

# Cross Council Assurance Service

## FINAL - Internal Audit Report

### Schools Payroll February 2019

**To:** Account Director, Capita HR Solutions

Interim HR Director, CSG  
Strategic HR Lead  
Schools HR and Payroll Business Manager, Capita  
Team leader, CSG HR

**Copied to:** Deputy Chief Executive  
Director of Finance  
Operations Director – Head of Finance and Accounting, CSG  
Operations Director, CSG  
Head of Finance  
Schools Finance Manager, CSG  
Director of Education & Skills, Cambridge Education

**From:** Senior Audit Executive

We would like to thank management and staff of CSG Payroll for their time and co-operation during the course of the internal audit.

## Executive Summary

Assurance level	Number of recommendations by risk category				
No Assurance	Critical	High	Medium	Low	Advisory
	-	5	1	-	-
<b>Scope</b>					
<p>Schools are responsible for and manage their own payroll data such as the authorisation and processing of pay changes and overtime.</p> <p>For Council maintained schools which have bought into CSG's payroll service, central payroll administration processes, for example the input of payroll standing data, closing, reconciliation, pay release processes and the generation of payslips, are undertaken by the CSG Payroll team in Carlisle using the application I-Trent which was implemented effective 1 April 2018. I-Trent, which is accessed via an online web based portal, replaced the previous application, ResourceLink.</p> <p>The self-service component/module of I-Trent was implemented in June 2018 with schools having the option to provide the July payroll data through the portal or manually as per previous months during the changeover.</p> <p>This review identified the key controls within the Barnet's school's payroll system and team and tested to give assurance on the effectiveness of controls.</p>					
<b>Summary of findings</b>					
<p>While certain controls were evident (see Appendix 3) we were unable to provide assurance on the overall control environment and the accuracy of payroll elements for Schools Payroll. This is in part due to unresolved outstanding queries and supporting evidence not having been provided several months after first being raised / requested.</p> <p>We have noted the following leading to 5 high risk findings, and 1 medium risk finding:</p> <ul style="list-style-type: none"> <li>- <b>Integra/I-Trent upload (High):</b> CSG Schools Finance confirmed ongoing data quality issues relating to upload of schools' payroll data to Integra. Initially, the schools' payroll data was not provided monthly for use/reconciliation by Schools' Finance teams. There was a delay initially in the upload of the first 5 months of schools' payroll data - from April to August 2018 - which was only uploaded, in one tranche, in October 2018. The payroll data for period 7, October 2018 was delayed as it was only uploaded with the November 2018, period 8, schools' payroll data. December 2018 and January 2018 payroll data was provided on time. Our view is that while the timely provision of payroll data for upload to Integra has now been resolved at the date of the final report, related data quality issues continue to compromise the ability of Schools Finance teams to review and reconcile pay information promptly and resolve errors effectively. We had not been provided with sufficient evidence of data quality resolution at the date of the final report.</li> <li>- <b>I-Trent role access and permissions (High):</b> There was no evidence of exception reporting to mitigate the risk of fraud which is exacerbated by wide processing access allocated to officers in Carlisle.</li> </ul>					

- **Remuneration processing (High):** We were unable to provide assurance over the accuracy of certain pay elements and related controls owing to outstanding requests for information. Further information was provided in the week commencing 14/01/2019 however it did not cover all the samples tested across unusual pay, leavers and pay change testing.
- **Payroll exception reporting (High):** To date we have not been provided with evidence of all the exception reporting that we were told is undertaken. Management indicated that at the beginning of the tax year there were issues with exception reporting but that this had now been resolved.
- **BACS payment and reconciliation and HMRC payment (High):** Management indicated that BACS and Payroll reports, for comparison, were available to the teams in Carlisle and Bootle (from where BACS processing occurs). However, we were not provided with evidence of how the Barnet Schools' Payroll reconciled to the BACS file released. Similarly, while evidence of the payment to HMRC was provided, we were unable to assess how this covered all the PAYE due by Barnet Schools.
- **Statutory responsibilities - P45 certificates (Medium):** P45 certificates had not been issued in 3/25 of the leaver cases in our sample.

