

Glasgow Kelvin College

Payroll

Internal Audit report No: 2023/04

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Level of Assurance

In addition to the grading of individual recommendations in the action plan, audit findings are assessed and graded on an overall basis to denote the level of assurance that can be taken from the report. Risk and materiality levels are considered in the assessment and grading process as well as the general quality of the procedures in place.

Gradings are defined as follows:

Good	System meets control objectives.
Satisfactory	System meets control objectives with some weaknesses present.
Requires improvement	System has weaknesses that could prevent it achieving control objectives.
Unacceptable	System cannot meet control objectives.

Action Grades

Priority 1	Issue subjecting the organisation to material risk and which requires to be brought to the attention of management and the Audit and Risk Committee.
Priority 2	Issue subjecting the organisation to significant risk and which should be addressed by management.
Priority 3	Matters subjecting the organisation to minor risk or which, if addressed, will enhance efficiency and effectiveness.



Management Summary

Overall Level of Assurance

Good	System meets control objectives.
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Risk Assessment

This review focused on the controls in place to mitigate the following risks on the Glasgow Kelvin College ('the College') Risk Register:

4. Litigation / Compliance: Non-compliance with key legislative or regulatory requirements (risk rating: medium).

Background

As part of the Internal Audit programme at the College for 2022/23 we carried out a review of the systems in place for Payroll. Our Audit Needs Assessment identified this as an area where risk can arise and where Internal Audit can assist in providing assurances to the Principal and the Audit and Risk Committee that the related control environment is operating effectively, ensuring risk is maintained at an acceptable level.

The College's payroll processes are completed with input from the Payroll team, led by the Senior Payroll Officer, and Human Resources (HR) team, led by the HR Manager. Both teams are overseen by the Director of People and Culture and are supported by members of Finance staff as part of the month end process and payment.

The College uses Cintra, a fully integrated HR and Payroll system for management of employee information. Access to Cintra is segregated, with HR staff only able to access and amend HR information records, and Payroll staff only able to amend information relating to the payroll.

The College uses a self-service online portal for many services relating to the payroll including the submission of changes to employee standing data, expenses, and timesheets related to academic staff. Each of these submissions are checked and authorised by the relevant line manager and a member of the Payroll team prior to being processed as part of the monthly payroll. It should be noted that paper timesheets are still utilised by support staff at the time of this review.

The payroll is processed monthly, with employees being paid on the 26th day of each month, or on the nearest working day prior to this day should the 26th fall on either a weekend or holiday. Each month, the College extracts three payrolls from Cintra – one each for academic staff, support staff and management. These are then manually combined into a single spreadsheet on the College's server for processing of one overall payment run.

Scope, Objectives and Overall Findings

This audit considered the key internal controls in place over the College's spend on staff costs of approximately £25m per annum. Our audit covered the procedures in place within both the HR and Payroll / Finance teams.

The table below notes each separate objective for this review and records the results:

Objective		Findings			
The objective of our audit was to obtain reasonable assurance that systems are sufficient to ensure:		1	2	3	
		No. of Agreed Actions			
1.	Correct calculation of gross pay and deductions	Good	0	0	0
2.	Correct calculation of employer national insurance and superannuation contributions;	Good	0	0	0
3.	Part-time staff, overtime and travel & subsistence payments are properly authorised	Good	0	0	0
4.	Approval and checking of changes to employee standing data	Good	0	0	0
5.	Starters and leavers are properly treated and enter and leave the system at the correct dates	Good	0	0	0
6.	Proper authorisation, processing and recording of payments	Good	0	0	0
Overall Level of Assurance		Good	0	0	0
			System meets control objectives.		

Audit Approach

From discussion with HR and Payroll staff, and review of procedures documentation, we identified the key internal controls in place within the College's HR / payroll system and compared these with expected controls.

Compliance testing was carried out to ensure that the controls in place are operating effectively, concentrating on starters, leavers and variations to pay.

