



Cairngorms National Park Authority

Internal Audit Report 2022/23

Payroll and Expenses

March 2023



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Executive Summary

Conclusion

Although Cairngorms National Park Authority (CNPA) has adequate controls over the accurate and timely processing of payroll and expenses, we found there to be a lack of segregation of duties throughout the process including over changes to standing payroll data. We have raised recommendations aimed at reducing the potential for fraud or error within payroll through such changes and the better maintenance of audit trails.

We have also made a number of recommendations relating to clarity within policy and procedure, changes to payroll data and testing of system back ups.

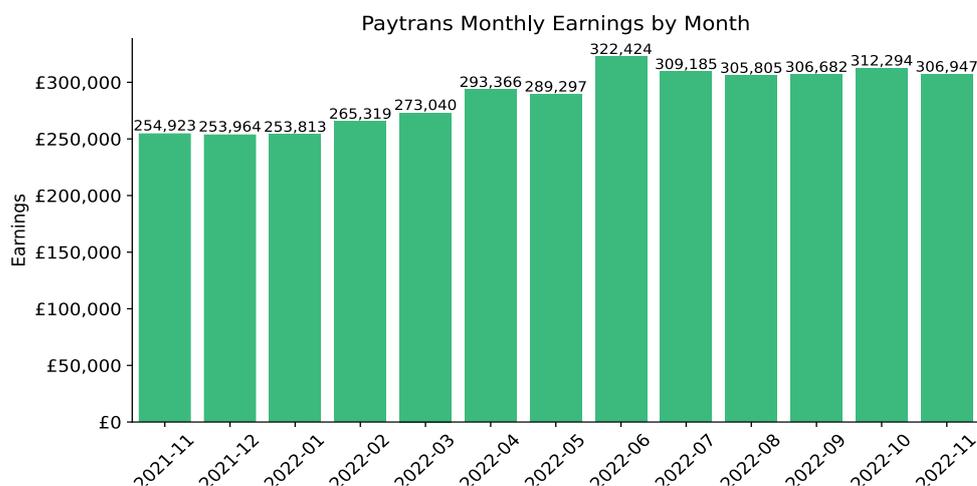
Background and scope

In the annual accounts for the year ended March 2021, CNPA reported an annual mean of 78 whole time equivalent staff members, with staff costs totalling £3,411,000 and £49,000 of expenses (Board and Staff Costs). It is therefore essential that the payroll and expenses function is subject to robust controls to ensure staff are remunerated appropriately, laws and regulations complied with and CNPA funds are safeguarded.

In accordance with the 2022/23 Internal Audit Plan, we reviewed the policies and procedures in place for payroll and expenses as well as utilising data analytics to identify patterns and areas for further review.

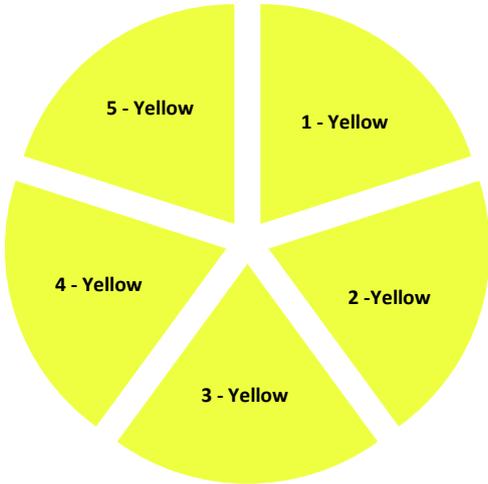
Data Analytics

We obtained the employee masterfile containing information of employees including payroll numbers, addresses and bank details for 130 employee records relating to 130 unique employees. We also obtained monthly payroll transactions for the period from November 2021 to November 2022 with payments to 159 employees. The graphs below show the total payroll value – estimated using the earnings within the payroll transactions dataset for monthly payrolls. We used data analytics to inform our testing where possible throughout the audit.