## 2. Findings, Recommendations and Action Plan

Ref	Finding	Risks	Risk Category	Agreed action
1	<p><b><u>I-Trent / Integra payroll data upload and upload to the Schools Funding and Finance site on the Intranet</u></b></p> <p><u>Payroll file upload to Integra</u></p> <p>The Carlisle payroll data is uploaded to Integra (by CSG Finance) and is also uploaded to the Schools Funding and Finance intranet site (by Schools Accountancy) for review and use by Schools Finance teams. Schools should have Integra data available monthly to facilitate reconciliation to their payroll on a <u>monthly</u> basis.</p> <p>The payroll data was not available for upload for 5 months, April to August which was then provided in one tranche and uploaded to Integra 28 September 2018. We understand that the delay arose pending resolution of the upload interface file between I-Trent and Integra as:</p> <ul style="list-style-type: none"> <li>- The format of the Interface file for I-Trent had not been made clear to CSG Finance initially, this had been changed unexpectedly and</li> <li>- I-Trent had not been able to produce payroll data files in the changed format for CSG Finance for upload to Integra.</li> </ul> <p>CSG Finance indicated that the issues stemmed from the I-Trent implementation.</p> <p>The September, period 6, payroll data was provided on time, sent to CSG Finance and uploaded to Integra 28 September 2018.</p> <p>However, the October, period 7, payroll data was only uploaded to the Schools Funding and Finance site with the November, period 8, payroll data, so not done monthly as expected. The I-Trent October payroll file experienced a mapping issue and was only uploaded to Integra by CSG Finance, 9 November.</p> <p>Period 9 December payroll data had not been uploaded to the Funding and Finance site for review by schools at 4 January 2019. The December payroll data was uploaded to Integra 20 December</p>	<p>If schools' payroll errors are not detected, resolved and corrected in I-Trent / Integra then there is a risk of incorrect payments being made, inaccurate data in Integra/I-Trent, poor decision making and financial loss.</p>	<p><b>High</b></p>	<p><b>Action</b></p> <p>a. Any decision to change the policy relating to when the Schools' payroll data will be provided for upload will be taken following the appropriate consideration by the relevant officers.</p> <p>b. Such decision will be communicated to all relevant schools.</p> <p>c. Errors in the upload of the payroll data to Integra will be investigated and resolved swiftly, including liaison with CSG Schools Finance.</p> <p><b>Responsible officers:</b></p> <p><b>Schools HR and Payroll Business Manager, Capita</b></p> <p><b>Target date: 15 March 2019</b></p>

Ref	Finding	Risks	Risk Category	Agreed action
	<p>2018 by CSG Finance. Period 10 January payroll data was sent for upload 28 January 2019.</p> <p>Our view at the date of the final report is that since resolution of the initial I-Trent/Integra upload issue, payroll data is being provided consistently each month to allow monthly review by schools.</p> <p><u>Upload change in policy</u></p> <p>Our Schools Auditor also stated that schools had indicated in discussions during schools audit fieldwork that the upload of the payroll data to the Schools Funding and Finance website was planned to be done <u>quarterly</u>, not monthly as before - making it more difficult to reconcile and resolve identified errors - however we were unable to confirm whether this decision had in fact been made, and if so the officer(s) who took the decision and its communication to schools at the date of the draft report.</p> <p>Our view is that schools' payroll data should be provided monthly for use by schools and any related decisions should be clearly communicated to schools.</p> <p><u>Upload data accuracy</u></p> <p>We queried CSG Schools Finance on timing of the upload of the payroll data to Integra. They referred to issues on the accuracy / completeness of payroll upload in that errors had been noted such as:</p> <ul style="list-style-type: none"> <li>• Instances of school miscoding</li> <li>• The download omitting a category of payment/deduction for example Indirect expenses – childcare, cycle allowance, employee benefit</li> </ul> <p>We had no specific instances of the errors within our testing however our view is that routine liaison engagement between Payroll and Schools Finance is necessary to resolve identified errors.</p> <p>Carlisle Management indicated that progress had been made in addressing the issues, especially in the last 2 months. We queried with Schools Finance again and we were informed that the issue had not been fully resolved owing to - per the IT officer undertaking the upload - data being rejected due to it continually</p>			

