

Audit Committee, 14 June 2017

Internal audit report – core financial controls: payroll review

Executive summary and recommendations

Introduction

As part of the Internal Audit Plan for 2016-17, Grant Thornton have undertaken a review of the core financial controls, focussing on the payroll system.

Decision

The Committee is asked to discuss the report.

Background information

See Grant Thornton's report, attached

Resource implications

None

Financial implications

Grant Thornton's agreed fees for 2016-17 were £47k including VAT.

Appendices

Internal Audit Report – Core Financial Controls

Date of paper

7 June 2017



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The Health and Care Professions Council

Payroll Review 2016/17 – Final report

05 June 2017

Distribution		Timetable	
For action	Andy Gillies, Director of Finance	Fieldwork completed	31 May 2017
	Teresa Haskins, Director of Human Resources	Draft report issued	02 June 2017
For information	Audit Committee	Management comments	02 June 2017
		Final report issued	05 June 2017

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Glossary

The following terms are used in this report:

HCPC	Health and Care Professions Council
HRBP	HR Business Partner
SOW	Statement of Work

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It is the responsibility solely of the Health and Care Professions Council's management to ensure that there are adequate arrangements in place in relation to risk management, governance and control.

1 Executive Summary

1.1 Background

The Audit Committee approved an internal audit plan for 2016/17, which included a core financial controls review. The Committee subsequently agreed that this review should focus on an audit of the new payroll system – Core HR system. The Core HR system was adopted in December 2016 and payroll is processed by an outsourced payroll provider Core Computer Consultants Limited (Payroll Bureau)¹. The chosen payroll service provider was expected to deliver efficiencies and improved data quality through the integration with the HR system and reduced rekeying by the HR and Finance teams.

The HR and Finance teams own joint responsibility for the payroll function. The monthly payroll is approved by the Director of Finance and Director of HR and in their absence by the Head of Financial Accounting and HR Business Partner (HRBP). While the majority of data entry work and checking of gross pay is carried out in HR, the responsibility for final checks on the payroll Bureau processing has been split between HR and Finance.

The objective of the review was to assess the adequacy of processes, procedures and controls in place post implementation and to ensure payroll is being processed accurately.

Our scope included reviewing key policies, procedures and other guidance documents relating to the payroll process. We also met with

¹ The provider has not yet moved the HCPC over to their live support environment due to outstanding configuration issues. The move to the supplier's live support environment is expected in June 2017. The live

key HCPC personnel and reviewed documentation to gain an understanding of:

- payroll process in place, and roles and responsibilities for requesting additions, changes and deletions to payroll deductions
- how payroll deductions are calculated and the checks in place to ensure that these calculations are accurate
- the process to pay over payroll deductions, and ensure that funds are transferred to the appropriate individual / organisation
- how assurance is sought that payroll deductions are accurate, complete and have been appropriately paid to the correct individual

We also performed a walk-through of the payroll process and the checks in place to ensure payroll is processed and calculated based on the most recent and available information received from employees. We also recalculated payroll against payslips provided by HCPC for 25 employees randomly selected since December 2016, to ensure the correct calculation had been made.

Further details on the payroll process are included in Appendix A. Details on responsibilities, approach and scope are included in Appendix B.

1.2 Overall assessment

We found that the new payroll process is working adequately, and that payroll calculations are accurate. Roles and responsibilities for the HR

support environment entails system queries being resolved by Core HR's helpdesk as opposed to the current Project Team.

personnel involved in the payroll process have been captured in a high level one page document (this is known as the process note). We have reviewed this document along with the Statement of Work (SOW) and found both documents to adequately cover roles and responsibilities of personnel involved in payroll processing. During our discussions with the two teams we also observed that there is an overall awareness by staff of their roles. Roles and responsibilities have also been captured in the job descriptions for HRBP, HR Advisor, HR Officer, Head of Financial Accounting, Financial Accountant, and Treasury Accountant. These job descriptions accurately reflect roles carried out by each of these employees.

