

<b>Meeting</b>	<b>Audit, Risk and Assurance Committee</b>
<b>Date</b>	<b>5 May 2021</b>
<b>Location</b>	<b>By video conference</b>
<b>Title of Paper</b>	<b>Payroll Internal Audit Report</b>
<b>Presented By</b>	<b>Gary Devlin, Partner, Azets</b>
<b>Recommendation to Members</b>	<b>For Discussion</b>
<b>Appendix Attached</b>	<b>Internal Audit Report - Payroll</b>

**PURPOSE**

This paper presents our final report on the review of Payroll

The paper is presented for the Audit, Risk and Assurance Committee to consider the report, findings and management responses.

The paper is submitted for discussion.

## **1. BACKGROUND**

- 1.1 The Scottish Police Authority (SPA) and Police Scotland budgeted more than £1,000m in payroll costs for the period 2019/20. This represents over 23,000 employees across the country. The payroll function must have robust controls to ensure staff are remunerated appropriately, laws and regulations are complied with and SPA's funds are safeguarded.
- 1.2 Police Scotland process payroll for the SPA and Forensics Services, in addition to their own, as part of an outsourced services agreement. Since its formation, Police Scotland has also been amalgamating a number of legacy payroll systems to a single payroll system, administered by payroll teams in three locations. This culminated in March 2020 with all pay-runs now being processed through iTrent.
- 1.3 In line with the 2020/21 Annual Audit Plan, we have reviewed the operation of key payroll processes, in the context of the new iTrent Payroll system and revisions to the structure of payroll administration across Police Scotland.

## **2. FURTHER DETAIL ON THE REPORT TOPIC**

- 2.1 We have gained assurance that Police Scotland has adequate arrangements in place for the management of Payroll, however we have identified a number of areas for improvement to address Payroll within the organisation.
- 2.2 The new payroll system iTrent has been operating effectively however there are minor improvements that could be made as there is no plan for review and maintenance of the system nor are pay runs consistently signed off.

## **3. FINANCIAL IMPLICATIONS**

- 3.1 The Internal Audit Report considers the impact our review findings may have on organisational risk registers. In particular, the findings of the report have a bearing on the management of financial risks relating to the accuracy of staff payments and the detection and prevention of fraud. Committee members should consider this section when considering the overall implications of our findings.

#### **4. PERSONNEL IMPLICATIONS**

- 4.1 The processes and procedures under review have a potential impact on the timeliness and accuracy of employee payments. Committee members should consider this section when considering the overall implications of our findings.

#### **5. LEGAL IMPLICATIONS**

- 5.1 The Internal Audit Report considers the impact our review findings may have on organisational risk registers. Committee members should consider this section when considering the overall implications of our findings.

#### **6. REPUTATIONAL IMPLICATIONS**

- 6.1 The Internal Audit Report considers the impact our review findings may have on organisational risk registers. Committee members should consider this section when considering the overall implications of our findings.

#### **7. SOCIAL IMPLICATIONS**

- 7.1 The Internal Audit Report considers the impact our review findings may have on organisational risk registers. Committee members should consider this section when considering the overall implications of our findings.

#### **8. COMMUNITY IMPACT**

- 8.1 The Internal Audit Report considers the impact our review findings may have on organisational risk registers. Committee members should consider this section when considering the overall implications of our findings.

#### **9. EQUALITIES IMPLICATIONS**

- 9.1 The Internal Audit Report considers the impact our review findings may have on organisational risk registers. Committee members should consider this section when considering the overall implications of our findings.

#### **10. ENVIRONMENT IMPLICATIONS**

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10.1 The Internal Audit Report considers the impact our review findings may have on organisational risk registers. Committee members should consider this section when considering the overall implications of our findings.

**RECOMMENDATIONS**

Members are requested to discuss the report.



# Scottish Police Authority

## Internal Audit Report 2020/21

### Payroll

February 2021



# Scottish Police Authority

## Internal Audit Report 2020/21

### Payroll

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<b>Audit Sponsor</b>	<b>Key Contacts</b>	<b>Audit team</b>
<i>James Gray, Chief Financial Officer</i>	<i>Alasdair Corfield, Financial Controller and Deputy CFO</i> <i>Paul Colley, Financial Transactions Lead</i>	<i>Gary Devlin, Audit Partner</i> <i>Matt Swann, Associate Director</i> <i>Andrew Diffin, Internal Audit Assistant Audit Manager</i> <i>Lauren MacLean, Internal Auditor</i>

