



# ESSEX FIRE AUTHORITY

## HR Transaction Processing and Payroll

FINAL

Internal Audit Report: 5.16/17

6 April 2017

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# 1 EXECUTIVE SUMMARY

## 1.1 Background

An audit of HR Transaction Processing and Payroll was undertaken as part of the approved internal audit periodic plan for 2016/17. We reviewed the following areas for the purpose of this audit: Human Resources (HR) systems, Starters/Leavers/Amendments, Payroll variations, month end payroll procedures.

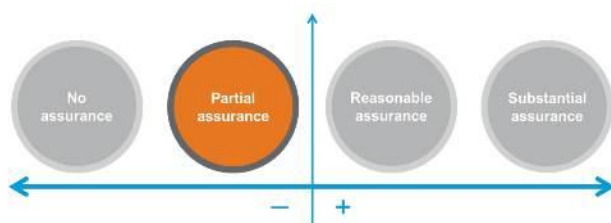
Payroll areas are split between the payroll and HR department within the Service with responsibilities such as Starters/Leavers/Amendment forms sitting with HR and processing of payments and expenses sitting with Payroll.

SAP is currently used to store employee details with some in built functionality for Payroll tasks such as outputting monthly payroll reports and viewing payslips.

## 1.2 Conclusion

### Internal Audit Opinion:

Taking account of the issues identified, the Authority can take partial assurance that the controls to manage this area are suitably designed and consistently applied. Action is needed to strengthen the control framework to manage the identified area(s).



## 1.3 Key findings

The key findings from this review are as follows:

Through testing of new starters within the financial year, we found that a new starter form was not available to view for eight employees tested as part of our sample of 20. We also found that HR sign off and an independent check was not available for seven and 11 instances respectively. This has resulted in a **high priority** management action to ensure starter forms are completed in full, uploaded to the employee file, and are signed off as required. For those forms available we confirmed information had been uploaded accurately.

We tested a sample of 20 amendments forms and noted one instance where the form was not available. We also noted on one occasion that the appropriate authorisation for the amendment was not available. For two instances we found that HR had not signed the forms to evidence action and independent review. Therefore we have agreed a **medium priority** action to ensure amendment forms are signed and dated by and appropriate manager for authorisation, signed off by HR as input and independently checked, and uploaded to the employee file. For those forms available we confirmed information had been uploaded accurately.

We found through testing of 20 expense forms, that although forms were shown as being signed off as required by an approving officer; the sign off was not being checked to ensure the sign off is appropriate for the expense claim. We did not identify any issues in our testing, however, due to the risk of not checking these, we have agreed a **medium priority** management action to ensure the sign off is checked to ensure sign off is legitimate and appropriate.

We have also agreed a low priority action in relation to leaver forms. No issues were identified in relation to access levels, payroll variations including exception reports and month end payroll procedures

## 1.4 Additional information to support our conclusion

Area	Control design*	Compliance with controls*	Agreed actions		
			Low	Medium	High
To ensure that robust controls are in place to safeguard the integrity of the Authority's payroll function	1 (7)	4 (7)	1	2	1
<b>Total</b>			<b>1</b>	<b>2</b>	<b>1</b>

\* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

## 1.5 Progress made with previous audit findings

Date of previous audit	Low	Medium	High
Number of actions agreed during previous audit	2	2	0
Number of actions implemented/ superseded	1	2	0
Actions not yet fully implemented:	1	0	0

As part of this review the Essex Fire Authority has demonstrated **good progress** in implementing the relevant payroll actions agreed to address internal audit recommendations made within the March 2016 Key Financial Controls report. Of the 2 'medium' and 2 'low' priority actions followed up, we confirmed that three have been implemented in full, and one is in progress. The action still in progress relates to the review of the starters/leavers and amendments forms operating at a Low priority, this has been reiterated as part of our actions within this review.

## 1.6 Additional feedback

There are currently three separate processes in place to record and authorise overtime by E1 staff, E2 staff, and E2 workshop staff. A centralised system to process overtime for all staff would simplify this process, thus reducing the margin for error. The Authority would benefit from standardising an overtime recording and approval process for all staff.

