



West Midlands Combined Authority

Internal Audit Report: Payroll Key Financial System Audit 2022 - 2023

Report Date: 9 March 2023

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1. Executive summary

Introduction

An audit of the payroll system was undertaken as part of the approved internal audit plan. This was a full systems review, to take account of the system change from SAGE to Business World on 1 April 2022.

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:	The audit aims to give assurance that there is an appropriate system in place to ensure that correct payments and deductions are being made to genuine WMCA employees
Potential Risks:	<ul style="list-style-type: none"> • Inadequate segregation of duties in the payroll system resulting in potential inaccuracies / fraud. • Ghost employees set up on the payroll are undetected and inadvertently paid. • Employees will be paid after they have left, and outstanding amounts are not recovered. • Unauthorised changes may lead to fraudulent payments. • Inaccuracies in the payroll resulting from unauthorised and unreconciled payroll runs being operated. • The organisation's accounts are inaccurate due to posting errors. • Payments to third parties are inadequately controlled and managed resulting in errors being made. • Errors and omissions are not identified resulting in employees being either under / over paid. • Access to the payroll is inadequately controlled leading to potential data breaches.
Scope:	<p>The scope of the audit includes coverage of the following core controls:</p> <ul style="list-style-type: none"> • Starters • Leavers • Amendments to payroll / deductions (including updates to system control files) • Payroll runs • Payments to third parties (i.e., HMRC, pension schemes) • Management controls including a review of processes for exception reporting and corrective action taken • Access Arrangements
Limitations to the scope of our audit:	<p>This review will focus on reviewing the controls of the new Business World payroll system and testing the areas detailed in the scope. Testing will cover the period from 1 April to 30 September 2022.</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
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.	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.	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.	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Key issues identified

We rate each issue identified based on the following:

Red Action is imperative to ensure that the objectives for the area under review are met	Amber Action is required to avoid exposure to significant risks in achieving objectives	Green Action is advised to enhance risk control or operational efficiency
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We have identified two **amber** issues where improvements could be made, arising from the following:

- There is no evidence maintained to support the verification of control table changes made by the Business World Support Team.
- There is no policy in place regarding the recovery or write off of salary overpayments. Testing found that an overpayment had not been recovered and there were no records to support whether the overpayment had been approved for write-off.

In addition, we have raised five issues classified as **green** which are 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:

Starters

- All starters had been accurately input by Human Resource officers and checked by payroll to the payroll tracker.
- The first months' pay had been correctly calculated and paid on a timely basis
- Back pay had been correctly calculated and paid on a timely basis to individuals who started after the payroll had been run for that month.
- Appropriately completed opt out forms were evidenced for the new starters who opted out of the pension scheme.
- Voluntary deductions are only made on receipt of an official request and testing confirmed that the deductions being made were for the correct amounts.

Leavers

- All leavers' details were being accurately recorded by Human Resource officers on Business World.
- Final payments to leavers were correctly calculated and paid on a timely basis.

Amendments

- Business World had correctly calculated pay following a change in employee's circumstances.
- All changes had been made on a timely basis by Human Resource officers.
- There was suitable evidence to show that changes and the effect on pay had been checked by Payroll officers.

Payments to third parties

- Third party payroll payments were subject to independent checks and sign off by the Head of Financial Management prior to payment.
- Payments to third parties are being made accurately and on a timely basis.

Acknowledgement

Several employees 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 Control Table

Finding:

Currently the WMCA Business World support team are responsible for uploading changes to the payroll control tables. Based on recent changes to the tables it is understood that Group Payroll and Pensions Manager undertook some checks to ensure these had been correctly uploaded. At the time of this review, it was not possible to evidence this as no audit trail had been retained to support the check undertaken.

It was only possible to check the control tables to agree pay steps up to SP52. There is currently no formal pay structure for senior management therefore senior officer salaries are paid in accordance with the amount agreed in accordance with their contract of employment. For the purpose of this review, we have not verified pay for those contracts that fall outside the current pay structure (i.e., senior officers and TUPE transfers).

Implication:

- Incorrect payments and statutory deductions could be made
- Employees may be incorrectly paid
- Reputational risk to the organisation

Recommendation:

The Group Payroll and Pensions Manager should seek copies of control tables each time an update is undertaken to provide assurance that information has been correctly updated in the system's control files. These should be signed and dated to evidence the checks undertaken.

