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Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority

Internal audit report 2014-15

Payroll and Pensions

31 October 2014

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Contents

This report is for:

Action

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Introduction

In accordance with the 2014-15 strategic internal audit plan for Loch Lomond & The Trossachs National Park Authority ("LLTNPA") and Cairngorms National Park Authority ("CNPA"), as approved by the audit committee, we have performed an internal audit of payroll and pensions. The objective of this audit was to assess the financial management arrangements in respect of payroll and pension administration processes and procedures, including the management and monitoring of absences.

This review has been undertaken at the request of both NPAs to provide assurance over payroll processes with particular focus on efficiency, enhancement and to consider changes in the payroll regime.

The specific objective, scope and approach, as agreed with management, is detailed in appendix one.

Background

LLTNPA staff costs for the year ended 31 March 2014 totalled £4.72 million, representing 45.1% total expenditure of £10.47 million. CNPA staff costs for the same period totalled £2.48 million, representing 35.7% of total expenditure of £6.95 million.

The LLTNPA payroll is administered in-house by the payroll advisor. The work of payroll is overseen by the Human Resources Manager, who checks the final payrun before it is passed to the Finance and Procurement Manager for further checks and final processing. The administrative split which shares the operational workload ensures that required amendments to individual records (such as absence or change of details) or amendments to the run in its entirety (such as starters or leavers) can be processed timeously.

The CNPA payroll is administered by the Corporate Support Officer with input by the HR function (Head of Organisational Development). A number of reviewing procedures are in place throughout the payroll process before the final payrun is passed to the Finance team for further checks and final processing. Payments are authorised by two delegated signatories.

Executive summary: Key findings and recommendations

We identified no 'critical' or 'high' risk graded recommendations for either NPA in the course of our work.

LLTNPA: we identified one 'moderate' graded recommendation and four 'low' graded recommendations. We also identified areas of good practice.

CNPA: we identified four 'low' risk graded recommendations. We identified areas of good practice.

The findings identified during the course of this internal audit are summarised below. A full list of the findings and recommendations are included in this report. Management has accepted the findings and agreed reasonable actions to address the recommendations.

	Authority	Critical	High	Moderate	Low
Number of internal audit findings	LLTNPA	-	-	1	4
	CNPA	-	-	-	4
Number of recommendations accepted by management	LLTNPA	-	-	1	4
	CNPA	-	-	-	tbc

We identified no 'critical or 'high' risk graded recommendations during this review, the moderate graded recommendation and areas of good practice are summarised below:

■ During the testing of amendments, it was noted that of the 15 tested, on seven occasions changes had been made following discussions with the line manger or operational manager, but there was no written authorisation available to review

We identify some areas of good practice.

Areas of good practice

LLTNPA

- We noted the operation of segregation of duties including review procedures throughout the payroll processes.
- Amendments to payroll standing data are made on a timely basis.
- Guidance on the completion of travel and subsistence and overtime claim forms and policies for pay and allowances and sickness absence are available on the staff intranet.

CNPA

- We noted the operation of segregation of duties including review procedures throughout the payroll processes.
- Amendments to payroll standing data are made on a timely basis.
- All payments are authorised by two authorised signatories;
- The NPA is familiar with the information currently available regarding the 2015 pension changes and has taken steps to implement these, and deliver the new Civil Service pension arrangements to staff.

Value for money

The focus of this review included efficiency, enhancement and changes in the payroll regime including the achievement of value for money from the payroll and pension processes. The findings noted below explicitly identify areas where value for money could be enhanced by the National Park Associations:

- Exception Reports (CNPA)
- Systems reconciliation (CNPA)
- Fully integrated personnel and payroll system (CNPA)

The potential for further improvements in exploring alternative payroll and HR delivery methods represents the area where the greatest value could be achieved.

We outline the main findings from the review.

New starters

New starter information is added to a spreadsheet on the HR dedicated drive which is updated when a signed contract is received, this notifies the payroll advisor of any new starters to be added to the payroll system. The information on the HR spreadsheet is merged to the PN1 'amendment to payroll' form which provides the information to create the new employee on the payroll system. Payroll is responsible for ensuring that the correct pay basis has been set up, based on the details of contracts of employment.

Testing of 15 starters was completed to ensure that payroll information forms were on file for these employees. We did not identify exceptions with design, implementation and operating effectiveness.