HR team was trained on the new system. Two days of training were provided onsite by Capita (Core HR's outsourced training provider) in January 2017 to key HR personnel involved in data entry in the system. We understand that HR and Finance also have access to an online payroll e-module to support them in their training needs. We understand from management that completion of e-module is not compulsory for all HR and Finance personnel involved in the payroll process.

The Core HR system can be accessed by both HR and Finance personnel involved in the payroll process. The HRBP is the system administrator and is responsible for assigning access rights to the system for both HR and Finance personnel involved in the payroll process. Previously, the HRBP had both edit and approval rights in the system. Following upon external auditors' recommendation, the HRBP rights have been limited to approval and read-only. Currently, HR Advisor and HR Officer have edit rights in the Core HR system. The Head of Financial Accounting and Financial Accountant have read-only rights in the system.

The existing arrangement with Payroll Bureau has been captured in a service level agreement (SLA) which expires three years from April 2016. The SLA covers data protection and security and confidentiality clauses.

Payroll files processed by the Payroll Bureau are checked by both HR and Finance Teams before the payroll is approved for payment by the Director of HR and Director of Finance. There are defined protocols for sending changes, queries to the Payroll Bureau and we observed that the HR Team follows these protocols adequately. Employee deductions which are made to third parties such as Eden red (childcare vouchers), Friends Life (pensions) and HMRC are monitored by the Finance Team.

We understand from management that transition to the Core HR system has not been a smooth process as management had envisaged and it has taken some time for clarity in tasks and responsibilities to be fully embedded across HR, Finance and Payroll Bureau. We understand from our discussions with management and based on our own observations that HCPC have needed to be more involved in leading the delivery of the new process than management had expected. HCPC have also had to perform more checks to ensure that the Payroll Bureau are processing the payroll accurately. Therefore at the time of this audit, the expected efficiency and benefits management had envisaged from the integration of the HR and payroll software is currently not being fully achieved.

As part of the transition process, a Statement of Work (SOW) was agreed between HCPC and Payroll Bureau in June 2016 which has been subject to various revisions; last revision was in March 2017 for further definition of specific roles and payroll activities to be undertaken by the Payroll Bureau and HCPC. This was done to facilitate clarity in collaborative working and avoidance of duplication of tasks.

As part of our testing, we recalculated payroll against payslips which included gross pay, season ticket loan, childcare voucher, pensions, PAYE, NI and student loan. The payslips were provided by HCPC for 25 employees from December 2016 to April 2017 and no issues were noted.

We recommend that management should review its existing processes and consider:

- Developing service standards for monitoring service delivery by the Payroll Bureau
- Retention of evidence which demonstrates that Director of Finance and Director of HR have reviewed the monthly Gross to Net comparison reports
- Updates to the payroll procedures to reflect current activities undertaken by HR and Finance teams for the payroll run
- Recording action points arising from quarterly meetings between HR and the Payroll Bureau.

The following table details the key findings from our review.

1.3 Key findings

Risk / Process	High	Medium	Low	Info.
Absence of service standards for the Payroll Bureau	-	1	-	-
No audit trail for review of Gross to Net comparison report	-	1	-	-
Payroll procedures were not up to date	-	-	1	-
Action points are not documented in quarterly meetings between HCPC and the Payroll Bureau	-	-	-	1
Total	-	2	1	1

The following findings were rated as '**Medium**':

- The existing SLA with the Payroll Bureau does not include service standards for monitoring its service delivery by HCPC. It would be beneficial and good practice for HCPC to agree on a set of robust service standards with the Payroll Bureau.
- Absence of evidence of review of Gross to Net comparison report by Director of Finance and Director of HR prior to approving salary payment

Further details of our findings and recommendations are provided in Section 2 of this report. Refer to Appendix C for definitions of internal audit issue ratings.

