



# West Midlands Combined Authority

## Final Internal Audit Report: Key Financial Systems: Payroll

2023-2024

**Report Date:** 11 January 2024

**Report Distribution:** Kate Ketteringham – Group Payroll and Payments Manager

Laurence Adams – Head of HR

Linda Horne – Executive Director, Finance and Business Hub

## 1. Executive summary

### Introduction

An audit of the payroll system was undertaken as part of the approved internal audit plan for 2023/24. The purpose of the review was to provide independent assurance regarding the effectiveness of the system established for the administration of the WMCA payroll. As a key financial system, payroll is reviewed annually. The last review was completed in March 2023. The opinion was satisfactory. As part of this review, we also undertook a follow-up of the implementation of the agreed action points from the 2022/23 audit review which was issued on 9 March 2023.

### Objectives, potential risks, and scope of audit work

Our audit was conducted in conformance with the Public Sector Internal Audit Standards and considered the following:

Objectives:	To ascertain the adequacy of controls in place for the administration of the organisation's payroll systems and the degree of compliance with the Combined Authority's Financial Regulations and Constitution.
Potential Risks:	<p>The following system risks were identified in relation to the organisation's payroll:</p> <ul style="list-style-type: none"> <li>• Payroll payments may not reflect the correct entitlements of permanent staff, or those joining or leaving the authority.</li> <li>• The operational and financial details of the payroll may not be reconciled to confirm the accuracy of financial and employee records, statutory and other deductions, and the payments made from the WMCA bank accounts.</li> <li>• Undetected errors or fraud may occur if, due to the lack of adequate controls, payroll or other staff can make unauthorised entries or deletions to records.</li> <li>• Budget holders may not achieve their operational or financial objectives because they are not provided with the information necessary to check and manage their payroll costs.</li> <li>• Staff may experience hardship if there is an underpayment of their salaries. If overpayments are made, the Authority may suffer financial loss, or have difficulty recovering the funds from staff.</li> <li>• Statutory, pension and other deductions may not be remitted to the relevant body on a complete, accurate and timely basis.</li> </ul>
Scope:	<ul style="list-style-type: none"> <li>• Starters / leavers / payroll amendments are authorised.</li> <li>• Payroll runs are authorised and reconciled.</li> <li>• Adequate segregation of duties.</li> <li>• Adequate management information is shared with budget holders monthly.</li> <li>• Overtime payments are appropriately authorised and correctly calculated.</li> <li>• Payments to third parties are adequately controlled / managed.</li> </ul>

Limitations to the scope of our audit:	<p>This review will focus on evaluating the controls of the Business World payroll system and testing the areas detailed in the above scope. Testing will cover the period from 1 April to 30 November 2023.</p> <p>The review will not cover third-party and company payrolls.</p>
--	---

### Overall conclusion

Our audit provides **Satisfactory** assurance over the adequacy of the controls reviewed as part of the process to mitigate risks to an acceptable level.

No Assurance	Limited	Satisfactory	Substantial
<p>Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.</p>	<p>Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.</p>	<p><b>There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.</b></p>	<p>A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.</p>

### Key issues identified

We rate each issue identified based on the following:

<p><b>Red</b> Action is imperative to ensure that the objectives for the area under review are met</p>	<p><b>Amber</b> Action is required to avoid exposure to significant risks in achieving objectives</p>	<p><b>Green</b> Action is advised to enhance risk control or operational efficiency</p>
--	---	---

We have identified three **amber** issues where improvements could be made, arising from the following:

- The Payroll Balance report is a primary control on the amounts posted from the payroll system to the general ledger. For one month in our sample of three months, the report did not bear evidence of independent review.
- Payments to third parties are detailed on payment instructions which are required to be signed by the preparer and countersigned as checked by prior to payment. 3 of the 8 requisitions prepared for November 2023 had not been independently countersigned.
- The Payroll Tracker is a spreadsheet maintained by HR: they list all payroll events on this document and it serves as an independent check on the information on BusinessWorld. From our sample of 10 starters, we noted that one employee’s details had been omitted from the tracker.

In addition, we have raised one issue classified as **green** which is detailed in section two of this report.

A copy of this report will be presented to the Audit, Risk and Assurance Committee.