Leavers

Leavers are initially flagged by HR on the PN1 spreadsheet on the HR drive which details the reason for leaving and the date of leaving, this information is merged with the payroll system by the payroll advisor. Payroll are responsible for ensuring that the last working day is documented correctly within Access and that holiday or redundancy payments are included within the final pay. Once an employee has left employment, their payroll information is locked by finance and no further payments can be made to the employee.

We tested five leavers to ensure that that a leaver form had been created, the final salary was calculated correctly and the leaver was not on the payroll the following month. We did not identify exceptions with design, implementation and operating effectiveness.

Amendments

The employee's department is responsible for informing HR of contract changes, and HR inform Payroll of changes to be made to payroll standing data. These changes are merged onto Access and reviewed by the payroll advisor.

We tested 15 amendments to ensure there was a PN1 form and that the amendments had been appropriately authorised by the line manager. During the testing of amendments, it was noted that of the 15 tested, on seven occasions changes had been made following discussions with the line manger or operational manager but there was no written authorisation available to review. There is a risk that the amendments are incorrectly input to Access and there is no written formal authorisation to allow the changes to be checked. We recommend that going forward formal authorisation for all amendments is received from the line manager before amendments are made to the payroll system to ensure changes are correctly made and there is evidence the change has been appropriately authorised.

Recommendation one

Overtime

Employees who work overtime are required to submit paper monthly additional pay amendment forms, signed by the employee and the appropriate line manager and operational manager. Once forms have been completed, the payroll advisor collates the timesheets for the month and uses the information to manually input data into Access as an amendment to payroll data.

We tested a sample of 25 overtime payments made in the year to date to ensure a claim form had been received and was signed by the employee and appropriately authorised prior to payment being processed. We did not identify exceptions with the operating effectiveness.

Expenses

Employees can claim travel and subsistence in line with the pay and allowance policy and are required to submit a paper travel and subsistence claim form signed by the employee and the appropriate line manager and operational manager. Once the form is completed, the payroll advisor collates the claim forms for the month, performs a sample check of mileage claimed and uses the information to update Access as an amendment to payroll data.

We tested a sample of 15 employee expenses payments and five Board member expenses payment forms to ensure the form had been signed by the employee and had been appropriately authorised.

We identified two instances where the Board member had not signed all relevant sections of the expenses form where they are required to certify that the claim is within policy and incurred on business for the organisation. Payroll should ensure that the forms have been signed by the employee forms in both places before the claim is processed.

Recommendation two

When we initially tested overtime and expenses claims there was no authorised signatory list available; it was prepared whilst we were on site. It is recommended that this list is completed by payroll and retained so signatories can be checked going forward to reduce the risk of fraud

Recommendation three

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Absence reporting

The duty of absence reporting lies with employees and their departments. Employees must inform their department on the first day of absence and their expected return to work date.   The line manager updates the employee's Snowdrop absence record with the start date, reason and likely duration of absence to commence the generation of sick pay. Once the employee returns to work the employee must forward on relevant supporting documentation, in line with the absence guidance to HR.

We tested five cases of absence to verify that the absence was reported appropriately and the correct supporting documentation was received. We did not identify exceptions with design, implementation and operating effectiveness.

Pay runs

The payroll advisor sets up the pay run and creates a pay run summary report from Access. This is checked and signed as reviewed by the HR manager. The finance and procurement manager then performs a number of checks on the total amount paid, including comparing it to the prior month. Any overall variance on the final pay run greater than £2,000 is discussed with Payroll.   Once the final amount has been agreed and authorised, it is uploaded and the payment is authorised through BACS by either the Finance and Procurement Manager or the Finance and Performance Manager. Payroll transactions interface automatically into the general ledger on a monthly basis.

Although a number of high level manual checks are performed as part of the pay run process, exception reports are not utilised by management when reviewing the monthly pay runs. Management should consider what reports are available and utilise appropriate reports in assessing the monthly pay runs to help improve efficiency and allow focus on changes to standing payroll data and unusual transactions processed in the month. There is a risk that unauthorised, incorrect or fraudulent changes are made to the payroll system and are not identified on a timely basis. A report that details all payroll changes should be produced and reviewed each month to ensure all changes are valid.

Recommendation four

Pensions

LLTNPA participate in the Strathclyde pension scheme. When a new employee with a contract of employment of three months or greater starts at LLTNPA they are automatically enrolled into membership of this scheme. New employees are sent a letter informing them of the auto enrolment and their right to opt out. When the payroll advisor is informed that an employee wishes to opt out of the scheme she amends the NI code within Access so the employee no longer makes contributions to the scheme.