1.4 Basis of assessment

For the key processes reviewed, we found that:

- There is sufficient documentation of payroll processes and guidance in the form of a payroll process note and a flowchart. The documents have clear ownership (HRBP).
- The recently revised SOW confirms the tasks to be carried out by Core Bureau for the operation of HCPC's monthly payroll. The document also states the timelines for each task to be completed and the dependencies on data from HCPC.
- A Core HR user guide is also available for use by the HRBP. The guide offers a step by step procedure for using the system.
- There are regular meetings between HRBP and the Payroll Bureau to address issues arising from the transition to the Core HR system.

- There is awareness in the HR and Finance teams of their roles and responsibilities for the payroll process. Further clarity was added in April 2016, as a result of a meeting between the HR and Finance teams to avoid any duplication of roles across the two teams.
- A suite of 17 check reports are used by the HR and Finance teams to confirm the accuracy and appropriateness of salary amounts and deductions.

All payroll related queries are formally logged in a monthly queries sheet which is sent across to the Payroll Bureau for resolution and response. Employees are requested to submit their queries to humanresources@hcpc-uk.org, as detailed on the HCPC intranet. Employees can also direct queries as the second line of call to the HR and Finance teams.

2 Detailed Findings

2.1 Service standards for Payroll Bureau

1.	Medium	Introduction of service standards for monitoring Payroll Bureau performance
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Finding and Implication	Proposed action	Agreed action (<i>Date / Ownership</i>)
<p>A SOW has been established since June 2016 and was last updated in March 2017. Whilst the SOW details the formal responsibilities for HCPC and the Payroll Bureau there have been a number of issues arising from the Payroll Bureau such as:</p> <ul style="list-style-type: none"> • Delays in receipt of the first set of Check Reports from the Payroll Bureau ranging from 2-4 working days for March 2017 and April 2017 respectively • Three or more sets of Check Reports sent by the Payroll Bureau for each monthly payroll run as opposed to two sets in SOW. The Check Reports include payroll files processed by the Payroll Bureau. These are checked by the HR and Finance teams before the files are uploaded in the system by the Payroll Bureau. As per SOW, the Check Reports are resent until all queries have been satisfactorily resolved by Payroll Bureau. A target date has not yet been set to reduce the exercise to two Check Reports. • Partial production of payroll reports as opposed to producing the full suite of payroll reports as agreed in the SOW 	<p>R1: We recommend that HCPC considers defining service standards for monitoring the Payroll Bureau’s service performance. Such service standards should be discussed and agreed with the Payroll Bureau and regularly monitored during the quarterly meetings.</p> <p>In the context of Check Reports, we recommend HCPC to communicate a formal deadline to the Payroll Bureau for achieving two sets of Check Reports.</p>	<p>Agreed. We will agree a revision of the SOW with the Payroll Bureau, including appropriate service standards</p> <p>Date: Revised SOW to be in place by end of July 2017.</p> <p>Ownership: Director of HR and Director of Finance</p>

1.	Medium	Introduction of service standards for monitoring Payroll Bureau performance
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Finding and Implication	Proposed action	Agreed action (<i>Date / Ownership</i>)
<ul style="list-style-type: none"> Timeliness of communication from Payroll Bureau to HCPC's payroll queries <p>Whilst a SLA is in place between the Payroll Bureau and HCPC, from our review of SLA we note that there are no service standards included in the SLA which we would typically expect for any organisation to have in place when working with a third-party payroll provider.</p> <p>Given the issues highlighted it would be beneficial and good practice for HCPC to agree on a set of robust service standards with the Payroll Bureau to ensure that the level of performance provided by the Payroll Bureau meets HCPC's required expectations. This would enable HCPC to objectively monitor and hold to account the Payroll Bureau.</p>		