### Examples of good practice identified

During our work we identified the following examples of good practice in the management of risk, as achieved through the effective design and application of controls:

- Details of salary and leaving dates were correctly recorded on the trackers and BW for leavers. We confirmed that payroll had correctly calculated the salary and outstanding holiday pay for leavers. Due to the complexity of the calculations, it is envisaged that these amounts will continue to be manually calculated for the time being.
- The pay award for 2023 had been correctly applied to employees based on their full- or part-time employment status.
- Payroll staff carry out a series of checks on error reports produced by the BW system and the system of checks and error reporting ensures that the payroll is agreed and reconciled. This preventing any potential errors to be identified on a timely basis.
- The allocation of system roles and access rights ensures that only members of the Payroll Team have access to payroll system.
- All staff roles are allocated to a cost centre on BW, and this cost centre determines where the costs will be posted. Changes to the cost centre are initiated by HR, in response to a role change of the employee.
- All employees overtime payments could be traced to their overtime document and in all cases, these had been formally approved by their manager. We confirmed that the correct hourly rates and overtime multiples had been used.
- Amounts due to third parties are identified from all BW payroll reports in the first instance, and where necessary the Payroll Team aggregates amounts from all the payrolls that they control. Records and reconciliations of these amounts are prepared each month and amounts payable are subject to independent review by senior management before payment.

### Acknowledgement

Members of the Payroll Team gave their time and co-operation during this review. We would like to record our thanks to all the individuals concerned.

## 2. Findings and recommendations

**Action is required to avoid exposure to significant risks in achieving objectives**  
Amber

### 1. Payroll Balance Report

**Findings:** The Payroll Balance report is a primary control mechanism for ensuring that the payroll is reconciled and the gross and net amounts to be posted to the financial ledgers are in agreement. This document should be prepared and signed by a Payroll Officer and countersigned by the Group Payroll and Pensions Manager. We noted that, due to an administrative oversight, the September 2023 Payroll Balance Report had not been countersigned by the Group Payroll and Pensions Manager.

We also noted that the Balance report had spaces for the signatures by the Head of FM and the Lead Planning Accountant, and these appeared to be redundant and not in use. Instead of this signature, we noted that the Head of FM and a member of the Lead Planning Accountants team are sent an email asking them to check the payroll balances and reply should they believe there are any discrepancies.

**Implications:** If the check of the Payroll Balance Report is not certified and signed as evidence of a check, there is a risk that the control is ineffective, and errors or anomalies in the balances and reconciliations may not be identified or corrected.

**Recommendations:** The payroll balance report should be checked and independently countersigned each month prior to any payments being made to third parties.

The need for the additional signatories on the sheet should be reviewed, and the sheet should be amended or updated as necessary.

**Agreed Actions:** All payroll balance reports are checked and countersigned by the Group Payroll manager each month for every payroll, unfortunately in this scenario the countersignature had been omitted. Agree to ensure the countersignature is present and will look to update the template to remove data no longer required.

**Responsible Officer:**  
Group Payroll and Payments Manager

**Target Date:**  
April 2024

### 2. Payment instructions for third party payments

**Findings:** Each month, a payment instruction is prepared from the information in the BW payroll transactions and balances reports. A cheque/BACS requisition report is produced for each payment and these reports should be signed by the preparer and checked independently and signed in evidence of this review. We reviewed the 8 payment requisitions prepared for the November payroll and noted that 3 of them had been signed as prepared and checked by the same signatory.

We note that the spreadsheet detailing all the November payment requisitions was sent to the Group Payroll and Payments Manager and Head of Financial Management and their formal approval for the payments was obtained.

**Implications:** There is a risk that incorrect or fraudulent balances or transactions may not be identified if the payment requisition reports for third party payments are not independently checked prior to payment.

**Action is required to avoid exposure to significant risks in achieving objectives  
Amber**

**Recommendations:** Procedures should be strengthened to ensure that the cheque/BACS requisition report produced for each third-party payment is independently checked and signed in evidence of this check.

**Agreed Actions:** Independent checks are taken by the Group Payroll Manager of all third payments produced, this is supported and verified via email. Will look to remove the check box on the form on the cheque/BACS requisition as this is not required as the email is the verification.

**Responsible Officer:**  
**Group Payroll and Payments Manager**

**Target Date:**  
**April 2024**

### 3. Payroll Tracker

**Findings:** The payroll tracker is completed by HR as a log of all the HR events and actions that have an impact on payroll and would normally include all details of starters and leavers. The starters serve as a control and check that the information on Business World is complete and accurate. In our test of 10 starters, we noted that the salary details of one individual was not recorded on the Tracker. We were informed that HR had missed the employee off the tracker and the record had been made by the Payroll Team.

**Implications:** If the payroll tracker is not completely updated there is a risk that the Payroll Team may not have a complete and accurate independent source of information to corroborate the entries on BW.

**Recommendations:** A timely and accurate log of all omissions or errors should be made and brought to the attention of the head of HR ASAP. All errors and omissions should be investigated and signed off by the head of HR.