We selected a sample of five employees who had opted out the pension scheme to confirm that a signed form was received and changes had been made to payroll standing data. We did not identify exceptions with the design, implementation or operating effectiveness of the control.

We identified reliance on one member of Payroll for ensuring compliance with auto enrolment requirements. There is a risk that in the event of illness or incapacity LLTNPA would not comply with the requirements of auto enrolment. Additional members of the HR department should be briefed/trained on pensions auto enrolment requirements and processes.

Recommendation five

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Starters and leavers

Information on starters and leavers is added to a monthly instructions memo prepared by HR, that details all amendments required to be processed by Payroll. This is prepared towards the end of the month, before payments are made to employees and includes information for the entire month. The memo is signed by HR and passed to Payroll for processing through the personnel database (Snowdrop) and through SAGE payroll. Supporting evidence is obtained and kept in the personnel records file. Payroll annotate the memo to evidence that the changes have been processed before filing.

A list of starters and leavers from the beginning of the year up to the month in question is generated from Snowdrop. This is signed off as reviewed by the Head of Corporate Services. This control ensures that starters and leavers are monitored and that the personnel database is correctly updated.

We tested a sample of starters and leavers in the period to ensure that supporting information was on file for these employees, that salaries were calculated correctly and that starters/leavers were not included on the payroll the previous/following month (respectively). We did not identify exceptions with design, implementation or operating effectiveness.

Amendments to standing data

The process to amend employee standing data is the same as for starters and leavers, with employees also providing information for changes including updates to bank details. Evidence of correspondence is filed along with the instructions memo and other back up.

We tested 25 amendments to ensure there was appropriate documentation supporting the change and that the changes had been processed timely and correctly through the systems. We did not identify exceptions with design, implementation or operating effectiveness.

Exception reporting

Exception reports are not available on SAGE; to facilitate the identification and investigation of variances compared to the prior month. However, compensating controls address the risk of not detecting irregularities in the monthly payroll. The Corporate Support Officer manually reviews all the payslips and compares to the previous month, with variances investigated before the pay run is processed. Evidence of this review has not been retained to allow KPMG to confirm operating effectiveness.

A high level review of actual to budgeted expenditure is performed by the Finance Manager. The overall performance is compared against budget rather than specific variances related to payroll. There is a risk that this review might not enable the identification of payroll variances.

A formal exception report highlighting key variances to prior month and updates to payroll, would reduce the time spent on these tasks, and the risk of manual error. This would increase overall efficiencies and allow resources to be applied more efficiently elsewhere.

Recommendation one

Payroll processing

Once both systems have been updated per the instructions memo, the monthly pay slips are generated on SAGE and emailed to employees. The Corporate Support Officer generates the pre-update stage records on SAGE Payroll (payment summary, department reports, BACS pay transfer report). The records are backed up on SAGE at this "pre-update stage" before the "post-update" stage reports (e.g. P32 employer payment record report which shows the monies due to HMRC, the accounting journal, etc.) are produced. The BACS pay transfer report is signed as authorised by the Director of Corporate Services. The reports are sent to the finance team who run the payments at the end of the month.

Payroll system and personnel database reconciliation

After the payroll has been processed and reports sent to the finance team, the Corporate Support Officer performs a monthly reconciliation between Snowdrop and SAGE to ensure the two systems agree. The reconciliation is signed as reviewed by the Director of Corporate Services.

We tested a sample of two monthly reconciliations to ensure these had been reviewed prior to the payruns. No exceptions were identified.

We recommend that the reconciliation is prepared and reviewed at the pre-update stage, as errors that are identified are more easily corrected before information is passed to finance.

Recommendation two

Standard payments - payroll

Once the signed BACS pay transfer report is received by Finance, one of the finance officers creates the batch on the BOS online banking system. The payment is deferred until the last working day of the month. The payment is not sent out unless it is approved by two authorised signatories. A list of authorised signatories is available.

At the start of the following month, the Head of Organisational Development performs spot checks five random employees to ensure their salaries (as recorded on both systems and the payroll folder) are correct. The spot check is performed monthly and it is evidenced through the completion of a "*spot check form*" that is signed off as prepared and dated by the Head of Organisational Development. We tested a sample of two payruns and two salary spot checks to ensure the controls operate as described, no exceptions were identified.