Summary of Main Findings

Strengths

- Payroll responsibilities are clearly defined in the Financial Regulations (October 2021).
- There are documented payroll procedures available to Payroll staff which detail all processes that must be completed as part of the payroll process.
- The College has an integrated HR and payroll system which is segregated, meaning that HR staff can only amend HR records and Payroll staff can only amend payroll records.
- From our sample testing we confirmed that all gross pay and deductions had been correctly calculated, with salaries, rates and non-statutory deductions agreed to supporting data held in the HR / payroll system.
- Lecturers on fixed term contracts and part-time staff who work additional hours submit weekly timesheets for periods they have undertaken work through an online portal, which requires authorisation from both an appropriate line manager and Payroll staff prior to processing for payment. Sample testing confirmed that this process operated in all cases with correct payments made and no issues noted.
- Expenses claims are made via an in-house system and must be authorised by both a line manager and member of Payroll staff prior to processing to ensure that correct evidence has been provided. Sample testing showed no issues in this area.
- Changes to employee standing data are made through a self-service portal, allowing employees to make changes to key information as required. This is reviewed by Payroll staff prior to being amended on the payroll system, with calls arranged to verify accuracy for changes to bank details as evidenced in our sample testing.
- Sample testing of starters and leavers showed that appropriate paperwork was in place for sampled employees and that employees have entered and left the HR / payroll system on the correct dates.
- Payroll staff utilise comprehensive exception and variance reporting capabilities of the integrated HR / payroll system to monitor and investigate any significant variances to the prior month's payroll; and
- There was appropriate authorisation, processing and recording of all payroll-related payments tested.

Weaknesses

- No weaknesses were identified during our review.

Acknowledgments

We would like to take this opportunity to thank the staff at the College who helped us during the course of our audit visit.

Main Findings and Action Plan

Objective 1 - Correct calculation of gross pay and deductions

The requirements for the management of the College's payroll are set out in the Financial Regulations (dated October 2021), under Section 15 – Salaries and Wages. As noted in the Financial Regulations, overall responsibility for the payment of salaries and wages, including payment for overtime, is the responsibility of the Vice Principal Operations.

The College uses a fully integrated HR and payroll system, Cintra, which is used by both the Payroll and HR teams in the processing of the payroll and employee records. High level Payroll procedures are documented and available on a shared drive for all Payroll staff that are involved in the processing of the payroll, detailing how to process all elements of the payroll and use of Cintra. Payroll procedures are not routinely reviewed although it was noted during our discussions with Payroll staff that the processes have not changed in a number of years and there have been no changes to the Payroll team, who are all familiar with these processes.

Responsibilities for the HR team include staff recruitment, contractual arrangements and onboarding of starters, salary changes, changes to contracted hours and working patterns, and processing leavers. Members of the HR team are responsible for the input of information relating to employees and are only able to make amendments to the HR part of the system. When changes are made to an employee record, including starters or leavers, HR must complete a 'Poly 1' form which details the changes made. This is signed by two members of the HR team and is passed to Payroll for review, with two further signatures required from the Payroll team for authorisation of the change. Using the Poly 1 form, members of the Payroll team can ensure that changes are appropriately applied for processing of the payroll. While members of the Payroll team can view HR records, they can only make amendments to the payroll part of the system.

Changes to statutory deductions such as Income Tax rates and National Insurance are applied automatically by the system as required, ensuring that deductions should always automatically be calculated correctly. Various exception and variance reports are utilised at the end of each month as part of the payroll process to highlight any changes to various payroll elements and confirm that these changes have been applied correctly.

As part of our review, we performed testing on a sample of 15 employees for the period August 2022 to March 2023 to ensure that gross pay and deductions had been correctly calculated. For each employee we reviewed HR salary records and performed a re-calculation to agree monthly salary to that paid per the payslip, with no issues noted.

The College operates two pension schemes on which employees are automatically enrolled. Academic staff are enrolled onto the Scottish Teachers' Superannuation Scheme under Scottish Public Pensions Agency (SPPA) and Support staff on the Strathclyde Pension Fund under Local Government Pension Scheme (LGPS). Employee contribution rates vary dependent on annual salary for both schemes and employee pension contributions are deductible before income tax under both schemes. For each sampled employee we ensured that they were paying the correct rate dependent on scheme enrolled in and salary, noting that re-calculations agreed with payslips in all cases with no issues noted.



Objective 1 - Correct calculation of gross pay and deductions (Continued)

We then performed a recalculation of both PAYE and employee National Insurance contributions in line with the rates as set out by HMRC for the relevant month and confirmed that these deductions had been made correctly and were in line with amounts set out on the payslips.

From discussion with the Senior Payroll Officer, we noted that employees may also pay a number of other deductions, including some non-statutory deductions. These include:

- Student loan repayments
- Earnings arrestment
- Childcare vouchers
- Credit union deductions
- Union payments
- Cycle to work scheme

For all non-statutory deductions made by employees selected as part of our sample, we ensured that appropriate paperwork or other supporting evidence was in place to support the deduction and that the correct amounts were being deducted in line with that noted in the payslip. We were able to agree all non-statutory deductions with no issues noted.

Objective 2 - Correct calculation of employer national insurance and superannuation contributions

For the 15 employees sample tested under Objective 1, we performed re-calculations for employer National Insurance contributions. In all cases we confirmed that contributions were in line with HMRC rates for the period reviewed, with no issues identified.

