



BEDFORDSHIRE FIRE & RESCUE AUTHORITY

Payroll – Key Controls and New System Benefits

FINAL

Internal audit report 6.17/18

9 April 2018

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1 EXECUTIVE SUMMARY

1.1 Background

An audit of Bedfordshire's Fire & Rescue Authority's (hereafter the Authority) Payroll function was undertaken as part of the approved internal audit plan for 2017/18, as well as a review of the implementation of the new iTrent payroll system.

The Authority have 14 strategically positioned Fire Stations; five whole-time stations, one day crewing station and eight retained stations. An emergency communication centre, training centre and headquarters are located on the same site as the fire station at Kempston and there are other offices located in the north and south of the county. As at December 2017, a total of £876,707 was paid through the payroll to 575 individuals.

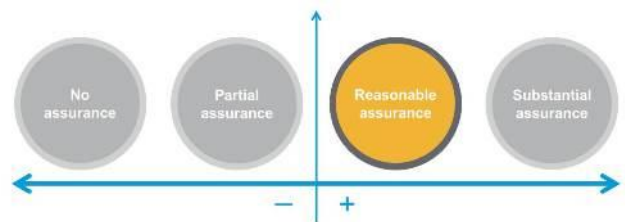
The Authority outsource their payroll processing to Midlands HR and there are pre-agreed monthly deadlines that the Authority must comply with to make additions, amendments or removals to the Payroll within the month. The Authority is currently implementing a new system iTrent, of which HR and Payroll modules went live in February 2017.

1.2 Conclusion

Our review found in the main a set of robustly designed controls that were consistently complied with throughout the course of our testing. However, our sample testing for new starters to the Authority found a high number of missed payroll deadlines resulting in instances of backpay, and our sample testing of expenses found that the Authority was missing out on reclaimable VAT expenses, leading to the following opinion:

Internal audit opinion:

Taking account of the issues identified, the board can take reasonable assurance that the controls in place to manage this area are suitably designed and consistently applied. However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified area(s).



1.3 Key findings

The key findings from this review are as follows:

Reconciliation between iTrent and ESOS

The Authority implemented the Payroll and HR modules of the new system iTrent in February 2017, moving on from the older ESOS system. We confirmed that a reconciliation was performed by an iTrent contractor of the Authority's payroll between the two systems at the point in time the modules went live, and that this reconciliation was reviewed by the Authority's Payroll Project Manager. Through review of this reconciliation, we confirmed that analysis was carried out against all variances within the document and that a narrative was provided for every entry. We further confirmed from the February 2017 BACS run that the same number of individuals had been paid as were listed within the final reconciliation.

Payroll System Access

We were informed by the Payroll Manager that access rights to iTrent were inherited from the old payroll system and that roles and access levels were determined at project meetings covering security. Initially, profiles were only developed for core members of the HR/Payroll team but roles have subsequently evolved and are maintained by the Business Information Team. We obtained an access rights report ran from iTrent that detailed the system's current users and through discussion with the Payroll Manager confirmed that the level of user access was appropriate for the individuals and roles listed.

Starters, Leavers and Amendments

Through our testing of 15 starters, we found that ten starter forms had missed the pre-agreed Midlands HR deadline for submission, and that eight of these had resulted in missed pay with backpay paid in the subsequent month. We have agreed an action around the communication of these dates to new employees. **(Medium)**

Our testing of 15 leavers found consistently timely removal of leavers from the payroll, and through reconciliation to the live iTrent system we found no cases of late removals resulting in overpayments. Through our testing of ten amendments we similarly found no issues and we confirmed that for all ten, matching amendment forms were held along with supporting information with signatures and approval from both the manager and from HR.

Overtime and Expenses

We selected a sample of ten overtime claims made within 2017/18 from an iTrent report, and confirmed that in all cases supporting documentation was held that matched to the overtime claim from the report that was appropriately signed by the claimant, the budget manager and where appropriate, the line manager also. We further reconciled the claims to employee payslips on iTrent and confirmed that the correct amount of time was listed that matched to the original claim.

The Authority had not implemented expenses within iTrent at the time of our audit and used a system called STEP. We selected a sample of ten claims from the two most recent months of December 2017 and January 2018 and found that all claims were appropriately signed and supported by receipts. However, we found for three of our sample that VAT elements were present on the receipts that were not entered into the STEP system and there is a risk that managers are not thoroughly reviewing claims before approval, leading the Authority into incurring extra expense. **(Medium)**

Payroll Reports and Pay Run

BACS runs detail the total value of the payroll for the month and are provided by Midlands HR. We confirmed that for the three most recently available consecutive months of October, November and December 2017 that a final BACS report was held that was signed by two members of the MHR Payroll team and subsequently by a member of the Finance team by the timetable deadline date. We further confirmed from copies of emails from the Payroll Manager to Midlands HR that notification to proceed with the BACS transmission had been given by the deadline dates agreed.