## 2 ACTION PLAN

### Categorisation of internal audit findings

Priority	Definition
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may, lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The table below sets out the actions agreed by management to address the findings:

Ref	Findings summary	Priority	Actions for management	Implementation date	Responsible owner
<b>Area: To ensure that robust controls are in place to safeguard the integrity of the Authority's payroll function</b>					
1.1	A corresponding Starter Form was not available to view on eight instances, Of the 12 forms available, HR sign off was not evidenced in seven instances, HR independent check for sign off was not available in 11 instances and we found that salary was not noted on the form on one instance.	High	<p>The Authority will ensure that all starter forms are:</p> <ul style="list-style-type: none"> <li>• completed in full;</li> <li>• scanned and uploaded to the employee file,</li> <li>• Signed off as input; and</li> <li>• Signed off for independent check.</li> </ul>	31 <sup>st</sup> March 2017	HR Support team Manager
1.2	We noted that a Leavers Form could not be located for one of the samples selected for testing.	Low	The authority will ensure leavers forms are scanned and uploaded onto the employee file.	31 <sup>st</sup> March 2017	Hr Support Team Manager

Ref	Findings summary	Priority	Actions for management	Implementation date	Responsible owner
1.3	<p>A corresponding Amendments form was not available to view for one sample picked.</p> <p>Another instance was noted where authorisation from the employee's reporting manager was not available to confirm authorisation.</p> <p>Two instances were noted where HR had not signed the form to evidence action and independent review.</p>	Medium	<p>The Authority will ensure that all amendment forms are:</p> <ul style="list-style-type: none"> <li>• Signed and dated by an appropriate manager for authorisation;</li> <li>• Signed off as input and checked independently by HR; and</li> <li>• Scanned and uploaded to the employee file.</li> </ul>	31 <sup>st</sup> March 2017	Hr Support Team Manager
1.4	<p>The Approving Officer sign off on expense forms is not being checked for appropriateness to ensure eligible managers are approving expenses.</p>	Medium	<p>The Authority will ensure the Approve Officer sign off on expense forms are verified for appropriateness before payment. The Authority will check this on a sample basis of c. 10 a month</p>	30th June 2017	Assistant Director of Finance.

### 3 DETAILED FINDINGS

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
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#### Area: Payroll

1.1	<p>The Authority uses SAP for the combined administration of human resources (HR) and payroll functions. Starters are added to SAP by the HR department from new starter forms.</p> <p>Once employee details have been entered into SAP, it is the role of the payroll department to conduct a Hiring Payroll Check within SAP, which includes entering bank details, tax data and the National Insurance category. The Hiring Payroll Check 'unlocks' the record, without which SAP cannot process a payroll payment for that record.</p> <p>If details are entered into SAP prior to the 5th of the month, the employee will receive pay that month. If details are entered into SAP after the 5th of the month, the employee will receive pay the following month.</p>	Yes	No	<p>We picked a sample of 20 new starters throughout the year for testing.</p> <p>Through testing to confirm if a new starters form was available, we confirmed the following:</p> <ul style="list-style-type: none"> <li>• A new starter form was available to view for 12 samples tested; and</li> <li>• The remaining eight samples did not have a corresponding starter form available to view.</li> </ul> <p>We also tested to confirm if the starter forms were authorised as input into the system by a member of the HR team and found the following:</p> <ul style="list-style-type: none"> <li>• The new starter forms were appropriately signed off by a member of HR on five instances;</li> <li>• Seven instances did not evidence HR sign off; and</li> <li>• Eight could not be checked as no starters form was available.</li> </ul> <p>We confirmed if the starter forms were evidenced to show independent HR check and found the following:</p> <ul style="list-style-type: none"> <li>• The new starter form was noted as checked by another member of HR as required on one instance;</li> <li>• There was no independent check sign off on 11</li> </ul>	High	<p>The Authority will ensure that all starter forms are:</p> <ul style="list-style-type: none"> <li>• completed in full;</li> <li>• scanned and uploaded to the employee file,</li> <li>• Signed off as input; and</li> <li>• Signed off for independent check.</li> </ul>
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Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
				<p>instances; and</p> <ul style="list-style-type: none"> <li>Eight could not be checked as no starters form was available.</li> </ul> <p>For those 12 samples where the starters form was available to view, we confirmed for 11 that the name, start date, and salary as noted on the form had corresponded to those details noted on SAP as required. One instance was noted where the salary had not been entered on the new starter form and therefore could not be checked against SAP.</p> <p>Without an available or complete new starter form, HR input sign off, and independent check, there is a risk that new starters could be missed, or potentially incorrect details could be input onto the system for processing.</p> <p>We noted on four instances, that the starter form was actioned after the payroll cut-off date for the on boarding month resulting in a delayed payment. This occurred due to the employees signing their contract late, therefore delaying the set up process. The HR department inform employees of the requirement to sign contracts early on to avoid delayed payment and chase this during the on boarding training. There is no risk posed with respect to delayed pay and onus is on the employee to sign the contract in time.</p> <p>The prior year management actions to ensure evidence of notification of new starters and timely input have been implemented.</p> <p>The management action raised in the prior year to ensure new starter forms are completed in full has been reinstated.</p>		



Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
1.2	<p>A leaver form is completed by the HR department following receipt of a leavers request from a line manager via email. This is actioned by the HR department including completing a leaver checklist. The Human Resources department delimits all recurring payments in SAP, which is then independently checked by another member of the Human Resources department. Payroll is then informed by e-mail with details of any annual leave outstanding to be paid.</p> <p>SAP details must be de-limited in SAP by the 5th of the month to prevent the employee from receiving a payment in the same month.</p>	Yes	No	<p>We obtained a breakdown of all leavers throughout the year and selected a random sample of 20 for testing.</p> <p>Through testing, we confirmed that the corresponding leavers form was available to view for 19 out of 20 employees selected and these were signed off by HR ensuring recurring payments were delimited. The forms were also independently checked by another member from HR.</p> <p>We noted on one instance that the leavers form could not be located for the leaver in question. Without an available leavers form there is a risk that leavers were not input or checked on the system.</p> <p>We found that the leavers date shown on each form had corresponded to the leaving date shown on SAP, the leaver's checklist had been completed for all samples, and the information had been processed on SAP well before the leaving date on all occasions.</p> <p>This had meant there were no instances of overpayments in any of the 20 samples picked.</p> <p>We found that on two out of the 20 samples, manager authorisation for the termination was not available on request. This was due to the employees taking up early retirement passing straight through to HR for processing, with the final settlement signed off by the Acting Chief Fire Officer. This was deemed as appropriate authorisation. The other 18 samples had been appropriately authorised by the employee's line manager.</p> <p>We followed up the previous year management action to ensure evidence of management notification of leavers was kept on file. We confirmed that this was the case for all samples selected and therefore the management action has been implemented.</p>	Low	The authority will ensure leavers forms are scanned and uploaded onto the employee file.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
1.3	<p>Amendments to employees' contracts are completed on dedicated movements &amp; promotions form. These are completed by the line manager of the employee requiring amendment, and is authorised by the manager the employee reports to. The form is then submitted to the human resources department and later processed by the payroll department.</p> <p>Changes to bank details are requested via a "Form of Authorisation For Payment of Salary by Bank or Building Society Credit" form. This requires the employee to give their name, address, new bank details, and a dated signature. This form will be processed by someone within the payroll department, and checked by another member in the payroll department for correctness. The form is undergoing replacement with a self-service system to allow employees to change their own bank details without the requirement of a form or payroll involvement.</p> <p>Amendments to basic employee data such as names and home address can be made by the individual employee within their account in the Employee Services Pages.</p>	Yes	No	<p>We picked a sample of 20 amendments to employee contracts for testing.</p> <p>Through testing of the samples, we confirmed that for 19 instances; the corresponding Movements &amp; Promotions Form was indeed completed, actioned in a timely manner, and accurately processed through on SAP. The previous management action to ensure amendments forms are submitted to HR in a timely manner has therefore been implemented.</p> <p>We found that the corresponding authorisation form was not available to view on one instance and therefore we could not confirm if the change was actioned in a timely manner, authorised appropriately or independently reviewed.</p> <p>Uploaded forms were also backed up with a letter to the employee detailing their change which is signed off by the Head of HR.</p> <p>We noted on one instance, that authorisation from the employee's reporting manager was not available to view confirming authorisation and request of the amendment.</p> <p>Without authorisation of amendments or the amendment form, there is a risk that employees could have salary or position details changed without sufficient prior authorisation. Therefore, we have reinstated the previous year management action to ensure managers sign and date amendment forms to evidence authorisation.</p> <p>We also noted on two instances that Section three of the form to be completed by the HR Support Team, was not filled out to evidence action and independent HR review.</p>	Medium	<p>The authority will ensure that all amendment forms are:</p> <ul style="list-style-type: none"> <li>• Signed and dated by an appropriate manager for authorisation.</li> <li>• Signed off as input and checked independently by HR</li> <li>• Scanned and uploaded to the employee file.</li> </ul>