2.2 Payroll Approval

2.	Medium	No audit trail for review of Gross to Net comparison report
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Finding and Implication	Proposed action	Agreed action (<i>Date / Ownership</i>)
<p>The Director of HR and the Director of Finance are required to review the Gross to Net comparison report before approving the monthly salary payments.</p> <p>Whilst we observed evidence to demonstrate the monthly approval of salary payment by both Directors, there is no evidence to verify that the monthly Gross to Net comparison reports had been approved by both Directors.</p> <p>We would expect there to be an audit trail that demonstrates both Directors have reviewed the monthly Gross to Net comparison reports to check completeness and accuracy of payroll prior to its processing. The checks would include the Directors' review of:</p> <ul style="list-style-type: none"> • Variances between prior and current month's gross salary for individual employees • Variances between prior and current month's net salary for individual employees • Explanations/ commentary on variances as provided by the Payroll Bureau and confirmed by the HR team 	<p>R2: We recommend that the Director of HR and the Director of Finance retain evidence of review of the Gross to Net comparison reports prior to approving the monthly salary payments either via emails confirming their review to their deputies (Head of Financial Accounting and HRBP) or signing off on hard copies of Gross to Net comparison reports and archiving the same electronically.</p>	<p>Agreed. We will implement an email based process to evidence review of Gross to Net reports prior to approval.</p> <p>Date: From June 2017 payroll onwards.</p> <p>Ownership: Director of HR and Director of Finance</p>

2.3 Updates to documented procedures

3.	Low	Payroll procedures were not up to date
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Finding and Implication	Proposed action	Agreed action (<i>Date / Ownership</i>)
<p>We noted that the HRBP has prepared a documented payroll process note and a flowchart which sets out the key activities to be undertaken for payroll processing by HR and Finance teams.</p> <p>While doing a walkthrough for the payroll run and discussing the process with HR and Finance teams we observed that a few activities had not been captured in the payroll flowchart.</p> <p>The existing payroll flowchart should be updated for:</p> <ul style="list-style-type: none"> • HR team checking childcare voucher amounts • Finance team checking apprenticeship levy • Pension elements checked by both HR and Finance teams • Review of Gross to Net reports to the Director of HR and Director of Finance prior to payment approval <p>We also noted that the existing payroll process note includes only key tasks to be performed by the HR team. Payroll tasks to be performed by the Finance team have not been included.</p> <p>Failure to maintain updated process document may result in:</p> <ul style="list-style-type: none"> • Employees may not make timely decisions in light of documented procedures • Succession risk is heightened in the loss of key personnel. 	<p>R3: Existing payroll flowchart should be updated for:</p> <ul style="list-style-type: none"> • HR team checking childcare voucher amounts • Finance team checking apprenticeship levy • Pension elements checked by both HR and Finance teams • Review of Gross to Net reports to the Director of HR and Director of Finance prior to payment approval <p>The payroll process note should be updated to include key tasks performed by both HR and Finance teams.</p>	<p>Agreed. We will review and update the process notes to reflect the agreed processes, following the revision of the SOW.</p> <p>Date: By end of October 2017.</p> <p>Ownership: HRBP and Head of Financial Accounting</p>

2.4 Updates to documented procedures

4.	Improvement	Action points are not documented in quarterly meetings between HCPC and Payroll Bureau
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Finding and Implication	Proposed action	Agreed action (<i>Date / Ownership</i>)
<p>The HRBP meets with the Payroll Bureau’s team to discuss the project status, ongoing issues and resolutions on a quarterly basis. From our review, we found there was no evidence of any meeting minutes or action points being formally recorded. We would expect as a minimum action points to be recorded as arising in these meetings.</p> <p>There is a risk that key actions discussed may not be tracked in a timely manner or followed up in subsequent meetings. There is also a risk that both parties may leave the meeting without a joint understanding of key actions and timelines.</p>	<p>R5: We recommend that actions resulting from each meeting are formally documented and shared with the Payroll Bureau to ensure there is a coherent and consistent understanding of actions and timelines agreed by both parties.</p>	<p>Agreed. Actions will be confirmed with the Payroll Bureau in writing.</p> <p>Date: From the next quarterly meeting</p> <p>Ownership: HRBP</p>

A Overview of the payroll process

Payroll function

The HR and Finance teams own joint responsibility for the payroll function. The monthly payroll is approved by the Director of Finance and Director of HR and in their absence by the Head of Financial Accounting and HR Business Partner (HRBP).