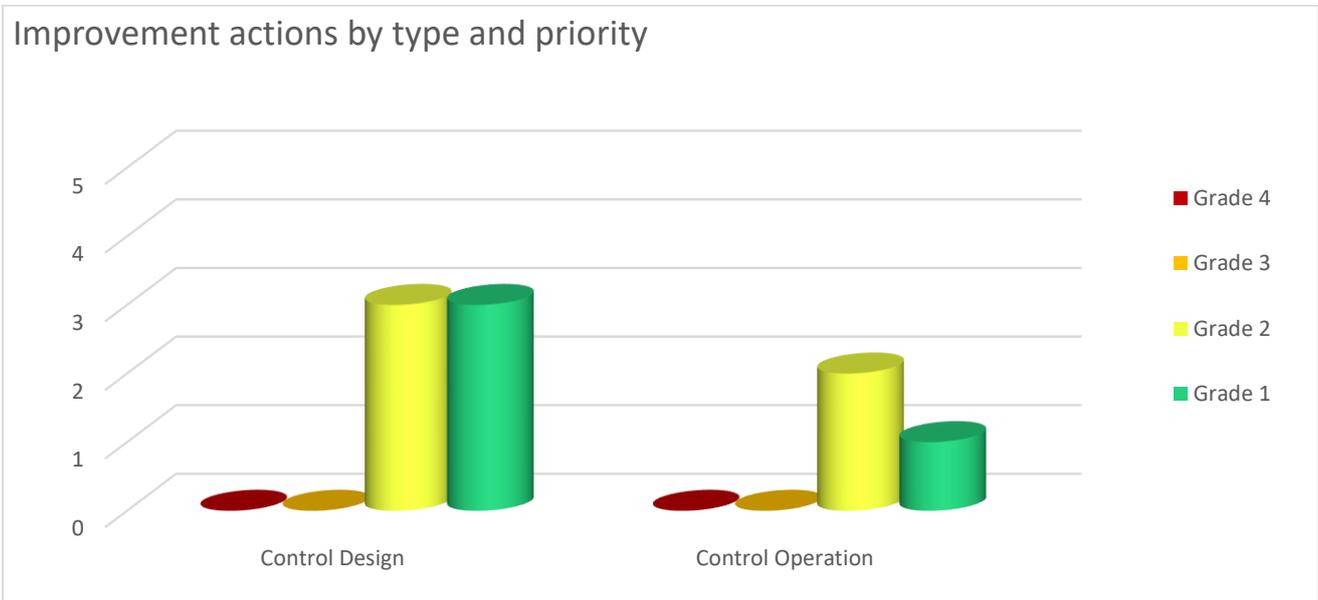


Control assessment

- 1. There are clear policies and procedures in place for payroll and expenses.
- 2. Payroll and expenses payments are made to valid employees only, at the correct and authorised rate.
- 3. Changes to payroll standing data (including addition of starters, removal of leavers and processes of salary changes) are authorised and processes on a timely basis.
- 4. Payroll and expenses payments are appropriately reviewed and approved prior to release and are reconciled for accuracy on a timely basis.
- 5. Payroll and expenses data is held securely and unauthorised access is prevented.



Improvement actions by type and priority



Nine improvement actions have been identified from this review, three of which relate to compliance with existing procedures, rather than the design of controls themselves. See Appendix A for definitions of colour coding.

Key findings

Good practice

- We confirmed through sample testing that employees have been paid as expected and in line with their contract. We also reviewed a sample of employees who had been on sick leave and confirmed they had been paid correctly during that time, including where any manual adjustments to the payroll system were required.
- We tested a sample of pay runs and confirmed that they were carried out in line with agreed dates (with staff being paid on the 28th of each month).
- CNPA have an up-to-date expenses policy in place, which was last reviewed in August 2022.
- Pay run summaries, BACS schedules and exception reports are run on a monthly basis and issued to the Management Accountant and the Director of Corporate Services & Deputy CEO for review and approval.
- Access to the payroll system is limited to those who require it for their role and protected by unique usernames and passwords.

Areas for improvement

We have identified a number of areas for improvement, which if implemented would strengthen CNPA's control framework. These include:

- Ensuring roles and responsibilities of staff are clearly outlined within policies and guidance.
- Implementing a requirement for back-up evidence to be included with changes required to payroll data. In addition determining, given the small team, whether segregation of duties is achievable when inputting data into the HR and payroll systems.
- Ensuring CNPA receive regular assurance over continuity and recovery arrangements of the 'Access' payroll system.