# Executive Summary

## Conclusion

**We have gained assurance that, in general, SPA and Police Scotland's payroll processes are well designed and reflect good practice. Processes have been updated following the consolidation of payroll administration, the implementation of the iTrent payroll system, and the impact of COVID-19. We have identified two low risk opportunities to strengthen these controls which, if implemented, would improve the control environment.**

## Background and scope

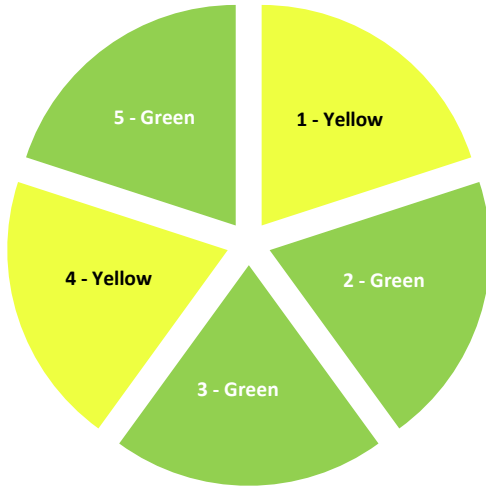
The Scottish Police Authority (SPA) and Police Scotland employ over 23,000 people across Scotland and operate with a payroll budget of over £1bn representing around 80% of total revenue expenditure. The payroll function must have robust controls to ensure staff are remunerated appropriately, laws and regulations are complied with and public funds are safeguarded.

Police Scotland process payroll for their own staff and for the SPA and Forensics Services through a service back agreement. Police Scotland amalgamated a number of legacy payroll systems into a single payroll system in March 2020, administered by payroll teams in three locations, with all pay-runs now being processed through iTrent.

In accordance with the 2020/21 Internal Audit Annual Plan, we have reviewed the operation of key payroll processes, following the implementation of the new iTrent Payroll system and revisions to the structure of payroll administration across Police Scotland.

## Control assessment

- 1. There are clear payroll policies and procedures in place that are up-to-date and easily accessible by relevant staff



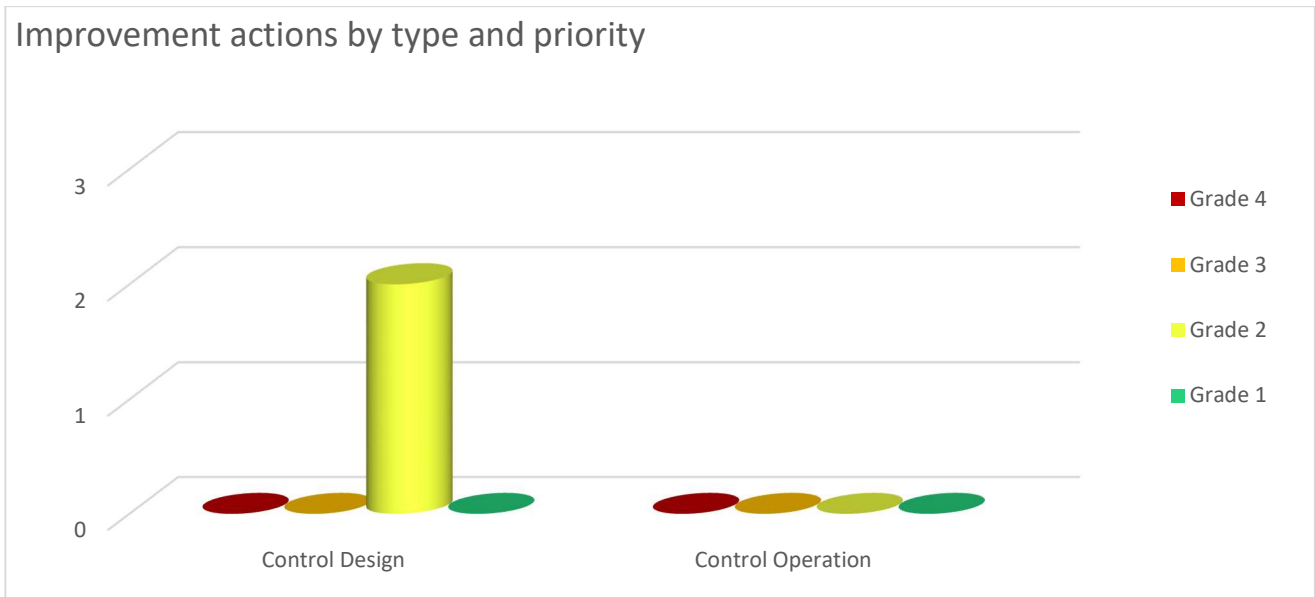
- 2. Payroll deadlines and cut-off dates are clearly stated and communicated across Police Scotland, SPA and Forensic Services

