



MANAGEMENT AUDIT UNIT

CUMBRIA POLICE INTERNAL AUDIT REPORT PAYROLL

Draft Report Issued: February 2005
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1.0 INTRODUCTION

- 1.1 In line with the agreed internal audit plan for 2004/05, a review of payroll was carried out in January 2005.
- 1.2 Information and assistance during the audit review was provided by:
- Ann Dobinson, Payroll and Pensions Manager
 - Alison Hunter, Assistant Payroll and Pensions Manager
- 1.3 No recommendations are made as a result of this review.
- 1.4 Separate monthly payrolls are run for Police (uniformed and support staff), Police Pensioners, and Police Authority Members. In addition, there is a small weekly payrun for casual staff and the occasional supplementary run.
- 1.5 Payroll is the largest area of expenditure for the Police, and there is a high volume of transactions. As a result, the controls operating over the system are reviewed annually by Internal Audit.
- 1.6 As well as Police staff, allowances paid to Police Authority members were also checked.
- 1.7 Travel and subsistence payments for staff and members will be reviewed in 2005/06.

2.0 OVERALL EVALUATION & CONCLUSION

- 2.1 **The evaluation of controls is based on testing carried out at the time of the audit, usually based on sampling. Management Audit assesses the controls operating in each audited area as ‘good’, ‘satisfactory’, or ‘weak’. This assessment is based on the number and grading of recommendations made.**
- 2.2 **Payroll, as operated by Cumbria Police, is assessed as “good”.**

3.0 AUDIT SCOPE

- 3.1 The following key control areas and associated risks were identified:

<i>Key Control Area</i>	<i>Key Potential Risks</i>
System access	<ul style="list-style-type: none"> • Unauthorised access • Inappropriate amendment • Loss of data or processing facilities
Procedural documentation	<ul style="list-style-type: none"> • Inability to operate system due to lack of operating instructions and unavailability of experienced staff. • Erosion of key controls due to operating shortcuts.
Individual input (including starters/leavers/overtime/threshold payments/priority payments)	<ul style="list-style-type: none"> • Inaccurate input leading to under- or over-payment • Unauthorised payment • Payment at wrong rate
Deductions from pay	<ul style="list-style-type: none"> • Incorrect deductions • Late payment to third parties • Financial penalty or late payment of statutory deductions
Total input	<ul style="list-style-type: none"> • Delays in processing • Errors in payment • Unidentified and uncorrected errors
Pay calculation	<ul style="list-style-type: none"> • Unidentified and uncorrected errors • Under- or over- payment of employees.
Timeliness of Payment	<ul style="list-style-type: none"> • Late payment and unnecessary financial problems caused to employees.

<i>Key Control Area</i>	<i>Key Potential Risks</i>
Coding and cost allocation within the accounting system	<ul style="list-style-type: none"> • Inaccurate accounting information
Reconciliations	<ul style="list-style-type: none"> • Unidentified errors

4.0 FINDINGS

4.1

Control Area	Comment	Evaluation
System Access		
System access is adequately controlled.	<p>Access to the payroll system is restricted to authorised users. Access levels are regularly reviewed and an audit log facility is available within the system.</p> <p>The Payroll and Pensions Manager is satisfied adequate disaster recovery procedures are included within the contract and that they have been tested.</p> <p>Audit testing of Capita disaster recovery arrangements and controls over payroll systems administration are covered in separate Cumbria County Council audits, the latest review assessed these as adequate.</p>	Good
Procedures involved in operating the system are documented.	Detailed sets of operational procedures exist, and continue to be developed.	Good

4.2

Individual input		
There are adequate controls over amendments to standing data and variable input.	<p>A sample of starter, leaver and variation (including police and civilian overtime) information was traced from the payroll system to source documentation.</p> <p>Pay rates included in the system were agreed to official notifications.</p> <p>Testing performed over individual input (for example, bank account and tax code changes) provided adequate assurance that controls are in place to ensure the accuracy of information entered into the system.</p> <p>Additionally, individual samples of competence related threshold payments and special priority payments were agreed to notifications and application forms respectively.</p>	Good

	Control Area	Comment	Evaluation
4.3	Deductions from pay		
	There are adequate controls over deductions and their subsequent payment to third parties.	Deductions were found to be accurate, authorised and paid to the appropriate third party on a timely basis.	Good
4.4	Total input		
	There are controls in place to ensure that all relevant data is input to the payroll system on a timely basis.	<p>A detailed timetable over the input, balancing and processing of the payrun is incorporated into the payroll provider contract that ensures the timeliness of payments.</p> <p>To ensure all stages of the process are completed in the appropriate order and to the required timescales, “pay cycle checklists” are used, which break the complete payrun down into a series of actions which must be completed. These are used to control the workload, and are signed off by the Assistant Payroll and Pensions Manager as each stage is completed.</p>	Good
	Exception reports are produced to identify potential anomalies in input, and these are reviewed and verified.	A monthly exception reporting routine is in place, which identify specific anomalies within the payrun. These are checked by the payroll officers and the Assistant Payroll and Pensions Manager to identify and correct anomalies prior to processing.	Good
4.5	Pay calculation		
	Exception reports are produced to highlight potential calculation errors.	Individual payments over £5,000 (Gross), £3,000 (Net) or with a 50% variance are included in the exception reporting process. These reports are produced, checked and cleared on a monthly basis.	Good
	Payments are correctly calculated by the system	A sample of starting, leaving, variation, and deduction payments were verified as accurate as part of the audit testing.	
4.6	Timeliness of Payment		
	Payments are made on a timely basis	Timetables and checklists for input, processing, and subsequent payment are in use and are incorporated into contract documentation. No late payments were identified.	Good

	Control Area	Comment	Evaluation
4.7	Coding and cost allocation within the accounting system		
	Salary and related costs are correctly allocated within the accounting system.	<p>Cost allocation details are included on variation notices received and actioned in payroll. A sample of cost allocations were checked and found to be correct.</p> <p>It is the responsibility of delegated budget holders to control and monitor payroll budgets. To aid this process they are provided with spreadsheets detailing payroll expenditure allocated to cost-centres within their control.</p>	Good
4.8	Reconciliations		
	Month on month variations in payroll are highlighted to indicate anomalous payments	The Assistant Payroll and Pensions Manager carries out a monthly reconciliation of payroll. Variations within the various elements are identified and explained.	Good
	Net pay is reconciled to gross pay	The Assistant Payroll and Pensions Manager reconciles the net pay and various consolidated deductions to the gross pay.	
	Gross and net pay are reconciled in the accounting system.	<p>A series of control accounts have been set up within the accounting system which effectively reconcile uploaded accounting information to payments made.</p> <p>The Financial Development Section reconciles these on a monthly basis.</p>	
4.9	Reconciliations		
	Payments to Police Authority members are accurate.	A sample of Members' payments was traced to the scheme of agreed allowances. All payments were found to be accurate.	Good