Overtime and TOIL

To claim overtime, individuals fill out a *"CNPA Claim for Overtime Payment"*. This is signed by the employee and the Director of the relevant group. The claim form is sent to Payroll, with overtime also included in the Instructions Memo prepared by HR. The Corporate Support Officer updates Snowdrop and SAGE at the end of the month as usual. At the end of the month, a summary table of all the members of staff that have worked extra hours in the month and the total in £ for the month is prepared by Payroll. This is reviewed by the Head of Corporate Services before the payments are made.

We tested all four overtime claims made in the year to ensure the appropriate records had been kept and that they had been reviewed. No exceptions were identified.

Expenses

Employees are required to complete an "*expenses claim form*" and provide receipts or other back up, such as bank statements. The forms are signed by the employee and their line manager. The expense form is reviewed by the finance officers who check that all receipts are included to support the claim of the employee. The totals of the expense forms are input into an excel spreadsheet. At the end of the month, the finance officer sets up a batch on the online banking system. A reconciliation is performed between the online bank system and the spreadsheet that is maintained by finance to ensure all amounts have been entered correctly in the banking system.

We tested a sample of 25 expense claims to ensure that the forms were authorised and that they agreed to the back up, the finance records and the actual payments and that the payments were properly authorised. We did not identify exceptions with design, implementation or operating effectiveness.

Pension payments

The Corporate Support Officer maintains a detailed excel spreadsheet with the monthly employer and employee contributions and the cumulative figures for the year. This shows the contributions per employee broken down to individual schemes. From this detailed spreadsheet, a summary of the total contributions per pension scheme is prepared monthly to be provided to the cabinet office. This spreadsheet is reconciled to the SAGE Payment summary report to ensure that the total in the excel spreadsheet agrees to SAGE. It is reviewed by the Director of Corporate Services before payments are processed by finance.

We tested a sample of two pension payments to ensure that the reconciliation had been performed timely and that payments were appropriately authorised. We did not identify exceptions with design, implementation or operating effectiveness.

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Absence reporting

Employees must inform their department on the first day of absence and their expected return to work date. Once they return to work, the employees forwards to HR and Payroll a "*sickness absence form*", as approved by their line manager. Snowdrop is updated accordingly. At the end of each month a "*monthly employee absence report*" is produced on Snowdrop. This shows sickness absences per employee in the month and is used to ascertain which individuals are on full pay, half pay or no pay. Where sick pay affects the salary, SAGE automatically calculates sick pay. When the payroll is processed at the end of month, the sick pay is taken into account by SAGE Payroll to produce the pay run.

We tested 10 cases of absence to verify that the absence was reported appropriately and the correct supporting documentation was received. Testing identified three instances where staff had been on sick leave which were not captured by the monthly employee absence reports. This was because employees had not completed a sick absence form until almost two months after the absence. There is a risk that if they are not captured by the monthly report, SAGE Payroll and SAGE Accounts will not be updated accordingly. This might lead to incorrect payments. KPMG reviewed the Authority's absence management policy; the policy does not specify a timescale for the submission of forms

We recommend that the policy is updated include a timescale for submission of sickness forms and to highlight the line managers' responsibility to ensure their staff complete and submit forms timely. The parameters of the monthly absence reports could be altered to increase the date range and enable a backward check of absences.

Recommendation three

Due to annual leave, the October instructions memo was prepared at the beginning of the month. The memo included all anticipated events spanning the entire month (e.g. joiners, leavers). Unexpected events, such as absences due to sickness, would not be captured by the memo. The risk of any unexpected events that would have a significant impact in monetary terms is assessed as low. However, it is best practice if the responsibility to prepare the memo was taken up with another individual on the absence of the Head of Organisational Development.

Pension and payroll changes

As a member of the Civil Service Pension Scheme, CNPA will be moving into 'alpha' and is required to implement changes to the payroll system, interface and business processes before the 1 April 2015. KPMG discussed with Payroll, to ascertain if CNPA is up to date with the changes and assess progress made.

The Corporate Support Officer is informed of the new scheme member eligibility criteria and new contribution rates, while the CNPA employees have already been split to categories depending on the criteria they satisfy. SAGE has designed a new customised report for CNPA, to enable more effective reporting to the pension administrator. The corporate services officer has attended all employer events that have been ran by the Cabinet Office and has submitted self-assessments 1 and 2 to the Cabinet Office in time.