These are further discussed, along with more minor findings in the Management Action Plan below.

Impact on risk register

The Cairngorms National Park Authority corporate risk register (dated December 2022) included the following risks relevant to this review:

A1: Resources: public sector finances constrain capacity to allocate sufficient resources to deliver corporate plan.

A22: Technical: Business Continuity Plans (BCP) are inadequate to deal with significant impacts to normal working arrangements and result in service failure.

In general, the findings from this review do not raise significant concerns around the effectiveness of controls in place to manage these risks. However, with the payroll system back-ups being outsourced, management should consider the impact on business continuity plans.

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 policies and procedures in place for payroll and expenses.



1.1 Payroll desk instructions

CNPA's monthly payroll processing desk instructions set out the process for making amendments to payroll, such as starters and leavers, as well as how to run the payroll reports and complete reconciliations.

We noted that not all roles and responsibilities are clearly set out, for example who is responsible for authorising following processing.

We also noted that there is a section within the document to record approval by the Director of Corporate Services, as confirmation they are an accurate reflection on the expected process, but this was left blank.

Risk

There is a risk that staff are unclear on their responsibilities for payroll processing, as this the desk instructions are not comprehensive, which may result in incorrect payments and risk of reputational damage.

Recommendation

Management should update the desk instructions to capture the end-to-end process roles and responsibilities and provide an outline timeline (without dates). In addition, where formal sign off is required an audit trail of this should be maintained.

Management Action

Grade 2
(Design)

We accept that our desk instructions do not include details of roles and responsibilities or an outline timeline for processing. In practice, we are a small team, and colleagues understand one another's roles, where responsibilities lie, and the time constraints inherent in the overall process. Nevertheless, we agree that capturing this information in our desk instructions would enhance them.

We will ensure that, in future, changes to desk instructions are signed off by a senior member of the Finance team.

Action owner: Head of Finance and Corporate Operations

Due date: 31 July 2023

Control Objective 2: Payroll and expenses payments are made to valid employees only, at the correct authorised rate.

Yellow

2.1 Payrun reconciliation

The majority of payroll calculations are processed automatically by the payroll system 'Access', with those calculations based on the information input for each employee for example, salary, hours, tax code etc. Manual adjustments are required for the cycle to work scheme, purchase of additional annual leave and statutory sick pay.

We reviewed the process for manual adjustments and noted that it does not include a secondary check by a separate member of staff to ensure the calculation is correct.

We note that the monthly payrun is reconciled against the finance system, SAGE, to ensure the calculations are correct following processing. We tested three months' reconciliations and noted that in one of those months a variance of £579.23 between the systems was identified. Staff were unable to explain reason for this during fieldwork.

Risk

There is a risk that employees are not paid the correct value as Access payruns do not fully reconcile to SAGE finance reports, leading to financial loss, incorrect accounts and reputational damage.

Recommendation

We recommend that CNPA investigate the variance to confirm if there has been an error in either of the systems or if a manual adjustments has been made.

CNPA should also clarify the circumstances in which manual adjustments are made and agree a process for secondary checks before running the payroll.

Management Action

Grade 2
(Operation)

We are satisfied that our procedures for checking payroll calculations is robust. However, we acknowledge that we have failed to evidence these checks. Our current process is that the HR Manager prepares the payroll memo, and this is checked by the Head of Organisational Development (a third check is performed by the Payroll Officer in advance of processing). We have amended the paperwork so that it now requires signature by both colleagues.

We are currently investigating the discrepancy of £579.23 identified in the record for November 2021.

Action owner: Head of Finance and Corporate Operations / Head of Organisational Development

Due date: Implemented

2.2 HR bank details

We obtained the Employee Master file from the HR System to confirm that there were no duplicate employees and that unique bank details were held for each individual.

We found that bank details were missing for four employees. Management confirmed that as the Payroll and HR systems are separate and do not link in any way there is no requirement for this information to be held on the HR system. Therefore it is unclear why CNPA are holding all staff bank details on the HR system if not required for processing the data, considering GDPR regulations.