Ref	Finding	Risks	Risk Category	Agreed action
	<p>not being included on the 'conversion tables', thereby compromising the upload to Integra.</p> <p>Our view is that while payroll data is now being provided timely for upload to general ledger, the data quality issue needs to be fully resolved to ensure efficient schools finance operation.</p>			
2.	<p><b><u>I-Trent Access and permissions</u></b></p> <p>There is a documented and clear understanding by Schools Payroll Management (Carlisle and Bootle) of I-Trent access roles and related permissions, and the officers in Carlisle and Bootle teams allocated to those access roles. The team in Carlisle are responsible for HR/Payroll processing and the team in Bootle is responsible for release of the related BACS files and the recovery of funding from the Council (Schools salaries are paid by Capita and the funds are recovered from the Council).</p> <p>There are 3 officers in Carlisle responsible for Barnet's Payroll. We reviewed the access and permissions profiles in I-Trent against officer roles in the Carlisle organisational structure provided to us for review.</p> <p><u>I-Trent Role access</u></p> <p><b><u>A. Carlisle/Bootle Access</u></b></p> <p><u>HR and Payroll Administration</u></p> <p>Payroll processing is undertaken by Payroll Administrators. HR related processing is undertaken by HR administrators. Our expectation was that those roles would be separated in I-Trent so that one officer is unable to create an employee end to end in the Payroll system. Amongst operational staff, we noted 2 Carlisle employees referred to as Payroll Administrators who had both Payroll and HR administration access (with permissions to update HR and Payroll elements in I-Trent).</p>	<p><b>If</b> staff can undertake payroll processing outside their specific role requirements <b>then</b> there is an inherent risk of payroll processing errors and inaccurate salary payments.</p> <p><b>If</b> inaccurate and invalid changes to standing data are processed <b>then</b> there is a risk of inaccurate (excessive) and fraudulent salary payments.</p> <p><b>If</b> remuneration payments or salary changes are invalid (so not formally approved by the appropriate officer) <b>then</b> there is a risk of inaccurate (excessive) and fraudulent salary payments.</p>	High	<p><b>Action:</b></p> <p>a. Access should be removed to ensure that employees only have the specific access directly relevant to their role for Barnet processing.</p> <p>b. Periodic exception reporting should be undertaken to identify, for investigation, processing activity affecting the Barnet schools payroll done by officers not normally responsible for the Barnet Schools payroll in Carlisle and Bootle and particularly to confirm that the same user has not completed a process end to end for setting up an employee.</p> <p>c. Audit trails of such exception reporting and investigation, where applicable, will be retained for referral for 10 years.</p> <p><b>Responsible officers:</b></p> <p><b>Schools HR and Payroll Business Manager, Capita</b></p> <p><b>Target date: 15 March 2019</b></p>

Ref	Finding	Risks	Risk Category	Agreed action
	<p>Amongst Management and team leader staff in the Carlisle organisational structure provided we noted that six officers had PAYROLL SUPERUSER, HR ADMINISTRATOR and PAYROLL ADMINISTRATOR ACCESS:</p> <ul style="list-style-type: none"> <li>- Business Manager</li> <li>- Payroll Manager</li> <li>- Payroll Team Leader</li> <li>- HR Manager</li> <li>- HR Team Leader</li> <li>- HR Admin Team Senior – ONLY PAYROLL SUPERUSER</li> </ul> <p>Our expectation was that officers in managerial roles should generally have read only access not significant update access and that superuser roles should be kept to a minimum in any system.</p> <p>Our understanding from the information provided therefore is that:</p> <ul style="list-style-type: none"> <li>- The above officers, through having more than one role in I-Trent, are able to create an employee in the I-Trent system end-to-end, an ability which should be prevented in a more secure system set-up.</li> <li>- Officers not normally responsible for the Barnet Schools payroll in Carlisle are able to undertake processing affecting the Barnet Schools payroll.</li> </ul> <p>We requested a list of all access changes in I-Trent and audit trails to see if any officers had created a payroll transaction end to end. We did not receive this data so cannot provide assurance that this is only a hypothetical risk.</p> <p><u>Control functions (Bootle)</u></p> <p>There is clear separation of duties between Payroll and BACS processing. The Payroll team in Carlisle undertake Schools Payroll processing and the release of the related BACS files is undertaken by the Control team in Bootle. Members of the Control Team in Bootle have CONTROLS access in I-Trent.</p>			

Ref	Finding	Risks	Risk Category	Agreed action
	<p>HR and Payroll Administration staff (Carlisle) responsible for payroll processing did not have Control access in I-Trent associated with the release of BACS files in Bootle. One exception was noted however in the Carlisle organisational structure, the following officer also had CONTROLS ACCESS role similar to the Control Manager at Bootle:</p> <ul style="list-style-type: none"> <li>- Business Manager</li> </ul> <p>Our expectation was that all HR / Payroll staff would not require Control access as the related functions were meant to be distinct and segregated.</p> <p><u>I-Trent Role access permissions</u></p> <p>We reviewed the IT permissions in I-Trent, so the specific tasks/pay elements relating to an access profile such as PAYROLL ADMINISTRATOR or HR ADMINISTRATOR.</p> <p>We noted as follows:</p> <p>Within the PAYROLL ADMINISTRATOR role access, there were the following update permissions:</p> <ul style="list-style-type: none"> <li>- updating passports, visas, work permits, sponsorships and residency permit. These are tasks/processes associated with HR not Payroll. Our expectation was that only HR Administrator would have such permissions.</li> </ul>			