The Cabinet's request for self-assessment 3 was received at short notice and the key staff responsible for completing it was on leave. CNPA will not be able to meet the timescale for the self-assessment, however, the Corporate Support Officer has asked for a week's extension.

Overall, the Authority is informed and up to date with the changes required to be made as part of the reform. The employer has had communications with the administrator, the Cabinet Office and internally with employees, as and when required and the process of preparing for the administrative, reporting and systems changes has already been initiated.

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During the audit at CNPA we identified that the personnel and payroll systems are not integrated. This means that a change in personnel data processed through Snowdrop will not automatically update SAGE payroll. The process of updating the two systems is manual and has to be performed twice (once for each system). Manual processes increase the risk of human error with additional controls being required; to reduce the risk that the two systems do not agree, impacting on overall efficiencies.

We recommend that management considers conducting a cost benefit analysis to assess the potential savings in staff time and overall cost of alternative payroll and HR delivery methods including comparisons of current approach to provision, updated integrated systems, use of a payroll bureau and consideration of shared services.

Recommendation four

Shared services help organisations gain economies of scale, skills and efficiencies. Shared services is the convergence and streamlining of similar functions within an organisation, or across organisations, to ensure that they are delivered as effectively and efficiently as possible. There are a number of shared service options that could be considered and the most relevant in this situation are:

■ Joint Initiative (internal) agreement between LLTNPA and CNPA to set up and operate shared payroll services; or

■ Outsourcing where a third party provider takes full responsibility for managing and operating the payroll provision.

The consideration of shared services should not be taken lightly and consideration should be given to a number of factors including:

■ Operational structures and models and sourcing options which reflect the business strategy and vision of the organisation;

■ Legal issues such as employment law issues, procurement and governance and local democratic accountability; and

■ Concerns around the impact on the locations of the workforce are all important factors in the public sector.

Whilst this matter was identified as part of the CNPA audit an overall cost benefit analysis of the payroll functions at both LLTNPA and CNPA would be beneficial. Through the implementation of shared services CNPA could streamline the payroll system and introduce efficiency through the reduction of manual processes and reduce the risk of human error.

Further information and guidance on the shared services, including case studies are available on the Scottish Government website:
http://www.scotland.gov.uk/Topics/Government/PublicServiceReform/efficientgovernment/SharedServices

Action plan – LLTNPA

The action plan summarises specific recommendations, together with related risks and management's responses.

Finding(s) and risk	Recommendation(s)	Agreed management actions
1 Approval of payroll amendments		**Moderate**
We identified that in seven of the 15 amendments tested, there was no formal authorisation by the line manager as the amendments had been agreed following discussion between HR and management. There is a risk that the amendments are incorrectly input to Access and there is no formal written authorisation to allow the changes to be checked.	Formal authorisation for all amendments should be received from the line manager before amendments are made to the payroll system to ensure changes are correctly made and there is an audit trail.	All changes will be followed up in an e-mail so that evidence is retained. **Responsible officer:** Claire Ferguson **Implementation date:** 1 November 2014 (complete)
2 Board member expenses		**Low**
We identified two instances where a Board member had not signed the expenses form in all sections where they are required to certify that the claim is within policy and incurred on business for the organisation. There is a risk of non-compliance to the financial regulations.	Payroll should ensure that the forms have been appropriately signed by the employee before the claim is processed. All employees should be reminded of this requirement.	Payroll advisor will ensure that all forms are signed in both places. **Responsible officer:** Linda Black **Implementation date:** 1 November 2014 (complete)