We obtained net pay variance reports for November and December 2017 and January 2018, confirming in all case that a report had been run and was stored within the shared file system. Through review, we further confirmed that each variance over 30% had a narrative provided within the report.

System Benefit Realisation

The Authority has not conducted any benefit analysis for the iTrent system implementation as at the time of audit the project implementation was not complete. Through discussion with the Head of HR, we were advised that the Authority will conduct a benefits analysis once the implementation is complete, and through review of highlight reports and the Terms of Reference of the HR Project Board we have seen that the Authority has recognised the need to conduct a benefits realisation review.

1.4 Additional information to support our conclusion

The following table highlights the number and categories of management actions made. The detailed findings section lists the specific actions agreed with management to implement.

Area	Control design not effective*		Non-Compliance with controls*		Agreed actions		
					Low	Medium	High
Key Payroll Processes	0	(10)	3	(10)	1	2	0
System Benefit Realisation	0	(1)	1	(1)	1	0	0
Total					2	2	0

* 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.

2 DETAILED FINDINGS

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 regulatory scrutiny/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, regulatory scrutiny, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

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	Action for management	Implementation date	Responsible owner
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Area: Key Payroll Processes

1.1	For new starters to the Authority, vetting is carried out and new starters' forms containing payment information will be completed by the employee and HR and input into iTrent. Once HR have input the HR details from the starter form into iTrent, the system will send a workflow notification to Payroll, who will enter bank details to ensure a segregation of duties.	Yes	No	We selected a sample of 15 new starters to the Authority in 2017/18 from an iTrent system Through review, we confirmed that signed new starter packs were delivered to the starter and signed. Vetting Verification Records were available and stored within personnel files for all 15 selected, with thirteen New Starter details forms held within personnel files with the remaining two receipted by payroll and in a holding file to be added. Throughout the course of our testing, we noted that for these fifteen starter details forms held, Payroll had only date stamped the receipt for nine. We reviewed either these date stamp	Medium	Dates to return completed forms will be communicated within the starter packs delivered to new starters to help meet the payroll deadline.	31 March 2018	Ellie Clarke, Human Resources Officer
					Low	Date stamps will be consistently recorded by Payroll on to the starter forms upon receipt.	Immediately	Angela Meader, Payroll Manager

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
	The starter will be input into the payroll system in line with Payroll deadlines.			<p>receipts or the date of the employee's signature on the fifteen starter forms against the agreed payroll deadlines with Midlands HR and found that ten of these forms had missed the payroll deadline, and through reconciliation to the iTrent system found that pay was missed in the starting month for eight and backpay was therefore allocated in the subsequent month.</p> <p>We queried the process behind the delivery of these starter packs and starter forms to new starters with the Human Resources Officer and were advised that although these were sent to starters after the appointment was confirmed, no dates were communicated to the starter to return the forms by to ensure they would be added to the payroll in their starting month.</p> <p>Further to this, we noted that the form itself stated that the employee should bring the completed form with them on their first day of work. If the starter is not informed of target dates for the receipts of these forms containing their payment information, there is a risk that deadlines will continue to be missed and employees will not be paid until after their first month of work.</p> <p>Through discussion with the Human Resources Officer, we were advised that the Authority was wary about adding employees to the payroll before their first day of work; however, it was proposed that this could be done for an employee that was joining part way through the month, in order to allow the Authority opportunity to remove an individual who didn't appear for work from the payroll before the month's payday.</p>				