Risk

There is a risk of payroll data being held in HR systems, as the need has not adequately considered, resulting the data being uncontrolled, inconsistent and increasing the likelihood of contravening the Data Protection Act.

Recommendation

We recommend that CNPA review the information held on both HR and payroll systems to confirm what information is duplicated and that only necessary information is held within each system. If identified as unnecessary, the data should be removed from the system.

Management Action

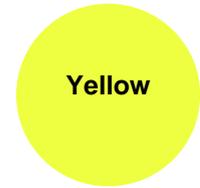
Grade 1
(Design)

The HR team have discussed this and agree that they do not need to hold bank details as these details are held by finance. We will amend this going forward.

Action owner: Head of Finance and Corporate Operations / Head of Organisational Development

Due date: Implemented

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



3.1 Changes to payroll data

New starts

When a new employee joins CNPA they are required to fill in a range of new start forms. These forms are returned to HR who review for any missing information. Once complete, either the HR Manager or HR Officer input the information into the 'People HR' system.

We note there is no secondary check to ensure the accuracy of the data input. Similarly there is no 'back up' documentation provided or segregation of duties when the Payroll and Finance Officer creates a new start on the payroll system, increasing the risk of ghost employees being created and paid fraudulently.

Leavers

CNPA does not require leavers forms to be completed when an employee is leaving the organisation. Instead leavers send their letter of resignation to the HR inbox, copying in their line manager. In some cases, employee contracts will have a fixed end date, and, in these circumstances, HR will issue the employee with a letter to notify them that their contract is ending (linked to MAP 3.3).

Once notification is received, the HR Manager or HR Officer will access the employee's record and use the 'leaver wizard' to input relevant information such as their last day of employment and last working day. The wizard will then calculate their last pay, including any outstanding annual leave entitlement. There are no secondary checks or segregation of duties when processing the leaver on the HR system.

Leavers are included on the list given to Payroll and although this is signed off by the Head of Organisational Development, no supporting documentation is provided. Based on the entitlement for the year, the Payroll and Finance Officer will calculate their outstanding leave manually and check against what has already been taken but otherwise no additional checks are undertaken and there is no segregation of duties when inputting into the payroll system.

Amendments

As with leavers, no forms are used to record changes needed to an employee's payroll data. While we note HR will often be aware of a change as they will have been involved in the process e.g. a change to pay as a result of promotion or change of hours, this is not always the case as there is no formal process for how they are notified of changes to an employee's record and what evidence is required to support (see MAP 3.4). We did note that requests to amend bank details are received by the payroll inbox and the Payroll Officer will use the contact number saved in the employee's record to call and verify the change. Changes are made to People HR by the HR Manager or HR Officer without any segregation of duties.

Any changes to an employee's data within the month are included on the payroll memo passed to the Payroll team to be processed. Payroll will manually enter the required changes, verifying with HR if the change appears unusual but otherwise no back up documentation is provided or secondary checks for accuracy undertaken.

Risk

There is a risk that employees are fictitiously entered into the payroll system or incorrect details are input as there is limited back up documentation provided and no secondary checks when inputting to the HR or payroll systems. Resulting in potential fraudulent payments or employees not being paid correctly.

Recommendation

Management should determine, given the small team, whether segregation of duties is achievable when inputting data into the HR and payroll systems. Where this is not the case management should determine if any additional controls are required, e.g. limited periodic sample testing.

Management Action

Grade 2
(Design)

Better segregation of duties is achievable. The HR team will ensure that operational administration is handled by the HR Officer and HR Manager, leaving the Head of Organisational Development available to authorise and sign off changes.

In addition, in order to ensure that new employees are not fictitious, the Finance team will phone new starts to confirm the bank details they have provided on their New Staff Details form. We already carry out this procedure where existing staff request a change of bank account and will extend the process to new starts. The check will be done before the new starter details are added onto the payroll system.

Action owner: Head of Finance and Corporate Operations / Head of Organisational Development

Due date: Already implemented.