Ref	Finding			Risks	Risk Category	Agreed action						
	Module	Update = Green, Read = Blue, No Access = Red	HR ADMINISTRATOR	PAYROLL SUPERUSER	PAYROLL ADMINISTRATOR							
People	<table border="1"> <tr><td>Passports</td></tr> <tr><td>Visas</td></tr> <tr><td>Work permits</td></tr> <tr><td>Residency permits</td></tr> <tr><td>Certificate of Sponsorship</td></tr> </table>		Passports	Visas	Work permits	Residency permits	Certificate of Sponsorship					
Passports												
Visas												
Work permits												
Residency permits												
Certificate of Sponsorship												
	<ul style="list-style-type: none"> <li>- Both HR and Payroll Administrator role can input tax codes and NI. Our expectation as that only Payroll would have such permissions</li> </ul>											

Ref	Finding	Risks	Risk Category	Agreed action																		
	<table border="1" data-bbox="277 225 976 715"> <tr> <td data-bbox="277 225 479 576"></td> <td data-bbox="479 225 804 576" style="background-color: yellow;">Update = Green, Read = Blue, No Access = Red</td> <td data-bbox="804 225 864 576" style="background-color: white;">HR ADMINISTRATOR</td> <td data-bbox="864 225 925 576" style="background-color: white;">PAYROLL SUPERUSER</td> <td data-bbox="925 225 976 576" style="background-color: white;">PAYROLL ADMINISTRATOR</td> </tr> <tr> <td data-bbox="277 576 479 608">Module</td> <td data-bbox="479 576 804 608" style="background-color: white;">UK legislation</td> <td data-bbox="804 576 976 715" rowspan="3" style="background-color: green;"></td> <td data-bbox="864 576 925 608"></td> <td data-bbox="925 576 976 608"></td> </tr> <tr> <td data-bbox="277 608 479 655"></td> <td data-bbox="479 608 804 655" style="background-color: white;">Tax codes</td> <td data-bbox="864 608 925 655"></td> <td data-bbox="925 608 976 655"></td> </tr> <tr> <td data-bbox="277 655 479 715"></td> <td data-bbox="479 655 804 715" style="background-color: white;">National Insurance details</td> <td data-bbox="864 655 925 715"></td> <td data-bbox="925 655 976 715"></td> </tr> </table> <p data-bbox="181 778 911 805">Responses were provided by Payroll management as follows:</p> <p data-bbox="181 839 965 1177">“The reason some HR staff have payroll access is because of the way the accesses were setup. So, team leaders and managers require access to run certain reports, and carry out certain audit tasks. Regarding the Business Manager, he has access as senior management in case the need ever arises that he needs access to the system. This is more of a backstop for Disaster Recovery (DR) purposes. As we are a shared service provider, and to ensure business continuity we need to ensure that if Carlisle lost access for any reason, or any other critical incident occurred, other administrators would be able to step in and assist us with processing the payroll.”</p> <p data-bbox="181 1197 925 1409">While we appreciate that configuring I-Trent role access to segregate and restrict payroll processing in relation to specific Barnet Schools’ payroll processing is difficult, our view is that exception reporting should be undertaken to identify, for investigation, processing activity affecting the Barnet schools payroll done by officers not <u>normally</u> responsible for the Barnet Schools payroll.</p>		Update = Green, Read = Blue, No Access = Red	HR ADMINISTRATOR	PAYROLL SUPERUSER	PAYROLL ADMINISTRATOR	Module	UK legislation					Tax codes				National Insurance details					
	Update = Green, Read = Blue, No Access = Red	HR ADMINISTRATOR	PAYROLL SUPERUSER	PAYROLL ADMINISTRATOR																		
Module	UK legislation																					
	Tax codes																					
	National Insurance details																					