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
1.2	<p>For expenses payments, the Authority use a system called STEP, which is a separate system to the I-Trent system, and paper forms will be completed and sent to payroll for processing following appropriate authorisation by a line manager or budget holder.</p> <p>Authorisation is required both within the STEP system and through a signature on the hard copy of the form sent to Payroll, and original receipts are attached to the forms submitted when there is a VAT element to the cost.</p> <p>Reports from STEP are run and reviewed before being uploaded to iTrent for additions to the Payroll. Staff identified as leavers due to be removed from the payroll are highlighted as part of this review process to ensure they are paid separately.</p>	Yes	No	<p>We obtained STEP expense reports from December 2017 and January 2018 and selected a sample of 10 non-mileage expense claims.</p> <p>For each of this sample of 10, we confirmed that a supporting expense claim was held within the Payroll Office with supporting receipts, and that all had been signed and dated by a manager for approval.</p> <p>However, through review of the attached receipts we found that for three of our sample, a VAT element was present on the receipt that had not been marked in the expense claim, meaning that the Authority was forgoing on claimable VAT returns. Specifically, we found unclaimed VAT numbers present on receipts for:</p> <ul style="list-style-type: none"> • A rail/bus/taxi expense claim for £11.80 incurred in November 2017; • A rail/bus/taxi expense claim for £1.80 incurred in November 2017; and • A subsistence expense claim for £5.80 incurred in October 2017. <p>There is a risk that if employees continue to not enter the VAT element from receipts and managers do not check for this in the approval process, then the Authority is suffering an extra 20 per cent in expenses paid out than is necessary.</p>	Medium	The Authority will remind managers to check that VAT elements have been claimed for all receipts before approving expenses.	28 February 2018	Angela Meader, Payroll Manager
1.3	The Authority has been in the process of replacing their MIS system for a number of years, with the initial Project	Yes	No	We reviewed the initial Project Implementation Document (PID) for the replacement of MIS in 2010, one of the parts of MIS to be replaced being the Payroll system. We noted that the staff involved in developing this PID were no longer with the Authority and had left prior to the	Low	Through the HR Project Board, expected benefits will be clarified to ensure that these can	Sept 2018	Denise Clarke Head of Human Resources

Ref Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
<p>Implementation Document (PID) developed in 2010.</p> <p>As part of the change away from MIS, two of the modules which the Authority wanted to replace were the HR System and Payroll system, to move towards a self-service approach for staff.</p> <p>Since the initial PID, the team responsible for implementation has changed significantly, and to monitor the implementation of new systems for Payroll and HR, a project group was formed, which meets on a six weekly basis, with key responsibilities including:</p> <ul style="list-style-type: none"> • overseeing the governance of the project to ensure delivery to an acceptable standard • tracking and managing the risks and issues identified as the project progresses. • communicating to external stakeholders. • transferring responsibility of benefits capture to 			<p>start of implementation. We also noted that while the PID made reference to replacement of the MIS, there was little reference to made to how the payroll system would be replaced.</p> <p>Linked to the above, we reviewed a 2011 Capital Appraisal Form, which was based on the above document, however this referenced the MIS system as a whole, rather than detailing the individual areas which needed replacement. Review of the appraisal form found that the objectives listed were broad in relation to the overall benefits, such as 'effective and efficient HR processes', which were not specific enough to measure tangible benefits.</p> <p>We were informed by the Head of HR that to address the requirements above in relation to replacing MIS, the Payroll and HR systems needed to be replaced, to reduce the risk of manual errors, and to implement a self- service system, and a project group was established to review implementation.</p> <p>Follow a process to select the current supplier 'I-Trent' which is a system used by other authorities, a HR and Payroll system project team was set up, to meet every six weeks to review the implementation of a new Payroll system, and we confirmed that the Terms of Reference highlighted the responsibilities of the group and milestones to demonstrate success.</p> <p>We reviewed two sets of minutes, agendas and papers, one set from June 2017, and the latest set of agenda and papers for the January 2018 meeting, and reviewed the project highlight report to confirm that the objectives of the HR Project Board were being achieved, and we</p>		<p>be measured once the project is complete.</p>		

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
	<p>CMT at project closure.</p> <p>In relation to the final point, the Authority has not conducted any benefit analysis, as the project, at the time of audit was not complete, although as referenced above and through discussion with the Head of HR, the Authority will conduct a benefits analysis once complete.</p> <p>While payroll has been migrated from the old ESOS system to I-Trent, and review of the processes are covered above, the recruitment and time and expenses modules need to be completed prior to the project closure.</p>			<p>found that within the minutes, it was clear that the highlight report, prepared by the Head of HR, addressed all of the main responsibilities of the Board, and from review of the reports, it was clear to see how:</p> <ul style="list-style-type: none"> • issues and risks were being reported and monitored, with regular updates provided on work ongoing • a communications plan was reported, with actions and updates provided showing how actions are being implemented and issues resolved. • providing updates on the finance position of the project. <p>We confirmed that meetings reviewed were held in line with the Terms of Reference, and at the time of the audit, one of the parts of the implementation which had not been completed was a review of benefits realised. This was due to the system implementation not being complete. While the Payroll module had been implemented, and evidence during testing above indicated that robust controls were in place, work was still ongoing to implement the 'time and expenses recording module into I-Trent, as this was being undertaken through a separate system, known as STEP, and develop the main part of the HR implementation surrounding a recruitment module. Review of the most recent set of available minutes from the December 2017 Project Board Meeting indicate that meetings are to be held in January/February 2018 to scope the remaining implementation.</p>				