3.2 Integrity of system data

We carried out analytics to compare new starts first pay with their start date, to confirm that they received that on a timely basis. We found 16 of the 43 starters reviewed (37%) received their first pay more than 44 days after their start date. We selected a sample of the three of these individuals and were able to confirm in all instances the start date or pay date on the system was not reflective of the when the staff member commenced post or was paid. In each case we confirmed the staff member was paid within one month of starting. In some instances, it appeared the start date had been input in an American date format (i.e. MM/DD/YYYY), but the pay date in British date format (i.e. DD/MM/YYYY), appearing to cause a lag, however in other instances we were unable to determine from our review why the dates entered were different.

In addition, our data analytics identified that 32 of the 34 leavers reviewed (94%) received their last pay in a timely manner. We reviewed the remaining two instances and confirmed that payment had been received in a timely manner and the final day of employment as recorded in the system was incorrect. Therefore no adjustment to pay was required.

There is therefore issues with the accurate recording of data across some staff records.

Risk

There is a risk of incorrect or inconsistent data being held on the system is information is not input correctly, leading to inaccurate reporting or erroneous payments being made to employees.

Recommendation

Management should also investigate the reasons for the system reports not being reflective of start and leave dates for staff.

Further, staff across the HR and payroll teams should agree a formal date format to be used across systems to ensure consistency of information.

Management Action

Grade 1
(Design)

We have tested the date format in Access Payroll and can confirm that the format is British, which is the format we use consistently across the organisation.

We have had no reports of staff experiencing delays in payment and are confident that our systems are functioning as we would expect. The Access Payroll software package is widely used and has been approved by HMRC. This should afford us some confidence that the system works as it should. We will, however, carry out some checks during this financial year to ensure that the system reports show the correct dates for starters and leavers, replicating the testing performed by the Internal Audit team.

Action owner: Head of Finance and Corporate Operations

Due date: 30 December 2023

3.3 End of contract notification

When employee contracts have a fixed end date HR issue the employee with a letter to notify them that their contract is ending. We reviewed a sample of five leavers of this type and found that in one case, although HR were able to demonstrate that the employee had been processed as a leaver in a timely manner, we were unable to obtain the letter issued notifying the employee that their contract was due to end.

Risk

There is a risk that employees on fixed term contracts are not processed as leavers in a timely manner as HR have not issued an end of contract letter to the employee, resulting in a short-term financial impact on the accounts.

Recommendation

HR should investigate whether the HR system is able to record and report on when leaver letters are issued. In the absence of this management should consider whether using Outlook reminders or actions to flag when action is required for fixed terms contracts.

Management Action

Grade 1
(Operation)

We agree that we need to be confident that the HR system supports our knowledge of end of contract dates. The HR team will review system functionality and implement systems either within the HR System or other systems if necessary to ensure an appropriate control is in place to manage the process of contract end dates.

Action owner: Head of Organisational Development

Due date: 31 December 2023

3.4 Awareness of amendments required

There are a number of reasons a change may be required to an employee's payroll data, e.g. change in hours, promotion, career breaks or changes to bank details (which has an appropriate checking process in place).

Across four separate months we selected one amendment for review. In one of the four instances, HR did not have supporting documentation available, as the change related to a board member and HR do not have advance oversight of board discussion and appointments.

As standard forms are not used to communicate payroll changes for Board members, staff noted that that it can be difficult to keep on top of the changes required and often changes are being made retrospectively leading to adjustments to payroll being backdated.

Risk

There is a risk that Board members receive incorrect payments, as payroll are not notified of the change in a timely manner, resulting in short term financial impact on the accounts and the member of staff.

Recommendation

Management should develop and encourage the use of template forms for amendment of data for Board members which impacts payroll, which are supported by the relevant evidence.

Management Action

Grade 1
(Design)

We agree that the effective procedures in place to track staff-based changes to payroll data need to be extended to board members and any changes in members' time allocations. Corporate Managers will liaise with Clerks to the Board to ensure deployment of the appropriate procedures.

Action owner: Head of Finance and Corporate Operations

Due date: 31 July 2023

Control Objective 4: Payroll and expenses payments are appropriately reviewed and approved prior to release and are reconciled for accuracy on a timely basis.