Ref	Finding	Risks	Risk Category	Agreed action
3.	<p><b><u>Remuneration processing (Salaries, pay changes, overtime, expenses, sick pay, holiday pay, mileage and maternity pay, leaver processing)</u></b></p> <p>We tested for accuracy of payroll processing, independent checking arrangements such as peer checks of pay elements and the sufficiency of related audit trails supporting input and processing across starters, leavers, unusual pay (such as overtime and maternity pay), pay changes and deductions.</p> <p>We were able to confirm the accuracy of pay data in I-Trent and peer checking arrangements in I-Trent for our entire sample of starters, 25/25.</p> <p>For schools' payroll deductions, Carlisle Management indicated checks were carried out to confirm the deductions listing load was successful and accurate. However, we had not been provided with evidence of such checks at the time of the draft report.</p> <p>Within our sample of 23 unusual pay items, we tested for independent checks of 7 maternity pay items. Evidence of independent check of calculations was provided for 3/7 cases, so there was no evidence for 4/7 (57%). Management indicated that evidence of the remaining 4 cases was not available as the schedules resided in the previous system prior to I-Trent, Resourcelink or the employees have returned to work. Evidence provided week commencing 14/01/2019 has been reflected within this report. At 18/1/2019, responses to various other queries for evidence of pay changes, leavers and unusual items (had not been received. We were therefore unable to provide full assurances on related controls in these areas.</p>	<p>If data / calculations informing pay are incorrect <b>then</b> there is a risk of salary overpayments or staff dissatisfaction.</p>	<p><b>High</b></p>	<p><b>Action:</b></p> <p>The relevant evidence and audit trails supporting pay calculations and related independent quality checks will be retained.</p> <p><b>Responsible officer:</b></p> <p><b>Schools HR and Payroll Business Manager, Capita</b></p> <p><b>Target date: 15 March 2019</b></p>
4.	<p><b><u>Remuneration processing (Payroll task checklist and exception reporting)</u></b></p> <p>There is a checklist of tasks that has to be signed off by Payroll Administrators and the Payroll Manager/Team Leader as part of payroll processing to ensure that all key tasks relevant to payroll are undertaken.</p>	<p>If data / calculations informing pay are incorrect <b>then</b> there is a risk of salary overpayments.</p>	<p><b>High</b></p>	<p><b>Action:</b></p> <p>All payroll exception reporting will be completed. The relevant evidence and audit trails supporting the checklist and exception reporting will be retained.</p> <p><b>Responsible officer:</b></p>

Ref	Finding	Risks	Risk Category	Agreed action
	<p>We inspected the checklist and exception reporting, for example bank account changes and pay variance review, completed for May and June 2018.</p> <p>We noted missing tasks and queried the responsible officer on these and related exception reporting, in particular, the task relating to identifying and validating employee bank account changes.</p> <p>Carlisle Management indicated that “At the beginning of the tax year there were issues with our exception reporting, however everything is now all in place and correct.”</p> <p>We had not seen evidence of correction at the date of this report.</p>			<p><b>Schools HR and Payroll Business Manager, Capita</b></p> <p><b>Target date: 15 March 2019</b></p>
5.	<p><b><u>BACS and HMRC payment and reconciliation</u></b></p> <p>Responsibility for the releasing the BACS file relating to each month’s payroll is clear and allocated to the Control team in Bootle. There is a checklist, signed off, confirming the completion of related tasks. The role is independent of the payroll processing role in Carlisle who provide the payroll to Bootle for payment.</p> <p>Discussions between the responsible officers in Carlisle and Bootle confirmed that each have access to the Payroll Summary and BACS report for reconciliation purposes.</p> <p>However, we had not been provided with the BACS file summary reconciled to the payroll summary for the Barnet Schools payroll for May and June Barnet Schools Payroll at the date of this report. This information was first requested in 20 November 2018</p>	<p><b>If</b> BACS files do not match payroll records <b>then</b> there is a risk of the delayed payment of salaries, workforce dissatisfaction and fraudulent payments.</p> <p><b>If</b> PAYE is not paid over to HMRC when required <b>then</b> there is a risk that HMRC may impose penalties and interest</p>	<b>High</b>	<p><b>Action:</b></p> <p>a. The reconciliation of the BACS summary and related Payroll for each month’s payment will be retained for referral and provided for May and June 2018.</p> <p>b. The reconciliation of the amount of PAYE/NI relevant to the Barnet Schools Payroll will be retained for referral and will be provided for May and June 2018 payrolls.</p> <p><b>Responsible officer:</b></p> <p><b>Schools HR and Payroll Business Manager, Capita</b></p> <p><b>Target date: 15 March 2019</b></p>

Ref	Finding	Risks	Risk Category	Agreed action
	<p><b><u>Payment to HMRC</u></b></p> <p>We were provided with evidence that the payment to HMRC for the May payroll was paid on 22 June 2018 and for the June Payroll on 20 July 2018. Payments therefore met the deadline.</p> <p>However, we had not been provided with the evidence of how the amount paid to HMRC reconciled to Barnet Schools payroll for May and June and therefore that all relevant taxes had been paid.</p>			
6.	<p><b><u>Statutory responsibilities</u></b></p> <p><u>P45 certificates</u></p> <p>We requested evidence that P45 certificates had been issued for a sample of 25 leavers and that P60 certificates had been issued for a sample of 20 school employees employed during 2017-18.</p> <p>P45 certificates had not been issued for 3/25 leavers tested.</p>	<p>If P45/P60 certificates are not issued <b>then</b> there is a risk that HMRC may impose penalties and interest</p>	<b>Medium</b>	<p><b>Action</b></p> <p>a. P45 certificates will be issued for the 3 exceptions identified and will be provided for all future leavers.</p> <p>b. A review will be undertaken to identify any other P45 certificates that have not been issued to Barnet leavers since 1 April 2018.<b>Responsible officer:</b></p> <p><b>Schools HR and Payroll Business Manager, Capita</b></p> <p><b>Target date: 15 March 2019</b></p>