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
				Without uploaded amendment forms, manager authorisation and HR review; there is a risk that leavers may not be authorised, input and reviewed for correctness on SAP which may result in fraudulent amendments or incorrect details being applied.		
1.4	<p>Staff may claim additional payments for expenses and overtime. A Mileage, Allowances, and Expenses form is filled out for expenses and receipts are required to support expenses claims. The form requires the signature of the claiming employee, along with sign off from a more senior member of staff.</p> <p>Overtime is claimed for differently for different members of staff.</p> <p>For E1 staff, additional hours are logged on the Electronic Rota Book (ERB) and are batch approved by the Line Manager on a monthly overtime report which is emailed over to HR confirming approval.</p> <p>E2 staff record overtime on the Employee Self Service (ESS) which automatically goes to their Line Manager for approval before it is fed through to SAP for payment.</p>			<p>We obtained a sample of 10 expenses claims picked throughout the year across staff from E1, E2 and E3.</p> <p>Following testing of these samples, we confirmed that the corresponding Mileage, Allowances, and Expenses form has been filled out with the amount on the form corresponding back to those shown on the system for all samples selected.</p> <p>Each expenses form had been accompanied with a relevant receipt to cover the amount shown on the expense form for nine out of the ten samples tested. The remaining one expense claim was not supported with receipts as this was a claim for £9.96 meal allowances which do not require receipts.</p> <p>Each of the expense forms had been authorised by an appropriate approving officer, however, through discussions with the Senior Payroll Assistant, we found that the sign off name was not being checked back against a list of those staff who were authorised to sign off the expense claim. Without a check for appropriate authorisation there is a risk that expenses are paid without approval from the approving officer.</p> <p>We also obtained a breakdown of overtime claims for the year across staff from E1 and E2 and picked a sample of 10 for testing.</p> <p>We confirmed that E2 staff obtained authorisation via the ESS from their line manager as required before the overtime was approved for payment. The approved payment amounts also corresponded to the amount</p>	<p>Medium</p> <p>Suggestion</p>	<p>The Authority will ensure the Approving Officer sign off on expense forms are verified for appropriateness before payment.</p> <p>The Authority would benefit from standardising an overtime recording and approval process for all staff</p>

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
	E2 admin staff in the Workshops department have access to process overtime and send a monthly email detailing those staff that will be paid overtime to Payroll staff for checking.			<p>shown on the employee payslip on the following month as required.</p> <p>We also confirmed that E1 staff using the ERB had been reported as having overtime on the monthly Overtime Log which was approved by the line manager and emailed to HR for payment. For those staff in Workshops, the corresponding approval email was present showing approval. The payment amount that had been approved has also corresponded to the payments made on the employee payslips on the following month as required.</p> <p>There are currently three separate processes in place for staff overtime to be authorised. A centralised system to process overtime for all staff would simplify this process, reducing the margin for error.</p> <p>The previous management action raised to ensure overtime is reviewed, and processed following approval has been implemented through the use of the ESS and ERB systems.</p>		
	E3 staff are not paid overtime due to these staff being paid on an hourly basis with no opportunity for overtime.					

# APPENDIX A: SCOPE

## Scope of the review

To evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. The scope was planned to provide assurance on the controls and mitigations in place relating to the following areas:

### Objective of the area under review

To ensure that robust controls are in place to safeguard the integrity of the Authority's payroll function

When planning the audit, the following areas for consideration and limitations were agreed:

### Areas for consideration:

- Access to the payroll and HR system are restricted with appropriate processes in place to ensure that only authorised personnel have access;
- The creation and set up of new starters on the payroll system is subject to rigorous checks and appropriate authorisation and accurate input;
- Removal of staff is subject to appropriate authorisation and completed in a timely manner to reduce the risk of overpayment. Processes are in place to ensure that all final salary payment calculations are accurate and take into account all relevant information and are processed accurately;
- Amendments to employee information (personal and corporate) are subject to appropriate checks and authorisation and are processed accurately.
- Appropriate controls are in place to ensure that temporary payroll variations (expenses, job variations and time-sheets etc.) are authorised and accurately input;
- The month end payroll process includes the preparation of exception reports which are reviewed by a senior member of staff;
- Appropriate authorisation is given before the payroll is released.

In addition to this, we will follow up the actions agreed previously.

### Limitations to the scope of the audit assignment:

- The review only considered staff paid through the payroll system;
- Our work did not consider all the various expenses processed through the payroll;
- We did not consider the appropriateness of payments made to staff, only that these are the correct amounts due to them;
- We did not review the accuracy of PAYE calculations as part of the audit and we did not consider maternity / paternity / sickness payments;
- We did not review system back up procedures or access controls in relation to the HR / payroll system;
- Any testing undertaken during the review was performed on a sample basis only; and

- Our work did not provide any guarantee against material errors, loss or fraud, or provide absolute assurance that material error; loss or fraud does not exist.

Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

## APPENDIX B: FURTHER INFORMATION

Persons interviewed during the audit:

- Sarah Webster – Payroll Manager
- Angela Myers – HR Manager
- Martin Jones – HR Workforce Information Officer
- Clare Reading – HR Subject Matter Advisor
- Melissa Richardson – Senior Admin Assistant Pay
- Caroline Gillett – Senior Admin Assistant Pay
- Rebecca Taylor – HR Administrator

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