Agreed Actions:

Agreed. Upon upload of the new tables, officers from payroll will ensure the changes have been correctly entered and any discrepancies investigated.

Responsible Officer:

Kate Ketteringham, Group Payroll and Pensions Manager

Target Date:

6 April 2023

2. Recovery / write-off of overpayments

Findings:

The audit identified that there is currently no policy or procedure in place for agreeing how salary overpayments are dealt with. In addition, it was noted that there was no record being maintained to show details of all overpayments made and any decision made regarding either the write-off or recovery of the overpayment.

Testing of a sample of leavers identified a leaver that had not been promptly entered on the system, by Human Resources, the service area had failed to notify them that the individual was leaving, resulting in a salary overpayment of £494.71. It is understood that a decision was made not to recover the overpayment as it was felt that there was little likelihood of the money being repaid. It is further understood that this case would have been discussed with Human Resources and the service area. However, there was no evidence retained to support this discussion and the decision taken to write-off the overpayment.

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

Implications:

- Overpayments may be inconsistently collected and written off
- Overpayments may not be recovered
- Overpayments are being written off without proper authorisation

Recommendations:

- (i) An overpayments policy and procedure should be established, which clearly sets out the decision process for the write-off or recovery of overpayments. The decision to write-off overpayments should reside with the organisations Section 151 Officer.
- (ii) A formal record should be maintained showing details of all overpayments made. The record should the reason for the overpayment, recovery decision, method of recovery and confirmation that the overpayment has been recovered.
- (iii) Attempts should be made to recover all overpayments before a decision is made to write the amount off. If the overpayment is to be written off this should be authorised in accordance with the organisation's write off / debt management policy and records retained to support the decision made.

Agreed Actions:

Agreed. An overpayments policy will be written and appropriate records will be maintained to support the decisions made with regard to the recovery or write off of overpayments.

Responsible Officer:

Kate Ketteringham, Group Payroll and Pensions Manager

Target Date:

6 April 2023

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

3. Payroll data not being retained

Findings:

Testing of the payroll runs could not be completed as the PR01 and PR02 system reports were not available. Without the PR01 report it is not possible to provide assurance that any errors or exceptions had been corrected before the PR02 (Payroll Confirmation) process was run.

After further investigation, the system providers (UNIT4) confirmed that the system had been set-up to delete these files after 90 days and therefore it was not possible to retrieve the information.

There was no evidence that WMCA's external auditors were consulted around the retention of these reports and the potential implications this may have on the annual auditing and certification of accounts.

Implications:

An audit trail of the payroll run process is not maintained.

Recommendations:

- (i) The Group Payroll and Pensions Manager and Business World Support Team should review how the payroll has been set up to ensure that key system files and reports are suitably retained.
- (ii) Business World should be reviewed to identify any other records or files that are not being retained for longer than 90 days to ensure there are no statutory implications such as external audit or HMRC retention requirements.

Agreed Actions:

- (i) Agreed. Business World Support are going to copy the PR01 and PR02 files over on a monthly basis, as part of the period end routine, to the PROD WES Datafiles area. Access will be restricted to the Payroll Team and Business World Support. In addition, the payroll team will also save a PDF version in their working folders of the final reports run, as this supports payroll sign off. As a minimum this will include the PR01, PR02 and PR14 – Back pay reports (once working).
- (ii) Agreed. Business World has been reviewed and a decision has been made regarding which reports / files need to be archived. A regular review of report and retention requirements will be undertaken.

Responsible Officer:

Carolyn Prince, ERP Systems and Analytics Manager and Kate Ketteringham, Group Payroll and Pensions Manager

Target Date:

Implemented

4. Access to payroll and Human Resource functions

Finding:

Based on information supplied by the ERP Systems and Analytics Manager there are currently two Human Resources Officers and the Group Payroll and Pensions Manager that have access to both the payroll and human resource functions in Business World. Therefore, these officers have the ability to set up new employee records and enter payroll information in order for them to be paid, thus compromising a separation of duties.

Action is advised to enhance risk control or operational efficiency
Green

The audit identified that there are five unique roles set up within the payroll system. However, it was not possible to test whether access had been assigned correctly as requested systems access reports were not provided at the time this report was produced.

