

Leicestershire Police Authority

Payroll Provider Processing (4.09/10)

Internal Audit Report
9 December 2009

FINAL

Contents

	Section	Page
1	Executive Summary	1
2	Action Plan	3
3	Findings and Recommendations	5

Debrief meeting:	29 July 2009	Auditors:	Chris Harris Partner
Draft report issued:	14 August 2009		Doug Freeman Client Manager
Responses received:	9 December 2009		Kelly Waddoups Semi Senior Auditor
Final report issued:	9 December 2009	Client sponsor:	Chris Smith Authority Treasurer
			Paul Dawkins Director of Finance
			Ruth Gilbert Head of Finance
		Distribution:	Chris Smith
			Paul Dawkins
			Ruth Gilbert



This review has been performed using RSM Bentley Jennison's bespoke internal audit methodology, **i-RIS**.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

This report is prepared solely for the use of Authority and senior management of Leicestershire Police Authority. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

© 2008 Bentley Jennison Risk Management Ltd

Bentley Jennison Risk Management Ltd

Bentley Jennison Risk Management Ltd is wholly owned by RSM Bentley Jennison
Registered in England and Wales No. 3444889
Registered Office 1 Hollinswood Court Stafford Park 1 Telford TF3 3DE

1 Executive Summary

1.1 Introduction

An audit of the arrangements the Payroll Provider has for processing Leicestershire Police data was undertaken following a request from External Audit for audit assurance in relation to processes in place. The review was agreed with the Authority Treasurer and was undertaken utilising time available from the 2009/10 Audit Plan contingency.

Leicestershire Police Authority jointly tendered with three other forces; Nottinghamshire, Lincolnshire and West Yorkshire and entered into a contract with Mouchel to process the payroll.

Mouchel is a consulting and business services group with offices located around the country. The office dealing with payroll processing for Leicestershire Police is located in Lincoln.

Mouchel process the three separate payrolls for Leicestershire Police, these being police officers, civilians and pensioners which are all run at different times of the month.

The agreement with Mouchel is for them to process the force payrolls for police officers, civilians and pensioners in line with a timetable agreed at the start of the year. The payroll department based at force headquarters at Enderby, Leicestershire is still responsible for maintaining the payroll database, ensuring all details are correct and making amendments to those details.

Mouchel's Lincoln office was visited for this audit for the purpose of ensuring that the controls in place were sufficient to safeguard the processing of data for payroll.

Our testing was limited to transactions processed during 2009/10 however, we confirmed that the control framework had not changed from that in place during 2008/09.

The specific risks considered as part of this audit were:

- Access controls may not be in place and operating effectively in relation to LPA payroll data, to ensure an appropriate segregation of duty
- Appropriate controls may not be in place to provide reasonable assurance that individual employee payroll data is processed accurately, timely and completely.
- Controls may not be in place to ensure that payroll reporting, including tax, is provided to LPA in a timely manner.
- Controls may not exist to ensure that scheduled and ad hoc payroll runs are processed completely, accurately and in a timely manner

These risks relate to the objective of providing assurance that adequate control is exercised by the Payroll provider to ensure the integrity of the payroll processed.

1.2 Scope of the review

The objective of our audit was 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. Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively. When planning the audit, the following controls for review and limitations were agreed:

Limitations to the scope of the audit:

- The scope of the audit will be limited to reviewing controls and processes in place to ensure data is processed securely, accurately and in a timely manner.
- 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.

The approach taken for this audit was key controls testing and included the following:

- Establishing the controls for which external audit intends to place reliance on internal audit testing
- Reviewing the adequacy and application of the controls in place to mitigate the risks

1.3 Conclusion

Taking account of the issues identified, in our opinion the Authority and Force can take adequate assurance that the controls upon which the organisation relies to manage this area, as currently laid down and operated, are effective.

This assurance level has been formulated on the basis of conclusions drawn on the individual elements of design and application of controls in place:

	SUBSTANTIAL	ADEQUATE	LIMITED
DESIGN OF CONTROL FRAMEWORK		X	
APPLICATION OF AND COMPLIANCE WITH CONTROL FRAMEWORK		X	
OVERALL OPINION		X	

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review. The key findings from this review are as follows:

- Information detailing users with access to the system and payroll data has not been provided and therefore no testing could be undertaken during the audit to ensure that only authorised and appropriate personnel had access to the system.
- Through discussion with staff we were informed that whilst they were not asked by Leicestershire Police Authority to make amendments to the payroll data, their access levels on the system allowed them to do so.
- No information was provided to the auditor relating to Mouchel's emergency/disaster plan to ensure smooth payroll processing should such an event occur.