- 3. Changes to payroll standing data (including the addition of starters, removal of leavers and processing of salary changes) are authorised and processed on a timely basis

- 4. Payroll payments are made to valid employees only at the correct and authorised rate

- 5. Payroll data is held securely and unauthorised access is prevented

### Improvement actions by type and priority



Two improvement actions have been identified from this review, both of which relate to the design of controls. See Appendix A for definitions of colour coding.



# Key findings

## Good practice

We have gained assurance that SPA's procedures reflect good practice in a number of areas:

- There is a clearly defined and well publicised payroll processing schedule, which provides consistency for employees, and aligns to the internal processing deadlines used by the Payroll team.
- Effective processes are in place for the processing and checking of changes to payroll information, including the processing of starters, leavers, amendments impacting pay, and employee bank details. Notification of changes to Payroll is governed by electronic controls integrated into Payroll processes. For changes to standing information, and bank details, Employees have access to an electronic self-service system.
- Overtime claims are submitted by employees through a self-service system integrated into SCOPE, with an automated authorisation workflow according to the line management structure held by HR, before being imported into the Payroll system for processing.
- User accounts for the payroll system are subject to appropriate password controls in line with organisational policies, with the access of individual users subject to regular review.
- The Payroll database is hosted externally by the payroll system supplier MHR, with responsibility for the maintenance of backups allocated to the supplier through a service level agreement. Backups are tested annually with a report of testing outcomes provided to the Payroll team.

## Areas for improvement

We have identified two low risk areas for improvement which, if addressed, would strengthen SPA's control framework. These include:

- Developing a plan to ensure that guidance and process information is maintained and kept up to date. This will help to ensure that all staff remain aware of current processes, and that the guidance remains useful as processes evolve.
- Adopting a consistent approach to recording the completion of checks carried out over payment runs. This would help to ensure that a robust audit trail is maintained, enabling the Payroll team to provide greater assurance that payment runs are accurate and complete.

These are further discussed in the Management Action Plan below.

## Impact on risk register

The SPA and Police Scotland risk registers (as at January 2021) included the following risks relevant to this review:

- DCO029/FN058 Manual Processes & Controls (risk score 12).
- DCO030/FN064 Financial Management Arrangements and Resources (risk score 9).

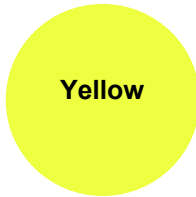
We have not identified any issues which suggest that currently identified risks are incorrectly scored, and our work found no issues with the operation of controls. We have proposed improvements to existing controls which, if implemented, would contribute to their effectiveness.

## Acknowledgements

We would like to thank all staff consulted during this review for their assistance and co-operation.

# Management Action Plan

Control Objective 1: There are clear payroll policies and procedures in place that are up-to-date and easily accessible by relevant staff



## 1.1 Maintenance of Process Documentation

With the introduction of the revised payroll system iTrent, the Payroll Department have prepared a set of guidance and process documentation covering the use of the system and the most common payroll tasks. A project has been initiated which aims to define and document all payroll processes at a high level of detail through the use of the Enable Now process capture tool.

At time of audit, the first tranche of critical processes had been defined, and work had commenced on capturing these processes within Enable Now. This initial tranche includes 88 individual processes, with second and third tranches planned. The project plan includes arrangements for the review and approval of the captured processes as they are created and added to the library.

As yet the Payroll team has not yet defined how these processes and the associated content within Enable Now will be maintained and kept up to date.

### Risk

There is a risk that, without a plan in place for its review and maintenance, the process and guidance content created by the Payroll team becomes out of date as processes and working practices evolve, potentially leading to failures to adhere to payroll processes.

### Recommendation

The Payroll team should assign responsibility for the maintenance of the library of content produced as a result of the project and define a plan for its regular review and maintenance.

#### Management Action

Grade 2  
(Design)

A Payroll Process Review Schedule and version control governance framework was in plan for creation with implementation to be undertaken after completion of the process capture tasks. A quarterly review schedule and ownership plan has been created since audit field work has been complete and has been cascaded to the relevant Stakeholders. Further developments to the review/maintenance procedures on process will evolve as we capitalise on our utilisation of Enable Now (Process Capture/Management tool).