4.1 Expenses

The CNPA expenses policy sets out that:

'Where staff are claiming fuel costs, car parking charges, bridge toll charges, bus, underground or taxi fares the appropriate receipts, used tickets or ticket stubs should be attached to the claim form. If a receipt or used ticket is not attached, then the reason for this should be noted on the claim form. Reimbursement may have to be refused if receipts are not attached.'

We tested a sample of 17 expenses claimed between November 2021 and November 2022 to confirm receipts had been provided and found that in:

- two cases (12%), evidence was retained for part of the claim but not the full value.
- six cases (35%), the expense claim related to fuel costs, but no receipt had been retained nor an explanation as to why no receipt was submitted.

The policy also states that employees should submit their expenses claims regularly to their line manager and within three months of being incurred. The Authority reserves the right to refuse to pay expenses claims submitted after three months from the date they were incurred and delays over this time risks the capacity of line managers to appropriately verify the business reasons for the expenses being incurred. However, our testing identified one instance where an employee was paid a lump sum of expenses incurred between April and August 2021 with no rationale provided.

Line managers are required to approve all expense claims by either signing off the expense claim form or submitting to the Finance team inbox with an email trail stating that they approve of the expenses. Our sample testing identified one which had not been approved by signature or email trail.

Lastly, we assessed whether expense claims had been paid out in a timely manner. The expenses policy does not specify a time frame; therefore we used 30 days as a reasonable period for reimbursement to be made. We found that one claim had not been paid out within 30 days (60 days) after the claim was submitted.

Risk

There is a risk that expenses paid to employees are not value for money or fraudulent, as evidence is not obtained, claims are not approved and the policy is unclear on appropriate expenses, resulting in ineffective use of financial resources and leading to reputational damage.

Recommendation

Management should determine an appropriate time frame for expenses processing and document this within the expenses policy (MAP 1.2), this is in line with good practice. Employees should be reminded of the need to submit evidence along with their expenses claim and obtain their line managers approval, including justification

and approval for those over 90 days. In addition Finance staff should not process expense claims where the line manager has not signed off the expense form or provided approval via email.

Management Action

Grade 2
(Operation)

Recommendation agreed. We will update policies accordingly and issue a reminder to all staff on the expectations of them, their line managers and the finance team on the operation of the policy once that policy has been updated.

Action owner: Head of Finance and Corporate Operations / Head of Organisational Development

Due date: 31 July 2023

Control Objective 5: Payroll and expenses data is held securely, and unauthorised access is prevented.



5.1 Data back-up

CNPA use a third-party software provider for their payroll system, Access. We understand that Access is a cloud-based system and that back-ups of payroll data are automatically taken each night and stored on the cloud.

We attempted to confirm that data was being backed up as intended and that test and restore processes would work effectively in the event of an incident, however, were unable to evidence this during the audit as staff were unsure how these backups would be accessed.

Risk

There is a risk that payroll data is not accessible as continuity arrangements are not in place or tested, resulting in an inability to run payroll and pay employees on a timely basis.

Recommendation

Management should confirm that the arrangements in place for the back-up of payroll data remain valid and that they receive regular assurance over continuity and recovery arrangements. CNPA should also periodically arrange to participate in access and recovery tests.

Management Action

Grade 2
(Design)