1.4 Recommendations Summary

The following tables highlight the number and categories of recommendations made. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

Recommendations made during this audit:

Risk	FUNDAMENTAL	SIGNIFICANT	MERITS ATTENTION
ACCESS CONTROLS MAY NOT BE IN PLACE AND OPERATING EFFECTIVELY IN RELATION TO LPA PAYROLL DATA, TO ENSURE AN APPROPRIATE SEGREGATION OF DUTY	0	2	1
APPROPRIATE CONTROLS MAY NOT BE IN PLACE TO PROVIDE REASONABLE ASSURANCE THAT INDIVIDUAL EMPLOYEE PAYROLL DATA IS PROCESSED ACCURATELY, TIMELY AND COMPLETELY.	0	0	2
CONTROLS MAY NOT BE IN PLACE TO ENSURE THAT PAYROLL REPORTING, INCLUDING TAX, IS PROVIDED TO LPA IN A TIMELY MANNER.	0	0	0
CONTROLS MAY NOT EXIST TO ENSURE THAT SCHEDULED AND AD HOC PAYROLL RUNS ARE PROCESSED COMPLETELY, ACCURATELY AND IN A TIMELY MANNER	0	1	2
TOTAL	0	3	5

2 Action Plan

The priority of the recommendations made is as follows:

FUNDAMENTAL	SIGNIFICANT	MERITS ATTENTION
ACTION IS IMPERATIVE TO ENSURE THAT THE OBJECTIVE FOR THE AREA UNDER REVIEW IS MET.	REQUIRES ACTION TO AVOID EXPOSURE TO SIGNIFICANT RISK IN ACHIEVING THE OBJECTIVE FOR THE AREA UNDER REVIEW.	ACTION IS ADVISED TO ENHANCE CONTROL OR IMPROVE OPERATIONAL EFFICIENCY.

REF	RECOMMENDATION	CATEGORISATION	ACCEPTED Y/N	MANAGEMENT COMMENT	IMPLEMENTATION DATE	MANAGER RESPONSIBLE
1.1	Access to the system should be reviewed and a user access list produced which details all employees with access to the system and Leicestershire Police Authority payroll data to ensure that only appropriately authorised employees have access.	Significant	Y	A list will be provided to LPA by 13.11.2009 A further list of Mouchel staff who have access to be provided to LPA by 11.12.2009	13.11.2009 11.12.2009	Louisa Jelly – Mouchel (Contractor)
1.4	Leicestershire Police Authority should consider the access levels currently granted to Mouchel staff and decide if they require the full amendments access to their data or for it to be restricted.	Significant	Y	Mouchel Bureau team require amendments access to be able to deliver the service levels agreed including the application of increments, pay awards, tax code uplifts etc. The level of access provided has been considered and is deemed to be appropriate.	Implemented	Ruth Gilbert
1.6	The user access list produced from the system should be reviewed to ensure that all leavers have had their access rights removed.	Merits Attention	Y	If LPA are in agreement, Mouchel will review and provide the access list every 6 months at which point LPA will review to confirm all personnel are still active or if any need amending. The Support & Development Manager at Mouchel will also review the Mouchel Staff access list and provide to LPA noting any changes made.	Following initial issuing of list (as in 1.1) the first review list will be issue in April 2010 (then every Oct & Apr subsequently)	Louisa Jelly