**Action owner: Kirsty Bain**

**Due date: 30<sup>th</sup> April 2021**

## Control Objective 2: Payroll deadlines and cut-off dates are clearly stated and communicated across Police Scotland, SPA and Forensic Services

Green

### No reportable weaknesses identified

The payroll processing calendar for all areas of the Police Service is set annually based on a target payment date for all employees of the 28<sup>th</sup> of the month. As a consequence, the payroll cut off is set as consistently as is practical as the 6<sup>th</sup> of the month. Where the cut off falls on a weekend the date is shifted backwards to allow for submissions on the next following weekday, to minimise the risk that employees and line managers are not able to submit changes.

We confirmed that the payroll processing calendar is published on the Police intranet and available to all staff.

The published calendar is supported by an annual schedule of internal deadlines for the payroll team. We confirmed that this had been distributed across all individuals with responsibility for payroll processing.



## Control Objective 3: Changes to payroll standing data (including the addition of starters, removal of leavers and processing of salary changes) are authorised and processed on a timely basis

### No reportable weaknesses identified

We reviewed the processes in place for the addition of starters, removal of leavers, and the processing of amendments to salary and payment information held on payroll systems.

Our sample testing was based on the processes as they stood at the time of audit, incorporating changes introduced as a consequence of the introduction of the iTrent payroll system, and changes to the handling of documentation as part of the response to COVID-19. This includes the introduction of document scanning from April of 2020 in order to support remote working, as opposed to the physical transfer of paperwork.

New starts are initially processed by HR, with information passed to Payroll once authorised. We selected a sample of 24 new starters, consisting of 10 police staff and 14 police officers, and confirmed:

- All relevant documentation had been completed, adequate to evidence the checks carried out;
- Adequate segregation of duties was in place between HR and Payroll, and between those entering and checking information; and
- All new starters were processed in sufficient time to receive their initial payment as scheduled.

We separately reviewed a sample of 5 individuals that appeared as new starters in system reports, but actually represented entries created in the Payroll system in order to make ad-hoc payments for back pay to individuals that left the Police Service prior to the introduction of the revised Payroll system. We obtained sufficient explanations and evidence in regard to these payments to confirm that they were appropriately authorised.

The Leaver process is instigated by employees and line managers through the HR self service system. As for Starters, these are initially processed by HR and passed to Payroll. We selected a sample of 24 leavers, consisting of 10 police staff and 14 police officers, and confirmed:

- Leavers information had been captured by HR, and appropriately checked and authorised prior to being sent to Payroll;
- That entitlements such as outstanding holiday pay had been calculated and provided to payroll for processing;
- That information had been entered by Payroll, and checked by a second individual;
- Adequate segregation of duties was in place; and
- That leavers were processed in due time to ensure that they did not receive payment for time beyond their leaving date and any relevant entitlements.

For 3 Police Officer leavers in May and June, we were unable to obtain documentation of the secondary check carried out by Payroll, however we understand that this is the result of a change in the method of recording these checks which took effect from July, with checks prior to this recorded only in hard copy. As our testing confirmed that this issue was confined to the months prior to July, with no issues observed across those sampled items processed in subsequent periods, no finding has been raised.

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Amendments to payroll information are largely carried out by employees via the Employee Self Service (ESS) portal, however changes notified to HR can be processed manually through the use of a Payroll Amendment Form. These are processed in a similar way to starters and leavers, processed by one individual and authorised by another, with electronic controls governing the notification of Payroll on completion of HR checks. Amendments to salary gradings can be notified to HR by line management either individually or as a batch, however the majority of changes to salary gradings are annual increments processed automatically.

We selected a sample of 24 amendments to salary gradings from payroll system reports. Of these we determined that 21 were annual increments which had been batch processed, and 3 were manual amendments processed by amendment form. For each we confirmed:

- Appropriate authorisation and segregation of duties was in place, according to the process followed; and
- Amendments were processed in due time to ensure that the change in pay grading was reflected in the employee's next payment following the effective date of the change.

# Control Objective 4: Payroll payments are made to valid employees only at the correct and authorised rate

Yellow

## 4.1 Documentation of pay run checks

There are three principal payrolls administered by Police Scotland, covering the Executive (including SPA), Police Officers, and Police Staff. A payrun is generated against each of these payrolls on a monthly basis and converted into a BACS file for processing.