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				<p>The Authority has recognised the need to conduct a benefits realisation review although this can only be completed once the implementation is complete and this is reflected within the highlight reports and is part of the Terms of Reference. In light of the information documented above and the changes in staff from the initial business case to where the Authority are now, there would be value in revisiting the expected benefits of the system implementation and ensure these are clarified to ensure that these benefits can be assessed to establish if the project has had the desired outcome.</p>				

APPENDIX A: SCOPE

The scope below is a copy of the original document issued.

Scope of the review

The scope was planned to provide assurance on the controls and mitigations in place relating to the following areas:

Objectives of the area under review

To ensure that the new Payroll system has been implemented appropriately and ensures the accurate and timely payment of staff and officers.

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

Areas for consideration:

- Following the implementation of a new payroll system, we will review the key payroll processes to ensure that staff pay is being accurately processed, we will only include sample testing since the implantation of the new system. In addition to this, we will assess the Authorities post-implementation review of the new system to understand whether the expected benefits have been understood and achieved.

Key Payroll Processes

- The Service has undertaken a reconciliation of the data from the old system to the new system to ensure these have been accurately transferred;
- Access to the payroll system is restricted to only those staff that require access;
- New starters are input accurately following authorisation, receipt of documentation and segregation of duties;
- Leavers are input accurately following timely notification, receipt of documentation and segregation of duties;
- Amendments to standing information (including bank details) input accurately following authorisation, receipt of documentation and segregation of duties;
- Pay increases have been accurately input;
- Overtime and additional payments are input accurately following authorisation, receipt of documentation and segregation of duties;
- A month end payroll processing time table is in place and available to all staff;
- Exception reports are run and reviewed with actions taken to address anomalous calculations; and
- The pay run is produced and authorised in line with the delegated authorities; this includes a segregation of duties.

System Benefit Realisation

- Expected benefits of the new system were clearly defined and approved as part of the new payroll system business case;
- A post implementation review has been undertaken to understand if the benefits have been realised;
- Where benefits have not been realised, we will seek to confirm that actions have been identified and implemented to achieve the benefits where possible; and

- We will also select a sample of benefits realised and test to substantiate their achievement.

Limitations to the scope of the audit assignment:

- We will not review the recruitment or induction process for new starters;
- We will not confirm the input of opening data from the old system to the new system, only that a reconciliation has taken place;
- We will not confirm that overtime or additional payments claimed has been worked;
- We will not confirm that all benefits have been identified, assessed and achieved;
- We will not confirm that the action taken will realise the expected benefits;
- We will not include a review of the payroll system implementation;
- All testing will be compliance based sample testing only; and
- Our work will not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

APPENDIX B: FURTHER INFORMATION

Persons interviewed during the audit:

Denise Clarke, Head of Human Resources

Angela Meader, Payroll Manager

Ellie Clarke, Human Resources Officer

Documentation reviewed during the audit:

ESOS M2 Payroll Gross to Net Report
iTrent M3 Payroll Gross to Net Report
HR Payroll Access Report
iTrent Starters 2017/18 Report
iTrent Leavers 2018/18 Report
iTrent Amendments 2017/18 Report
iTrent Overtime Payments Reports
STEP Expense Reports
Midlands HR Payroll Timetable
Net Pay Variance Reports November & December 2017 and January 2018
Payroll Monthly Processes Document
Payroll Processing Calendar
BACS Runs from October, November and December 2017
HR Project Board - December 2017 minutes to Jan meeting
January 2018 Project Board agenda
January 2018 Highlight Report
June 2017 HR project board minutes
Terms of Reference HR Project Board
HR Manager notes on reasons for new Payroll system
Initial Capital Appraisal Form

Benchmarking

We have included some comparative data to benchmark the number of management actions agreed within the Payroll section of our audit, as shown in the table below. In the past year, we have undertaken a number of audits of a similar nature in the sector.

Level of assurance	Percentage of reviews	Results of the audit
Substantial assurance	39%	
Reasonable assurance	55%	✓
Partial assurance	6%	
No assurance	0%	

Management actions	Average number in similar audits	Number in this audit
	4	4

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