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Finding(s) and risk	Recommendation(s)	Agreed management actions
3 Authorised signatory		**Low**
Payroll did not have an authorised signatory list available at the start of the audit, it was prepared whilst we were onsite. There is a risk that changes are requested to standing payroll data by employees who do not have the authority to action these changes.	It is recommended that this list is completed by payroll and retained so they can check signatories going forward and reduce the risk of fraud. The list should be reviewed on an annual basis to ensure it is still relevant and up to date.	Authorised signatory list to be maintained and reviewed annually and updated for starters/leavers. **Responsible officer:** Linda Black **Implementation date** 1 November 2014
4 Exception reports		**Low**
Although a number of high level manual checks are performed as part of the pay run process, exception reports are not utilised by management when reviewing the monthly pay runs. Management should consider what reports are available and utilise appropriate reports in assessing the monthly pay runs to help improve focus on changes to standing payroll data and unusual transactions processed in the month. There is a risk that unauthorised, incorrect or fraudulent changes are made to the payroll system and are not identified on a timely basis.	It is recommended that exception reports are introduced. The reports should be produced and reviewed monthly. The Authority can ask for a customised report highlighting starters and leavers and variances above a certain monetary threshold. The use of exception reports will reduce the risk of payment irregularities going undetected.	Exception reports available from the system will be reviewed and introduced into the process as appropriate. **Responsible officer:** Andy Jump & Linda Black **Implementation date** 31 March 2015
5 Pension auto-enrolment		**Low**
During our testing, we found reliance on one member of Payroll for ensuring compliance with auto enrolment requirements. There is a risk that in the event of illness or incapacity of that member of staff that the staff at LLTNPA would not comply with the requirements of auto enrolment.	Additional members of the HR department should be briefed / trained on pensions auto enrolment requirements and processes so that they are able to perform the relevant processes, if necessary.	Payroll instructions updated so that all HR staff can access notes if cover is required. **Responsible officer:** Linda Black **Implementation date** 1 November 2014

Action plan – CNPA

Finding(s) and risk	Recommendation(s)	Agreed management actions
1 Exception reports		**Low**
At present, exception reports are not utilised on SAGE. The absence of an exception reporting tool introduces the risk that variances in payroll might not be detected and investigated properly to prevent possible unauthorised changes and payments. We acknowledge that a number of mitigating controls exist, that are of a manual nature and are both time consuming and more prone to human error.	It is recommended that exception reports are introduced. The reports should be produced and reviewed monthly. The Authority can ask for a customised report highlighting starters and leavers and variances above a certain monetary threshold. SAGE has confirmed that such a report can be made available at no further cost to the NPA. The use of exception reports will produce time savings and reduce the risk of error. This will reduce the risk of payment irregularities going undetected.	[ ] **Responsible officer:** Corporate Support officer **Implementation date:** immediate
2 Systems reconciliation		**Low**
A reconciliation between the personnel and the payroll databases is prepared monthly to ensure the information in the two systems agrees and payments are accurate. The reconciliation is prepared and reviewed after all payroll reports have been sent to finance for further processing. In the event that errors are identified, new updated reports would have to be run and sent to finance. There is a risk of unnecessarily high administrative burden if reports need to be sent to finance twice.	We recommend that the reconciliation is performed and reviewed before payroll reports are forwarded on to the finance team. This will facilitate the process of rectifying any errors that might be identified before finance is involved in the process, reducing unnecessary administrative work.	[ ] **Responsible officer:** Corporate Support officer **Implementation date:** immediate

Finding(s) and risk	Recommendation(s)	Agreed management actions
3 Absence reporting		**Low**
Testing identified instances where staff had been on sick leave that was not captured by the monthly employee absence reports. This introduces the risk of incorrect payments, as the monthly reports are used to calculate the statutory sick pay on SAGE. In all cases, the underlying reason was late submission of the sick absence forms. A review of the policy revealed that there is no clearly stated timescale for submitting sick absence forms.	We recommend that management updates the Policy document to ensure a timescale is included. The policy should make it clear that the onus is on the employees and their line managers to ensure timely submission of the form. Additionally, the parameters of the monthly absence reports should be altered to increase the date range and enable a backwards check of absences. This will help ensure that statutory sick pays are calculated on SAGE timeously and reduce the risk of incorrect payments that would have to be reversed later in the year.	[ ] **Responsible officer:** Human resources, individual line mangers **Implementation date:** 31 March 2015
4 Fully integrated personnel and payroll system		**Low**
The personnel and payroll systems are not linked. This means that a change in personnel data processed through Snowdrop will not automatically update SAGE payroll. The process of updating the two systems is manual and has to be performed twice (once for each system). Manual processes increase the risk of human error with additional controls being required to reduce the risk that the two systems do not agree impacting on overall efficiencies.	We recommend that management considers conducting a cost benefit analysis to assess the potential savings in staff time and overall cost of alternative payroll and HR delivery methods including comparisons of: ■ current approach to provision; ■ updated integrated systems; ■ use of a payroll bureau; and ■ consideration of shared services.	[ ] **Responsible officer:** Finance Manager **Implementation date:** 31 March 2015

Appendices

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In accordance with the 2014-15 internal audit plan for Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority ("the Authorities"), we will undertake an internal audit review of payroll and pensions administration.