While the majority of data entry work and checking of gross pay is carried out in HR, the responsibility for final checks on the payroll bureau processing has been split between HR and Finance as follows:

- HR - checking calculations for overtime, maternity/ paternity pay, pension deductions, childcare vouchers, sick pay, leavers, starters and gross salaries as per gross to net variance reports
- Finance- checking season ticket loan deductions, Council member payments, Gross to Net report and apprenticeship levy charge

Finance team is responsible for ensuring appropriate reporting to HMRC. HR is the main point of contact for the Payroll Bureau.

Monthly payroll processing

The HR team communicates payroll changes to the Payroll Bureau via an encrypted Payroll Inputs file sent within the first week of the month (dates vary between 4th/05th/06th of the month). The file is emailed by either the HR Advisor or the HR Officer to the Payroll Lead at Payroll Bureau.

Changes are processed by the Payroll Bureau and a suite of 17 reports known as 'Check Reports' are sent to HR. The reports are checked by HR and Finance. Any queries on payroll elements are recorded in a 'Queries' sheet which is sent to the Payroll Bureau. Payroll Bureau resolves the queries and also responds on the 'Queries' sheet which is sent back to HR along with the second set of Check Reports. The reports are checked by HR and Finance to confirm resolution of the queries. As per SOW, the Check Reports are resent until all queries have been satisfactorily resolved by Payroll Bureau.

Once HR and Finance teams are satisfied over the accuracy of payroll files, the HRBP sends an email confirmation to the Payroll Bureau to close the process. Payroll Bureau sends a final set of reports and uploads the payroll files on the Core HR system.

Upon the file upload, the Core HR system automatically generates a BACS file and an approval notification for payment of net salaries. The system generated email is sent to the HRBP, the Director of Finance, and Director of HR. The first line of approval is the HRBP. Once the HRBP is satisfied that the net salaries BACS file agrees to the Final Payroll Reports, she will advise the Director of Finance and Director of HR that they can approve the BACS payment. Two approvals are required, via an internet banking application with usual login and password controls. The Director of Finance and the Director of HR should review the Gross to Net comparison report to support their approval of the BACS payment.

Payment approval is done by the 17th/18th of the month in order for salaries to be credited to employees bank accounts on the 20th of the month (or earlier if 20th falls on the weekend).

Payroll deductions and payments to third parties

Employees' gross salaries are subject to deductions for season ticket loans, childcare vouchers, pension contributions and PAYE, NI, student loans.

- Season ticket loans- Season ticket loan applications are approved by the respective line managers and payments are approved by the Director of Finance. Accuracy of monthly deductions are checked by the Treasury Accountant as part of the review of Check Reports sent by Payroll Bureau
- Childcare Vouchers- Childcare voucher applications are processed by the HR Officer. The HR Officer is responsible for confirming amounts accuracy for payroll processing. The HR Officer uploads childcare voucher details file on Edenred's website (Edenred are HCPC's childcare voucher provider) which generates a monthly invoice. The invoice is sent to the Finance team. A direct debit has been set up for Edenred. The Treasury Accountant confirms payment made during the monthly bank statement reconciliation process.
- Pension contributions- The HR Officer is responsible for adding, removing and making changes to employees' pension contributions on Friends Life portal on its website. During the payroll run, the HR Officer is responsible for checking that pensions have been deducted at correct percentages. The monthly pension breakdown report generated during the payroll run is reviewed by the Financial Accountant and approved by the Director of Finance. Pension payments are directly debited by Friends Life by the 22nd of the following month.
- HMRC payments- HMRC payments are checked for accuracy by the Head of Financial Accounting. Upon upload of payroll files on Core HR system, the Core HR system generates a BACS file and an approval notification for payment of the tax and National Insurance to HMRC. The Head of Financial Accounting checks the proposed payment to the payroll reports and the PAYE control account in the accounting system, and when satisfied, she will advise the Director of Finance and Director of HR that they can approve the BACS payment. The approval of the payment works in the same way as the approval of the net salaries, and is completed by the 20th of the following month.

