		

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Appendix B - Personnel Interviewed

- **Denby Pettitt – Finance Manager**

- **Francesca Scott – HR Manager**

- **Morag James – Payroll Officer**

- **Mandy Mathieson – Finance Assistant**