## Appendix 1: Definition of risk categories and assurance levels in the Executive Summary

Note: the criteria should be treated as examples, not an exhaustive list. There may be other considerations based on context and auditor judgement.

Risk rating	
<b>Critical</b> 	<p>Immediate and significant action required. A finding that could cause:</p> <ul style="list-style-type: none"> <li>• Life threatening or multiple serious injuries or prolonged work place stress. Severe impact on morale &amp; service performance (eg mass strike actions); or</li> <li>• Critical impact on the reputation or brand of the organisation which could threaten its future viability. Intense political and media scrutiny (i.e. front-page headlines, TV). Possible criminal or high profile civil action against the Council, members or officers; or</li> <li>• Cessation of core activities, strategies not consistent with government's agenda, trends show service is degraded. Failure of major projects, elected Members &amp; Senior Directors are required to intervene; or</li> <li>• Major financial loss, significant, material increase on project budget/cost. Statutory intervention triggered. Impact the whole Council. Critical breach in laws and regulations that could result in material fines or consequences.</li> </ul>
<b>High</b> 	<p>Action required promptly and to commence as soon as practicable where significant changes are necessary. A finding that could cause:</p> <ul style="list-style-type: none"> <li>• Serious injuries or stressful experience requiring medical many workdays lost. Major impact on morale &amp; performance of staff; or</li> <li>• Significant impact on the reputation or brand of the organisation. Scrutiny required by external agencies, inspectorates, regulators etc. Unfavourable external media coverage. Noticeable impact on public opinion; or</li> <li>• Significant disruption of core activities. Key targets missed, some services compromised. Management action required to overcome medium-term difficulties; or</li> <li>• High financial loss, significant increase on project budget/cost. Service budgets exceeded. Significant breach in laws and regulations resulting in significant fines and consequences.</li> </ul>
<b>Medium</b> 	<p>A finding that could cause:</p> <ul style="list-style-type: none"> <li>• Injuries or stress level requiring some medical treatment, potentially some workdays lost. Some impact on morale &amp; performance of staff; or</li> <li>• Moderate impact on the reputation or brand of the organisation. Scrutiny required by internal committees or internal audit to prevent escalation. Probable limited unfavourable media coverage; or</li> <li>• Significant short-term disruption of non-core activities. Standing orders occasionally not complied with, or services do not fully meet needs. Service action will be required; or</li> <li>• Medium financial loss, small increase on project budget/cost. Handled within the team. Moderate breach in laws and regulations resulting in fines and consequences.</li> </ul>
<b>Low</b> 	<p>A finding that could cause:</p> <ul style="list-style-type: none"> <li>• Minor injuries or stress with no workdays lost or minimal medical treatment, no impact on staff morale; or</li> <li>• Minor impact on the reputation of the organisation; or</li> <li>• Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule; or</li> <li>• Handled within normal day to day routines; or</li> <li>• Minimal financial loss, minimal effect on project budget/cost.</li> </ul>
Level of assurance	
<b>Substantial</b> 	<p>There is a sound control environment with risks to key service objectives being reasonably managed. Any deficiencies identified are not cause for major concern. Recommendations will normally only be Advice and Best Practice.</p>
<b>Reasonable</b> 	<p>An adequate control framework is in place but there are weaknesses which may put some service objectives at risk. There are Medium priority recommendations indicating weaknesses but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any High recommendations would need to be mitigated by significant strengths elsewhere.</p>
<b>Limited</b> 	<p>There are a number of significant control weaknesses which could put the achievement of key service objectives at risk and result in error, fraud, loss or reputational damage. There are High recommendations indicating significant failings. Any Critical recommendations would need to be mitigated by significant strengths elsewhere.</p>
<b>No</b> 	<p>There are fundamental weaknesses in the control environment which jeopardise the achievement of key service objectives and could lead to significant risk of error, fraud, loss or reputational damage being suffered.</p>