B Internal Audit Approach

Approach

As part of our 2016-17 Internal Audit Plan, it was agreed with the Health and Care Professional Council's Audit Committee and Management that Internal Audit would perform an audit of new payroll system – Core HR system. It was agreed that the approach to this audit would involve:

- Reviewing key policies, procedures and other guidance documents relating to the payroll process
- Meeting with key HCPC personnel and review of documentation to gain an understanding of:
 - payroll process in place, and roles and responsibilities for requesting additions, changes and deletions to payroll deductions
 - how payroll deductions are calculated and the checks in place to ensure that these calculations are accurate
 - the process to pay over payroll deductions, and ensure that funds are transferred to the appropriate individual/organisation
 - how assurance is sought that payroll deductions are accurate, complete and have been appropriately paid to the correct individual
- Performing a walk-through of how payroll process and the checks in place to ensure payroll is processed and calculated based on the most recent and available information received from employees
- Highlighting areas of good practice and areas for further development.

We achieved our audit objectives by:

- Meeting with audit sponsors and other key contacts to gain an understanding of the processes in place and the risk areas, building upon information gained through the audit planning process
- Reviewing key policies, procedures and other documents to support management's representations.

The findings and conclusions from this review will support our annual opinion to the Audit Committee on the adequacy and effectiveness of internal control arrangements.

Additional information

Client staff

The following staff were consulted as part of this review:

- Andy Gillies – Finance Director
- Barbara Wangrat Tomko- HR Business Partner
- Chantel James- HR Officer
- Daniel Dawit- Treasury Accountant
- Kim Wilcox- HR Business Partner
- Teresa Haskins- Director of Human Resources
- Tian Tian- Head of Financial Accounting

Documents received/examined

The following documents were received or looked at during the course of this audit:

- Payroll process- flowchart
- Statement of Work with Payroll Bureau
- Payroll procedures
- Core HR Guide
- Childcare voucher, season ticket loan guidance on intranet
- Snapshots of training provided
- Job descriptions for HRBP, HR Advisor, HR Officer, Head of Financial Accounting, Financial Accountant, Treasury Accountant
- SLA with Core Computer Consultants Limited (Payroll Bureau)
- Payroll input reports
- Queries spreadsheet
- Season ticket loan application and childcare voucher forms for samples selected
- Payslips for 25 samples tested
- Final Payroll Reports sent by Payroll Bureau for March and April-dated 17 March and 18 April respectively

Locations

The following location was visited during the course of this review:

Health and Care Professions Council
Park House
184 Kennington Park Road
London SE11 4BU

Acknowledgment

We would like to take this opportunity to thank the staff involved for their co-operation during this internal audit.

C Definition of audit issue ratings

Audit issue rating

Within each report, every audit issue is given a rating. This is summarised in the table below.

Rating	Description	Features
High	Findings that are fundamental to the management of risk in the business area, representing a weakness in control that requires the immediate attention of management	<ul style="list-style-type: none"> • Key control not designed or operating effectively • Potential for fraud identified • Non-compliance with key procedures/standards • Non-compliance with regulation
Medium	Important findings that are to be resolved by line management.	<ul style="list-style-type: none"> • Impact is contained within the department and compensating controls would detect errors • Possibility for fraud exists • Control failures identified but not in key controls • Non-compliance with procedures/standards (but not resulting in key control failure)
Low	Findings that identify non-compliance with established procedures.	<ul style="list-style-type: none"> • Minor control weakness • Minor non-compliance with procedures/standards
Improvement	Items requiring no action but which may be of interest to management or best practice advice	<ul style="list-style-type: none"> • Information for department management • Control operating but not necessarily in accordance with best practice



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