**Agreed Actions:** In cases where there is an omission from the HR tracker, it is immediately brought to the attention of the HR Service Centre, who will confirm action/correct data prior to the payroll being processed. The Head of HR does not deal with day-to-day transactional entries for HR; therefore, feel the HR Operations Manager would be more appropriate to investigate/confirm if required. The HR Operations Manager is included in the HR Service Centre email address where all queries are raised. Also monthly follow up meetings are held with the HR Operations Manager, HR Service Centre Manager, Group Payroll Manager, Payroll Officer and HR administrators to review any previous month omissions/errors to ensure understanding and to prevent similar future omissions/errors.

**Responsible Officer:**  
**Group Payroll and Payments Manager**

**Target Date:**  
**April 2024**

**Action is advised to enhance risk control or operational efficiency**  
**Green**

#### 4. Payroll System Access Profiles

**Findings:** User profiles determined the systems that officers can access within BW. To ensure adequate segregation of duties and to protect the integrity of the payroll and employee records, the HR and Payroll systems are separate, and access is granted to those staff who need to access the systems as part of their duties. Payroll officers have been granted profiles which are restricted to the payroll systems only. The Group Payroll and Pensions Manager has been granted a profile which enables access to the HR and Payroll systems. We understand that this was initially granted during the systems implementation process, and it is intended that an appropriate "Payroll Manager" profile will be created in January 2024.

**Implications:** There is a risk that the authority may suffer financial loss if employee data and payments are created or amended by staff who have access to both the Payroll and HR systems.

**Recommendations:** The role of Payroll Manager should be created in accordance with the given timeline of January 2024.

**Agreed Actions:** Agreed

**Responsible Officer:**  
ERP Systems and Analytics Mgr

**Target Date:**  
January 2024

## Limitations inherent to the internal auditor's work

This report has been prepared solely for the Combined Authority in accordance with the terms and conditions set out in the terms of reference. Internal audit does not accept or assume any liability of duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted, or referred to without prior consent. Internal audit has undertaken this review subject to the limitations outlined below.

### Internal control

- Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

### Responsibilities of management and auditors

- It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of irregularities and fraud. Internal audit work should not be a substitute for management's responsibilities for the design and operation of these systems.
- Internal audit endeavours to plan audit work so that it has a reasonable expectation of detecting significant control weakness and if detected, will carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.
- Accordingly, these examinations by internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist.

Stage	Date
Draft issued	2 January 2024
Revised draft issued	9 January 2024
Final issued	11 Januray 2024
ARAC meeting date	30 January 2024



## Appendix 1 Follow up of March 2023 Audit

**Follow-up of previous payroll report (March 2023)**

**Findings:** As part of our review, we checked the status of recommendations made in the previous report. Where the recommendation was checked by audit testing as part of this year's fieldwork, we have made new recommendations as appropriate in the preceding sections. All outstanding recommendations refer to items which were initially classified as Green.

**Implications:** If the recommendations are not implemented as envisaged in the original March 2023 Payroll Report, there is a possibility that the risks identified may not be managed.

<b>Recommendation (March 2023)</b>	<b>Status</b>
<p><b>4.ii (ii) Segregation of Duties - Green</b> Systems access reports should be available from the system to allow an annual review of access in order to ensure access roles have been allocated correctly and revoked for officers who have left the organisation or changed role.</p>	<p>This is still on the radar for a future development. As mentioned, Business World is an ERP system which expanded to include HR and Payroll from April 2022, therefore developments within the system build are still on going.</p>
<p><b>6. Monitoring / exception reports not available - Green</b> Additional training should be provided to the Group Payroll and Pensions Manager on writing reports to allow them to produce any reports that they require.</p>	<p>A training programme has been devised, and dates for the participation of the Payroll Team are yet to be finalised.</p>

**Agreed Actions:**

<b>Recommendation</b>	<b>Further Management Action</b>
<p><b>4.ii (ii) Segregation of Duties</b></p>	<p>Access reports are available to view system access: Implemented. The requirement to end access when employment ceases is still manual, however is still on the radar for future development to end access automatically when employment ceases.</p>
<p><b>Responsible Officer:</b> <b>ERP Systems and Analytics Manager</b></p>	<p><b>Target Date:</b> Not scheduled</p>
<p><b>6. Monitoring / exception reports not available - Green</b></p>	<p>In house training has been undertaken. External training date to be agreed in coming months dependent on workload.</p>
<p><b>Responsible Officer:</b> <b>Group Payroll and Payments Manager</b> <b>/ERP Systems and Analytics Manager</b></p>	<p><b>Target Date:</b> June 2024</p>