## Appendix 2 – Analysis of findings

Area	Critical		High		Medium		Low		Total
	D	OE	D	OE	D	OE	D	OE	
Policies and procedures	-	-	-	-	-	-	-	-	-
Roles and responsibilities	-	-	-	-	-	-	-	-	-
Application access control / permissions	-	-	-	1	-	-	-	-	1
Remuneration processing (Salaries, pay changes, overtime, expenses, sick pay, holiday pay, mileage and maternity pay, leaver processing)	-	-	-	2	-	-	-	-	2
BACS payment and reconciliation and HMRC tax calculation	-	-	-	1	-	-	-	-	1
Statutory responsibilities (P45 certificates)	-	-	-	-	-	1	-	-	1
Integra processing	-	-	-	1	-	-	-	-	1
<b>Total</b>	-	-	-	<b>5</b>	-	<b>1</b>	-	-	<b>6</b>

### Key:

- Control Design Issue (D) – There is no control in place or the design of the control in place is not sufficient to mitigate the potential risks in this area.

- Operating Effectiveness Issue (OE) – Control design is adequate, however the control is not operating as intended resulting in potential risks arising in this area.

<b>Timetable</b>					
<b>Terms of reference agreed:</b>	<b>Fieldwork commenced:</b>	<b>Fieldwork completed:</b>	<b>Draft report issued:</b>	<b>Management comments received:</b>	<b>Final report issued:</b>
Date	Date	<b>Date</b>	Date	Date: 15 January 2019 (exit meeting with SA and JK to discuss the emerging findings report and way forward)	<b>Date:</b> 15 February 2019
31 July 2018	06 August 2018	18 January 2019 (following exit meeting 15 January 2019, further responses to requests for evidence were reviewed)	05 December 2018 (Emerging findings draft report)  8 February 2019 (Second draft report)		



### Appendix 3 – Identified controls

Area	Objective	Risks	Identified Controls
<p><b>Policies and procedures</b></p>	<p>All school staff are paid accurately and on a timely basis.</p> <p>There are up to date, clear procedures / guides governing <u>central CSG</u> and <u>School payroll</u> processing which are accessible to the officers responsible for related processes.</p> <p>Officers responsible for payroll processing at schools and CSG are aware of related cut-off and closure deadlines.</p>	<p><b>If</b> the officers responsible for payroll activity do not have an accurate point of reference for confirming all related processing requirements where necessary <b>then</b> there is a risk of inaccurate salary payments, deductions and salaries not being paid on time.</p>	<p>Policies and procedures govern Schools Payroll operation</p> <p>Guides for HR and Payroll are also accessible to Schools</p>
<p><b>Roles and responsibilities</b></p>	<p>All school staff are paid accurately and on a timely basis.</p> <p>Payroll functions are clear and allocated to officers at schools and CSG with the relevant training and know-how to ensure timely and accurate payment of salaries/remuneration, covering both IT application (I-Trent) and the non-IT aspects of payroll processing.</p>	<p><b>If</b> officers responsible for processing are not kept abreast of developments/changes impacting payroll processing including the operation of new systems <b>then</b> there is a risk of inaccurate salary payments, deductions and salaries not being paid on time.</p>	<p>See above</p> <p>I-Trent training and development undertaken for CSG staff and offered to Schools (Starter testing completed also confirmed awareness of roles and responsibilities)</p>

<p><b>Application access control / permissions</b></p>	<p>I-Trent access/permissions for payroll processing – centrally and locally at schools - is restricted in line with specific payroll roles and responsibilities.</p> <p>Changes to payroll standing data, for example, overtime rates, vehicle mileage rates, are authorised and accurate.</p> <p>The I-Trent auditing functionality is enabled to trace all processing activity where necessary.</p> <p>Delegated workflow authorisation levels configured into I-Trent are accurate and related changes are authorised.</p> <p>Manual authorisation levels – in the absence of the I-Trent self-service module – are defined and confirmed prior to payroll processing.</p>	<p><b>If</b> staff can undertake payroll processing outside their specific role requirements <b>then</b> there is an inherent risk of payroll processing errors and inaccurate salary payments.</p> <p><b>If</b> inaccurate and invalid changes to standing data are processed <b>then</b> there is a risk of inaccurate (excessive) and fraudulent salary payments.</p> <p><b>If</b> remuneration payments or salary changes are invalid (so not formally approved by the appropriate officer) <b>then</b> there is a risk inaccurate (excessive) and fraudulent salary payments.</p>	<p>Documented and clear understanding by Schools Payroll Management (Carlisle and Bootle) of I-Trent role profiles and the team and officers allocated to those role profiles.</p> <p>HR and Payroll Administration staff (Carlisle) responsible for day to day payroll processing did not have Control access for releasing the related payroll BACS files in Bootle.</p> <p>Only authorised officers in schools are able to upload pay data for processing the monthly payroll in Carlisle.</p>
<p><b>Remuneration processing (Salaries, pay changes, overtime, expenses, sick pay, holiday pay, mileage and maternity pay, leaver processing)</b></p>	<p>Payroll information is transmitted securely between Schools and Carlisle systems.</p> <p>Remuneration payments and changes to pay are authorised and correctly input to I-Trent (where input is done in Carlisle).</p> <p>Starters details are input accurately and on a timely basis (where input is completed by Carlisle)</p> <p>Leavers are paid until the agreed leaving date. All leavers are removed from the payroll.</p>	<p><b>If</b> data informing pay and PAYE are incorrect <b>then</b> there is a risk of salary overpayments</p> <p><b>If</b> payroll personal data is lost in transmission between Carlisle and schools or is sent to the incorrect recipients <b>then</b> there is a risk of fines being imposed under the General Data Protection Regulations.</p>	<p>Documented procedures govern related processing of key remuneration elements</p> <p>School payroll data uploaded on secure portal, Ask HR. Access to Ask HR at schools is restricted to the relevant officers.</p> <p>There are independent peer checks of payroll processing to I-Trent (noted for starter testing, 25/25)</p> <p>There is a checklist of tasks that has to be signed off by Payroll Administrators and the Payroll Manager/Team Leader as part of payroll processing to ensure that all key tasks relevant to payroll are undertaken.</p>