REF	RECOMMENDATION	CATEGORISATION	ACCEPTED Y/N	MANAGEMENT COMMENT	IMPLEMENTATION DATE	MANAGER RESPONSIBLE
2.3	Evidence should be recorded that a check is being carried out regarding the number of employees being paid and the value of transactions either by initialling the report or adding the check to the control sheet already in place.	Merits Attention	Y	A new line has been added to the Payroll Control Sheet to show this as a step in the process and this is to be initialled by the checker once the task has been completed.	WEF January Payrolls	Louisa Jelly
2.6	Staff should ensure that they locate the Data Protection Policy and are aware of its contents and its requirements.	Merits Attention	Y	All staff have now been issued with the policy and are able to reference it at any time.	Completed 03.11.2009	Louisa Jelly
4.1	The original schedule put in place should be achievable by all parties and amendments to this schedule should only be made in extreme circumstances.	Merits Attention	Y	Delays to the original schedule were incurred following go-live due to system difficulties i.e. maternities, Acting up. However, as the system has settled the timetable is now being adhered to. This view is supported by the Support & Development Manager, Mouchel - improvements have already been made in this area.	Implemented	Ruth Gilbert & Louisa Jelly
4.2	In all cases control sheets should be fully completed and signed off as authorisation that the payroll process is complete.	Merits Attention	Y	We believe that all of the sheets have been checked and signed off as per normal protocol and would therefore appreciate examples of where this was not found to be the case (i.e. were copies taken?). This will then be addressed.	18.12.2009	Louisa Jelly
4.3	Mouchel should be required to provide assurance that they have sufficient arrangements in place to ensure that they would be able to recover the payroll system in the event of a disaster/ emergency or to deal with any IT failure that may occur.	Significant	Y	Louisa Jelly to liaise with IT department to ensure documentation is available to be shared with LPA	18.12.2009	Louisa Jelly

Findings and Recommendations

	CONTROLS (ACTUAL AND/OR MISSING)	ADEQUATE DESIGN(YES/NO)	TEST RESULT / IMPLICATIONS	RECOMMENDATION	CATEGORISATION
	Risk 1:	ACCESS CONTROLS MAY NOT BE IN PLACE AND OPERATING EFFECTIVELY IN RELATION TO LPA PAYROLL DATA, TO ENSURE AN APPROPRIATE SEGREGATION OF DUTY			
1.1	Employees at Mouchel can only access the system after an account has been set up for them and access is restricted.	Yes	<p>Through discussion with staff we were informed that access to the system can only be obtained after they have had a specific account set up for them by the Mouchel IT Department.</p> <p>A user access list was requested during the audit to ensure that only authorised personnel have access and that the level of access is adequate. However, this was not provided to the auditor and therefore no testing could be conducted and there is a risk that unauthorised personnel have access to the system.</p>	Access to the system should be reviewed and a user access list produced which details all employees with access to the system and Leicestershire Police Authority payroll data to ensure that only appropriately authorised employees have access.	Significant
1.2	User accounts can only be set up by specific personnel based in the IT department.	Yes	<p>Through discussion with staff at Mouchel we were informed that in order for an individual to be set up with access on the system a request has to be issued from a relevant manager to the IT department who will then set up the individual with the relevant access.</p> <p>Requests for new users/change of access from Leicestershire Police have to be received from the Payroll Manager and these are also forwarded to IT to deal with. Staff within the processing team are unable to amend users and access rights.</p>		
1.3	Restrictions are in place to ensure that staff processing the payroll are not also responsible for the amendment of employee data.	Yes	<p>Data amendments are dealt with by members of the payroll department at the police authority.</p> <p>Therefore this ensures that there is sufficient segregation of duties in place between data amendment and processing of the payroll.</p>		
1.4	Mouchel users (based in	Yes	Through discussion with staff at Mouchel we	Leicestershire Police Authority should consider	Significant

	CONTROLS (ACTUAL AND/OR MISSING)	ADEQUATE DESIGN(YES/NO)	TEST RESULT / IMPLICATIONS	RECOMMENDATION	CATEGORISATION
	processing) cannot amend the system in order to create 'new employees'.		<p>were informed that although data amendment is not carried out by them they would be able to amend the payroll data if requested. They state that they require this level of access if they are to be able to provide the level of support that they currently offer to the authority.</p> <p>As they have amendment rights to the employee data on the payroll system there is a risk that accidental unauthorised changes may be made to data.</p>	the access levels currently granted to Mouchel staff and decide if they require the full amendments access to their data or for it to be restricted.	
1.5	Mouchel users cannot amend rates of pay on the system.	Yes	<p>We were informed again that Mouchel staff would be able to amend rates of pay on the system as their level of access allows them to do this.</p> <p>Staff informed us that they would not do this unless instructed to do so by the Police Authority.</p> <p>There is again the risk that changes to the payroll data could be made by Mouchel staff</p>	Please refer to the recommendation made at paragraph 1.4 above	
1.6	On leaving the company or moving from the department the users access rights are revoked.	Yes	We were unable to test this control and confirm whether access rights for leavers have been removed as we were not provided with a user access list from Mouchel when it was requested.	Please refer to the recommendation made at paragraph 1.1 above The user access list produced from the system should be reviewed to ensure that all leavers have had their access rights removed.	Merits Attention
1.7	All paper documentation which relates to Leicestershire Police payroll is retained securely.	Yes	We observed that all files which contain documentation relating to Leicestershire Police payroll were located in locked cabinets. Current year documents are stored in a cabinet underneath a desk next to where the processing staff are situated. Previous year documents are stored in a cabinet across the office which is in sight of staff. There is only one key for the cabinets which is kept hidden within the office; payroll staff		