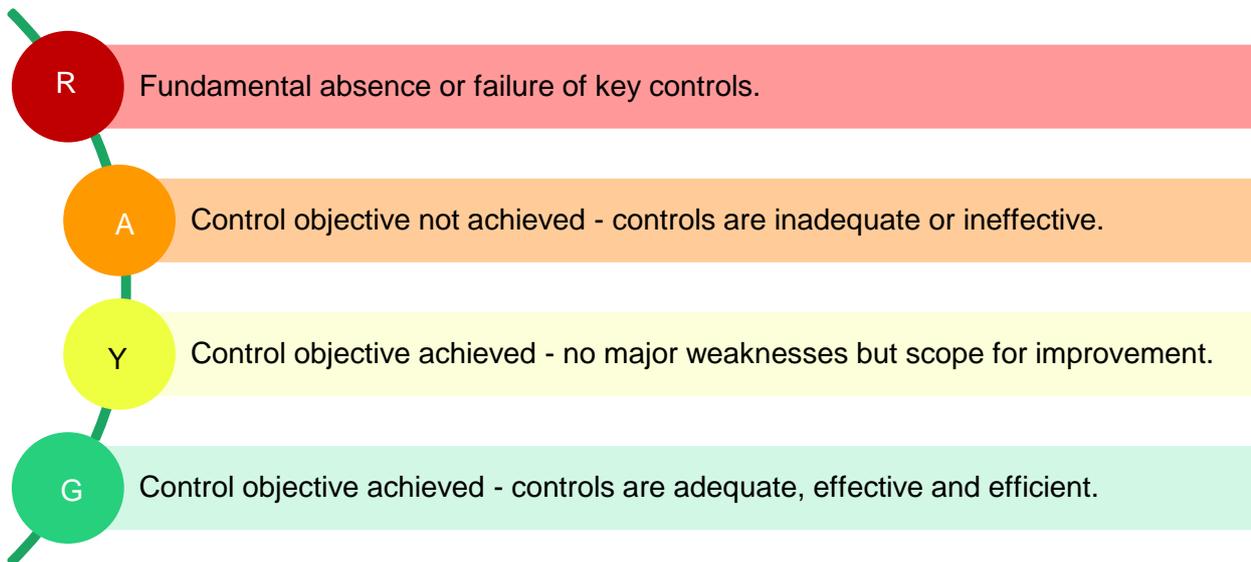
We will test this process periodically by requesting a backup and ensuring that it can be reinstated properly. We will document the process in the payroll desk instructions, noting who at the Park Authority has approval to request the backup, who to contact at Access and how to perform the reinstatement.

Action owner: Head of Finance and Corporate Operations

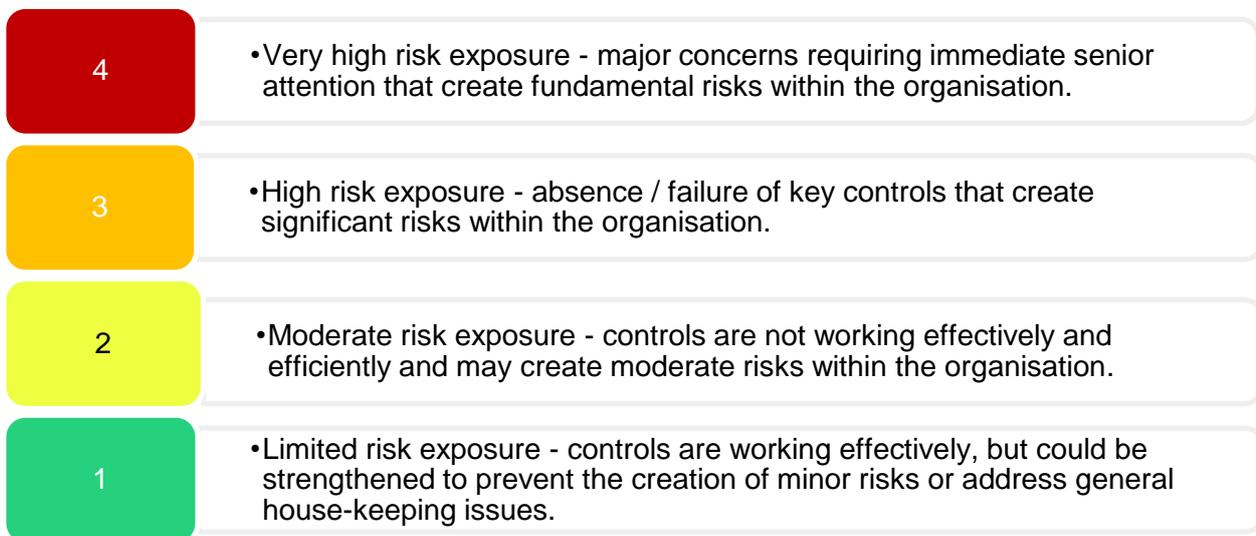
Due date: 31 October 2023

Appendix A – Definitions

Control assessments



Management action grades



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