In order to generate a pay run, the payroll team compile an initial "Gross to Net" calculation, against which a number of reports are generated, which the payroll team will use to check various aspects of the pay run calculation in order to identify errors. These are then corrected and a final "Gross to Net" calculation is used as the basis of the BACS file submitted for processing to payment, with no opportunity for manual amendment which may give rise to inaccurate or unauthorised payments.

We requested copies of system reports and records of checking and sign off for each of the three payrolls, for a sample of three months. We reviewed these to confirm that adequate secondary checking had been carried out to identify:

- Unauthorised amendments such as starters, leavers, or other changes impacting payments; and
- Significant variances in pay which may indicate errors or attempted fraud.

Though in each case we were generally able to obtain evidence that the relevant reports had been run, we noted that the approach to recording the completion of pay run checks was not consistent across the pay runs. In some cases, checklists were in use which documented the reports to be generated, the checks to be performed, and recorded a sign off from the individual performing the checks, however the format and content of the checklists varied.

### Risk

There is a risk that, in the event of an incorrect payment being made or other issue arising, Payroll are not able to provide assurance that adequate checking was performed over the payment run as a consequence of the lack of a consistent audit trail.

### Recommendation

Payroll should adopt a consistent approach to recording the checks performed over payment runs in advance of their authorisation for conversion into a BACS file.

We recommend that the Payroll team either design, or update an existing, checklist such that it is applicable to all pay runs, which captures all checking to be performed and provides a means for the performance of those checks to be consistently recorded. This should then be retained as an audit trail for all pay runs.

**Management Action**

Continual development of payrun checks and sign off procedures are in progress. An up to date processing checklist is in draft for final management review and consistent checking criteria has been defined across all payrolls. Monthly completion of these tasks will be documented and audited.

**Action owner: Kirsty Bain**

**Due date: 30<sup>th</sup> April 2021**



## Control Objective 5: Payroll data is held securely and unauthorised access is prevented



### No reportable weaknesses identified

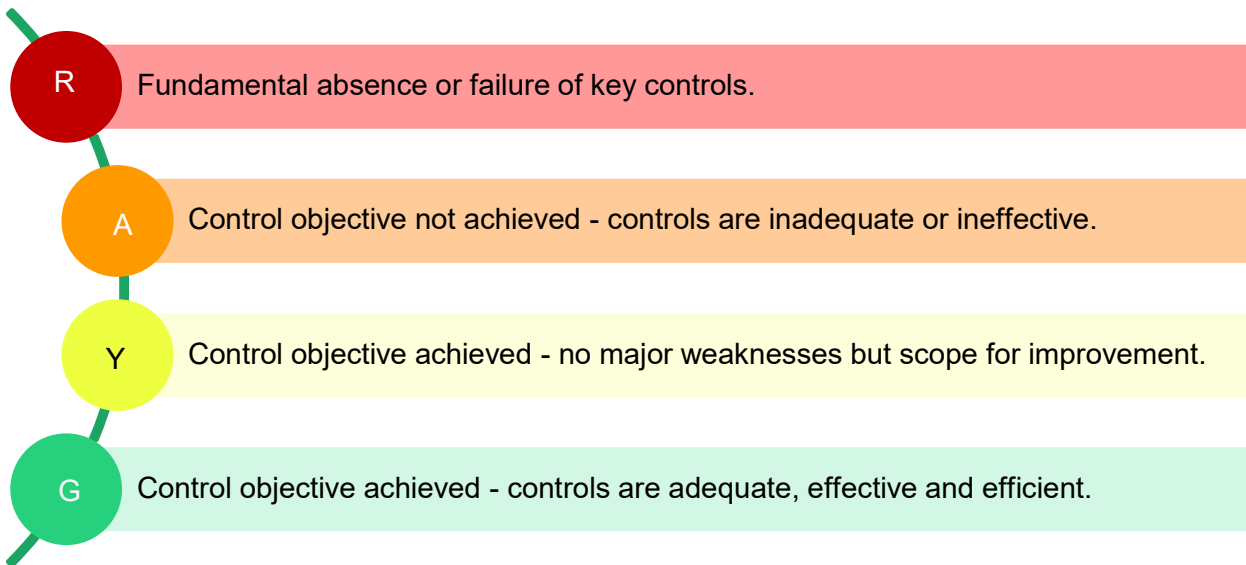
The payroll system consists of an implementation of MHR iTrent, using a cloud-based database hosted by the supplier and subject to a Service Level Agreement.