Implication:

- Unauthorised changes may be made
- Inadequate separation of duties being maintained

Recommendation:

- (i) Officers with access to both the human resource and payroll functions should be reviewed and where possible amended to allow a separation of duties. Where this is not practically possible exemption reports should be produced to identify cases where the same employee has created the employee record and entered the payroll information. These reports should be subject to independent scrutiny.
- (ii) 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.

Agreed Actions:

- (i) Access to WA-Payroll has now been removed for the two HR officers identified and a separate role created for them so they can action the tasks on the positions as required. The new role is WA-HRPOSREG.
- (ii) Agreed. The longer-term goal will be that access is attached to the position register; therefore, should the position change/end the relevant access be automatically updated

Responsible Officer:

Carolyn Prince, ERP Systems and Analytics Manager and Kate Ketteringham, Group Payroll and Pensions Manager

Target Date:

6 April 2023

5. Automatic calculation of back pay**Findings:**

Where back pay had to be paid for new starters this is calculated manually by the Payroll and Pensions Officer and then checked by another officer. It is understood that when Business World was initially implemented the back pay function was not working.

Following discussions with the Group Payroll and Pensions Manager it is understood that back pay can now be calculated by Business World, if back pay is run individually for a new employee. However, if a bulk back pay run (e.g., for the pay award) it will calculate back pay that has previously been entered manually. Therefore, at the time of audit all back pay was being manually calculated and entered until this is resolved.

Implications:

- Individuals may be incorrectly paid
- Time consuming to undertake manual calculations

Recommendations:

Action is advised to enhance risk control or operational efficiency Green	
<p>The back pay function in Business World should be reviewed by the Business World Support Team, in conjunction with the Group Payroll and Pensions Manager, to resolve the issues around the system calculating back pay. Once resolved, the manual calculation of back pay should stop and all calculations should be processed within Business World.</p>	
<p>Agreed Actions: Agreed. Further work on the implementation of the system is still required and on-going this includes work on the automatic calculation of back pay.</p>	
<p>Responsible Officer: Carolyn Prince, ERP Systems and Analytics Manager and Kate Ketteringham, Group Payroll and Pensions Manager</p>	<p>Target Date: 6 April 2023 - On-going with further system improvements</p>
6. Monitoring / exception reports not available	
<p>Findings: The audit identified that there is currently a limited suite of standard payroll reports, built within Business World. Currently Payroll officers are either writing their own reports or pulling information out of Business World into Excel spreadsheets to complete their payroll checks. It is understood that the most significant report that is missing is an amendment logging report that shows changes being made.</p>	
<p>Implications:</p> <ul style="list-style-type: none"> • Mistakes and omissions can arise from manual intervention • Action being taken is time consuming and circumventing the payroll system 	
<p>Recommendations:</p> <p>(i) The Business Support Team / payroll Business World consultant should be asked to produce the reports required by the payroll team to allow them to efficiently manage and run the payroll.</p> <p>(ii) 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>Agreed Actions:</p> <p>(i) Agreed. Requests for a usable amendment logging report have been made previously but the report has not been produced.</p> <p>(ii) Agreed. Requests have been previously agreed.</p>	
<p>Responsible Officer:</p> <p>(i) Carolyn Prince, ERP Systems and Analytics Manager and Kate Ketteringham, Group Payroll and Pensions Manager</p> <p>(ii) Carolyn Prince, ERP Systems and Analytics Manager and Kate Ketteringham, Group Payroll and Pensions Manager</p>	<p>Target Date: 6 April 2023</p>

Action is advised to enhance risk control or operational efficiency
Green

7. Completion of payroll tracker

Findings:

Audit testing identified that Human Resources have not been recording details of all leavers and payroll changes on the payroll checker spreadsheet. As a result of this Payroll Officers have not been able to confirm that pay has been correctly calculated.

Implications:

- Mistakes and omission can occur where manual intervention is required.

Recommendations:

Human Resources should be reminded that all payroll changes including starters, leavers, and contract changes should be recorded on the payroll tracker.

Agreed Actions:

Agreed. Monthly meetings are in place with Human Resources to resolve issues with information provided on the payroll tracker. In addition, the drop down boxes have been introduced to control the variety of information being recorded.

Responsible Officer:

Kate Ketteringham, Group Payroll and Pensions Manager

Target Date:

Implemented

Limitations inherent to the internal auditor's work

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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	06 February 2023
Exit meeting	14 February 2023
Final issued	09 March 2023
ARAC reporting date	30 March 2023
ARAC meeting date	18 April 2023