	CONTROLS (ACTUAL AND/OR MISSING)	ADEQUATE DESIGN(YES/NO)	TEST RESULT / IMPLICATIONS	RECOMMENDATION	CATEGORISATION
			and the manager are aware of its location.		
1.8	An up to date authorised signatory list from the police authority is held at Mouchel.	Yes	The authorised signatory list was obtained and was found to be adequate. It was received in November 2008 and was up to date and authorised by the Force Finance Director.		
1.9	Staff dealing with the payroll processing are not also responsible for sending the BACS transmissions.	Yes	<p>It was observed whilst on site conducting the audit that there are two team located on either side of the office.</p> <p>One team is responsible for processing the payroll and then once the BACS transmission has been authorised by LPA the other team takes over and has responsibility for the BACS transmission.</p> <p>Testing undertaken on 2009/10 payroll runs confirmed that staff processing the payroll were not the same as the staff submitting the BACS transmission for payment.</p>		
	RISK 2:	APPROPRIATE CONTROLS MAY NOT BE IN PLACE TO PROVIDE REASONABLE ASSURANCE THAT INDIVIDUAL EMPLOYEE PAYROLL DATA IS PROCESSED ACCURATELY, TIMELY AND COMPLETELY.			
2.1	All complete and authorised data maintenance forms received prior to an agreed cut off point are processed for the next payroll run.	Yes	<p>As per the agreement in place Leicestershire Police Authority staff are responsible for data maintenance to the system.</p> <p>During the audit earlier this year sample testing was undertaken to ensure that data was being input correctly and was done in a timely manner. No significant issues were notes as a result of this testing.</p>		
2.2	All payslips generated are checked back to the originating data to ensure accuracy.	Yes	We were informed that payslips are not checked for accuracy at Mouchel. Staff stated that the reports are forwarded to Leicestershire Police Payroll who are responsible for all the accuracy checks. Payslips are produced by another company who send the completed payslips straight to		

	CONTROLS (ACTUAL AND/OR MISSING)	ADEQUATE DESIGN(YES/NO)	TEST RESULT / IMPLICATIONS	RECOMMENDATION	CATEGORISATION
			the police and not back to Mouchel.		
2.3	Supervisors review the monthly payroll runs to help ensure that the total number of employees and value of payments are reasonable.	Yes	We were informed that a common sense check is carried out by the person who is running the payroll. The number of employees and the value of the payments are considered to see if it looks reasonable compared to the previous months figures. Any significant variances would be reported to the police authority. However it is not documented that this check is being carried out.	Evidence should be recorded that this check is being carried out either by initialling the report or adding the check to the control sheet already in place.	Merits Attention
2.4	Exception reports are produced with any exception items being investigated.	Yes	All exception reports are produced at the Police Authority. They ensure that all exceptions are investigated and issues resolved before authorising the payroll for payment. Whilst carrying out the Payroll audit earlier this year testing was undertaken to ensure that the exception reports were being produced and checked; no issues were noted.		
2.5	Staff are suitably trained.	Yes	Mouchel has a dedicated training assistant who delivers a variety of training presentations to staff. Training records were requested for members of staff who are responsible for Leicestershire Police payroll. Training records have been kept since 1st August 2008 and it was noted that only one member of the team has received any recorded training. However, we understand that the provider considers that the Payroll Support consultants on the Bureau team are all fully trained to carry out their tasks effectively. Courses attended were Data Retention & Security and End of Year Returns. Another		