Access to the system is controlled by the Payroll Lead. New users are created in response to the submission of access request forms with line manager authorisation. Users are assigned a specific system role that restricts access to those functions that are required for their level of responsibility. User access reviews are conducted on a monthly basis. We selected a sample of three such reviews and confirmed that they had been reviewed and authorised by senior individuals who do not have the capacity to create new users themselves.

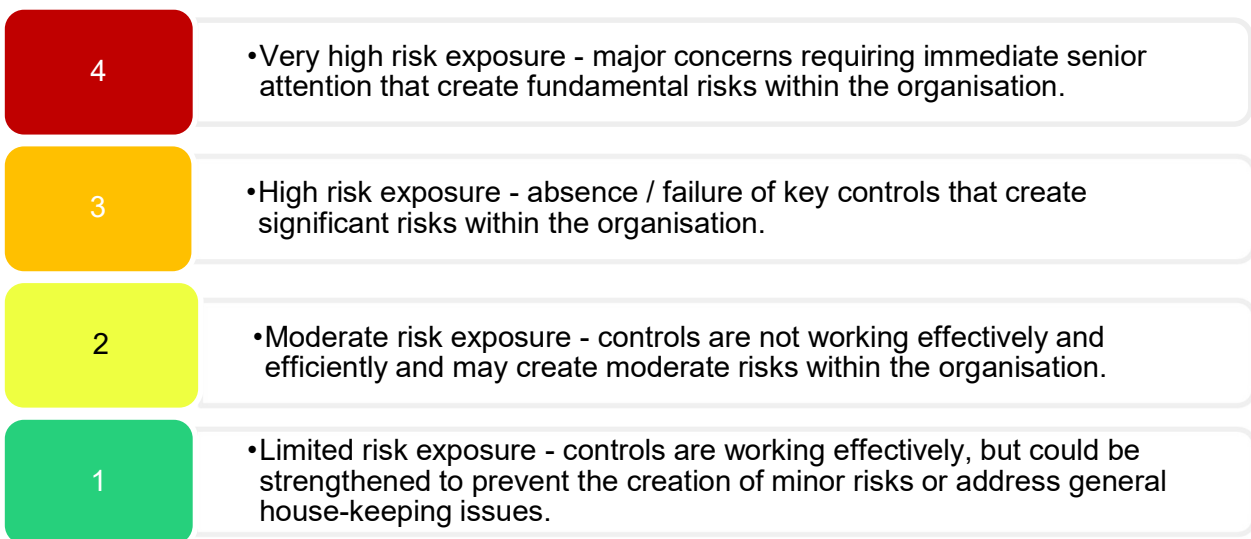
System backups are maintained by the supplier, adequate to meet a Recovery Point Objective (RPO) of 4 hours defined in the Service Level Agreement. The RPO is "The amount of data loss between the time of declaring an incident and the last data viably recoverable". The backup arrangements were last tested in December of 2020 as a component of the annual Disaster Recovery Test conducted by MHR. We have reviewed the report produced following the testing and confirmed that the test restoration was successful, with no issues reported.

# Appendix A – Definitions

## Control assessments



## Management action grades



## Appendix B – Summary of management actions

Action No.	Recommendation	Management Response	Grade	Action Owner	Due Date
1.1	The Payroll team should assign responsibility for the maintenance of the library of content produced as a result of the Enable Now project and define a plan for its regular review and maintenance.	A Payroll Process Review Schedule and version control governance framework was in plan for creation with implementation to be undertaken after completion of the process capture tasks. A quarterly review schedule and ownership plan has been created since audit field work has been complete and has been cascaded to the relevant Stakeholders. Further developments to the review/maintenance procedures on process will evolve as we capitalise on our utilisation of Enable Now (Process Capture/Management tool).	2	National Payroll Senior Manager	30 April 2021
4.1	<p>Payroll should adopt a consistent approach to recording the checks performed over payment runs in advance of their authorisation for conversion into a BACS file.</p> <p>We recommend that the Payroll team either design, or update an existing, checklist such that it is applicable to all pay runs, which captures all checking to be performed and provides a means for the performance of those checks to be consistently recorded. This should then be retained as an audit trail for all pay runs.</p>	Continual development of payrun checks and sign off procedures are in progress. An up to date processing checklist is in draft for final management review and consistent checking criteria has been defined across all payrolls. Monthly completion of these tasks will be documented and audited.	2	National Payroll Senior Manager	30 April 2021

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