	<p>Overpayments to leavers are recovered on a timely basis.</p> <p>NOTE: Carlisle make payments on the basis of the data supplied by the schools.</p>		<p>Exception Reporting undertaken and action taken as necessary:</p> <ul style="list-style-type: none"> <li>- 10 highest value payment reviewed and investigated. Will query the school where necessary. Validate 10 highest earners. Go back to the school where necessary.</li> <li>- Net pay variance – if net pay changes by more than 50% month on month</li> <li>- Bank detail changes</li> </ul> <p>Review of school Payroll data by officers responsible at the school. CSG provide schools with their monthly payroll for review.</p>
<b>BACS payment and reconciliation</b>	<p>Schools salaries are paid on a timely basis to approved school employees.</p> <p>BACS payments are independently reconciled to payroll records.</p> <p>BACs payments are only released by authorised officers. Changes to BACS files are authorised and accurate.</p>	<p><b>If</b> BACS files are not released in line with agreed dates and do not match payroll records <b>then</b> there is a risk of the delayed payment of salaries, workforce dissatisfaction and fraudulent payments</p>	<p>Clear separation of duties between Payroll and BACS processing. Payroll team in Carlisle undertake Schools Payroll processing and the release of the related BACS files undertaken by the Control team in Bootle.</p> <p>Documented procedures govern BACs reconciliation process, exist and available to officers responsible for function.</p> <p>A check list of is completed to ensure the completion of related key Control tasks</p> <p>BACS summary reports and related Payroll summary are available to Carlisle and Bootle for reconciliation between BACS and Payroll</p>
<b>Statutory responsibilities</b>	<p>The correct amount of PAYE is paid to HMRC on a timely basis. CHAPS payments are reconciled to payroll records and are authorised before release.</p>	<p><b>If</b> PAYE is not paid over to HMRC when required or P45/P60 certificates are not issued <b>then</b> there is a risk that HMRC may impose penalties and interest.</p>	<p>Segregated input and authorisation of the HMRC payment by the Control Team.</p> <p>Responsibility for payment to HMRC was clear and allocated to the Control Team. The payment to HMRC for the May payroll was paid on 22 June 2018 and for the June Payroll was 20 July 2018. Payments therefore met the deadline</p> <p>P45 and P60 certificates are generated.</p>

	P45 forms are sent to leavers and P60 returns to employees on a timely basis, where applicable		
<b>Integra processing</b>	The general ledger and management (costing) accounts are correctly updated based on payroll data.	<p><b>If</b> the Integra financial system is not correctly updated with payroll data <b>then</b> there is a risk of:</p> <ul style="list-style-type: none"> <li>- inaccurate management accounts compromising the budget monitoring process</li> <li>- a qualified external audit opinion over the accuracy of final accounts.</li> </ul>	Upload of monthly payroll to Integra for review and use by Schools Finance teams after initial delays. The upload of the payroll journal was available for review on the Council's Intranet. Responsibility for upload is clear and allocated to CSG Finance.

## **Appendix 4 – Internal Audit roles and responsibilities**

### *Limitations inherent to the internal auditor's work*

We have undertaken the review of 2018-19 Schools Payroll, 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 judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

#### *Future periods*

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

### *Responsibilities of management and internal auditors*

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall 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, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.