	CONTROLS (ACTUAL AND/OR MISSING)	ADEQUATE DESIGN(YES/NO)	TEST RESULT / IMPLICATIONS	RECOMMENDATION	CATEGORISATION
			member of the team had received results from IPP whilst the audit was taking place and had passed the exams.		
2.6	Mouchel have a Data Protection Policy in place to ensure that all staff are aware of the requirements of the act and know that it must be adhered to.	Yes	Staff were able to provide us with a sheet which detailed all of the policies in place. This clearly showed that Mouchel have a Data Protection Policy. However, when requested staff were unable to provide us with a copy of the policy, therefore there is a risk that staff are unaware of the contents of this policy and the requirements of the act in relation to the personal data that they process.	Staff should ensure that they locate the Data Protection Policy and are aware of its contents and its requirements.	Merits Attention
2.7	Figures on the BACS report are checked for accuracy before the transmission is sent.	Yes	All payroll runs for the three police payrolls were tested during the audit and in all cases there was evidence to show that the figure on the BACS report agreed to the summary and expected figures.		
RISK 3:	CONTROLS MAY NOT BE IN PLACE TO ENSURE THAT PAYROLL REPORTING, INCLUDING TAX, IS PROVIDED TO LPA IN A TIMELY MANNER.				
3.1	The payroll reports are produced and emailed to the relevant client contact in line with the agreed reporting dates.	Yes	Payroll reports are produced and are sent via secure website link to the police authority. Instances where there was a delay with payroll processing resulted in a delay with the reports being sent. This has been discussed under the control of ensuring that the payroll is processed on time with the schedule.		
3.2	Third party deductions are run in line with the agreed timetable.	Yes	All deductions are run in line with the payroll processing and it was confirmed from testing that all payrolls have been processed and the BACS transmissions sent. The amounts that need deducting and sending to third parties are detailed and the payroll department at LPA are responsible for ensuring that these are sent. During testing at Leicestershire Police for the payroll audit it		

	CONTROLS (ACTUAL AND/OR MISSING)	ADEQUATE DESIGN(YES/NO)	TEST RESULT / IMPLICATIONS	RECOMMENDATION	CATEGORISATION
			was confirmed that all deductions are being sent in line with the documented timetables.		
3.3	Reconciliations are performed including tax/NI/pensions.	Yes	Although Mouchel are not responsible for sending the payments to the third parties they still undertake monthly reconciliations for HMRC and pension. There has been issues with the SAP system which made it difficult to reconcile for HMRC but this has now been rectified and staff are now able to fully complete the reconciliations.		
RISK 4: CONTROLS MAY NOT EXIST TO ENSURE THAT SCHEDULED AND AD HOC PAYROLL RUNS ARE PROCESSED COMPLETELY, ACCURATELY AND IN A TIMELY MANNER					
4.1	Payroll process dates are agreed and defined. A schedule is prepared and is available to all staff.	Yes	<p>There is a payroll processing schedule in place for all of the three authority payrolls which has been agreed by both parties. During testing it was identified that on a number of occasions this schedule was not adhered to.</p> <p>Discussion with staff revealed that they are amending the schedule on quite a regular basis. Delays to the schedule are occurring due to issues which include staff shortage at LPA and system errors that Mouchel must deal with.</p> <p>There is a risk that the payroll may not be processed in time due to these amendments to the original schedule.</p>	The original schedule put in place should be achievable by all parties and amendments to this schedule should only be made in extreme circumstances.	Merits Attention
4.2	Control sheets are in place for payroll runs which define the process to be followed and identify reports which need to be produced.	Yes	All of the payroll runs for 2009/10 were reviewed as part of the audit. Control sheets were in place for both the processing team and the control team. It was noted that the check/control sheets for processing were not always being fully completed and in all cases they had not been authorised and signed off.	In all cases control sheets should be fully completed and signed off as authorisation that the payroll process is complete.	Merits Attention
4.3	Mouchel has a disaster recovery plan in place to ensure smooth	No	During the audit information was requested on any IT emergency/disaster recovery plan	Mouchel should be required to provide assurance that they have sufficient arrangements in place to	Significant

	CONTROLS (ACTUAL AND/OR MISSING)	ADEQUATE DESIGN(YES/NO)	TEST RESULT / IMPLICATIONS	RECOMMENDATION	CATEGORISATION
	running of the payroll should an emergency take place.		that Mouchel have in place. This information was not provided. There is a risk that no such procedures are in place and that should such an event occur there could be severe disruption to the processing of Leicestershire Police Authority payroll.	ensure that they would be able to recover the payroll system in the event of a disaster/emergency or to deal with any IT failure that may occur.	