Objective

The Authorities' employee costs are significant and in the context of constrained financial resources and public scrutiny, it is important that costs are well controlled and that there are appropriate controls designed and implemented to effectively prevent and detect fraud or error. It is also important to have efficient controls. The objective of the internal audit is to assess the financial management arrangements in respect of payroll and pension administration processes and procedures, including the management and monitoring of absences.

Scope

We will carry out specific testing over the following payroll areas:

- new joiners and leavers;
- amendments to standing data (such as salary);
- exception reporting;
- payment authorisation and non-standard payments;
- pension payments;
- changes to the payroll and pensions regulations;
- management and monitoring of attendance.

We will test:

- the design and operating effectiveness of controls;
- the efficiency of the overall process, including consideration of best practice; and
- the use of manual / automated processes and opportunities for increased efficiency.

Approach

We will adopt the following approach in this review:

- project planning and scoping;
- conduct interviews with staff to gain an understanding of processes and procedures;
- identify and agree key risks and processes with management;
- review the adequacy and effectiveness of established processes through testing of controls; and
- agree findings and recommendations with management.

Classification of internal audit findings

The following framework for internal audit ratings has been developed and agreed with management for prioritising internal audit findings according to their relative significance depending on their impact to the process.

Rating	Definition	Examples of business impact	Action required
Critical	Issue represents a control weakness, which could cause or is causing severe disruption of the process or severe adverse effect on the ability to achieve process objectives.	■ Potential financial impact of more than 1% of total expenditure. ■ Detrimental impact on operations or functions. ■ Sustained, serious loss in brand value. ■ Going concern of the organisation becomes an issue. ■ Decrease in the public's confidence in the Authority. ■ Serious decline in service/product delivery, value and/or quality recognised by stakeholders and customers. ■ Contractual non-compliance or breach of legislation or regulation with litigation or prosecution and/or penalty. ■ Life threatening.	■ Requires immediate notification to the Authority's audit committee. ■ Requires executive management attention. ■ Requires interim action within 7-10 days, followed by a detailed plan of action to be put in place within 30 days with an expected resolution date and a substantial improvement within 90 days. ■ Separately reported to chairman of the Authority's audit committee and executive summary of report.
High	Issue represents a control weakness, which could have or is having major adverse effect on the ability to achieve process objectives.	■ Potential financial impact of 0.5% to 1% of total expenditure. ■ Major impact on operations or functions. ■ Serious diminution in brand value. ■ Probable decrease in the public's confidence in the Authority. ■ Major decline in service/product delivery, value and/or quality recognised by stakeholders and customers. ■ Contractual non-compliance or breach of legislation or regulation with probable litigation or prosecution and/or penalty. ■ Extensive injuries.	■ Requires prompt management action. ■ Requires executive management attention. ■ Requires a detailed plan of action to be put in place within 60 days with an expected resolution date and a substantial improvement within 3-6 months. ■ Reported in executive summary of report.

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Rating	Definition	Examples of business impact	Action required
Moderate	Issue represents a control weakness, which could have or is having significant adverse effect on the ability to achieve process objectives.	■ Potential financial impact of 0.1% to 0.5% of total expenditure. ■ Moderate impact on operations or functions. ■ Brand value will be affected in the short-term. ■ Possible decrease in the public's confidence in the Authority. ■ Moderate decline in service/product delivery, value and/or quality recognised by stakeholders and customers. ■ Contractual non-compliance or breach of legislation or regulation with threat of litigation or prosecution and/or penalty. ■ Medical treatment required.	■ Requires short-term management action. ■ Requires general management attention. ■ Requires a detailed plan of action to be put in place within 90 days with an expected resolution date and a substantial improvement within 6-9 months. ■ Reported in executive summary of report.
Low	Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives.	■ Potential financial impact of less than 0.1%*of total expenditure. ■ Minor impact on internal business only. ■ Minor potential impact on brand value. ■ Should not decrease the public's confidence in the Authority. ■ Minimal decline in service/product delivery, value and/or quality recognised by stakeholders and customers. ■ Contractual non-compliance or breach of legislation or regulation with unlikely litigation or prosecution and/or penalty. ■ First aid treatment.	■ Requires management action within a reasonable time period. ■ Requires process manager attention. ■ Timeframe for action is subject to competing priorities and cost/benefit analysis, eg. 9-12 months. ■ Reported in detailed findings in report.