Our sample testing covered employees enrolled in the SPPA and LGPS schemes. In each case we agreed the employer contribution rates to supporting documentation and confirmed that these had been correctly applied in all cases.

Objective 3 - Part-time staff, overtime and travel & subsistence payments are properly authorised

Payments to Part Time Staff

Lecturers on fixed term contracts and part-time staff who work additional hours submit weekly timesheets for periods they have undertaken work, via online timesheet submission. Once timesheets have been submitted, the line manager is notified and will review the timesheets before authorising these. The timesheets are then sent to Payroll for further review by a member of the Payroll team and will be authorised and input into the payroll for processing. Payments for timesheet submissions are made approximately a month in arrears, which is set out in a payroll timetable each year.

As part of our testing, we selected a sample of 10 payments made to fixed term and part-time lecturers for the period August 2022 to March 2023. We reviewed the timesheets for the sampled period and noted that in all cases these agreed to the reported hours and had been correctly authorised by both the relevant line manager and a member of the Payroll team.

We then reviewed salary information provided by HR records to confirm that the hourly rate had been correctly calculated based on annual salary divided by 1,820 hours. In all cases we were able to confirm that the hourly rate had been correctly calculated and applied, and the total amount claimed for each period was correct. We then agreed this to the relevant payslip and again noted no issues.

Overtime Payments

Overtime payments can be made to both Academic or Support staff although the process for submitting overtime hours varies slightly.

Academic overtime is logged as described above for part-time lecturing staff, through the online timesheet submission.

Overtime for Support staff is recorded on paper forms which must be signed by the submitting staff member and authorised by the line manager. Authorisation may either be through signature of a hard copy version of the form, or via email.

Overtime for Support staff is paid at various rates, as agreed as part of national bargaining. These rates are as follows:

- Plain Time – Up to 35 hours in any one week, including for PT staff whose contractual hours are under 35 hours per week;
- Time and a Half – Any hours worked over the standard 35 hour week, with the exception of those which are eligible for double time; and
- Double Time – Any hours worked on a Sunday or bank holiday.

In addition to this, some members of staff will also log Phone Duty. This is for staff who are on call and is paid at a flat £100 a week. If a staff member is then called out while on phone duty, this would be recorded as additional overtime in line with the rates set out above. Plain time is calculated as the annual salary of the staff member divided by 1,820 hours.



Objective 3 - Part-time staff, overtime and travel & subsistence payments are properly authorised (Continued)

Overtime Payments (Continued)

As part of our testing, we selected a sample of 10 employees who had received overtime payments in the year, including a mix of plain time, time and a half, double time, and phone duty. In each case we reviewed the timesheets to ensure that the hours recorded were accurate and correctly classified as plain time, time and a half, double time, or phone duty. We were able to agree this for all sampled timesheets with no issues noted. We also confirmed that all timesheets had been correctly authorised before being sent to Payroll for processing.

We also reviewed the employees' salary information and performed a re-calculation of the hourly rate applied for the sampled period. In all cases we were able to confirm that the hourly rate applied was correct with no issues noted. We then agreed the claimed amount to the relevant payslip with no issues noted during our testing.

Expenses

Expenses are submitted by individual members of staff via an in-house expenses system. The claim submitted must detail the purpose of the journey, including start and end points, and the date on which the expense was incurred.

Mileage claims are made at 45p per mile, which is in line with extant HMRC rates. Some common journeys made by staff are pre-populated on the system with distance, including journeys between the College campuses. A staff member's car can also be logged with engine size noted for ease. Before a member of staff can claim for mileage, they must submit proof of business insurance and driving license details before their car will be approved.

All non-mileage claims must be supported by documentation such as receipts or invoices or they will not be authorised.

Once an expense form is submitted by an employee, the line manager will be notified and can authorise or reject the claim through the in-house system. If rejected, the manager can add detail to explain why and any changes that may need to be made. If accepted, the claim will then be sent to Payroll for further checking and authorisation prior to being processed. Claims can be made for a period of three months before they will be automatically blocked by the system (e.g. in April, claims could be made for February, March and April but anything prior to February would be blocked through the system).

As part of our review, we performed testing on a sample of 10 expense payments made in the period August 2022 to March 2023. For each sampled payment we reviewed the submitted expenses form to ensure the payment figure was correct and agreed this to the payslip with no issues noted. We reviewed the authorisation from both the line manager and Payroll to ensure this was appropriate. Finally, we reviewed supporting documentation for all sampled expenses including receipts, invoices and mileage calculations. We noted no issues during our expenses testing.



Objective 4 - Approval and checking of changes to employee standing data

Changes to employee standing data are made by individual employees through the Cintra self-service portal. Changes that can be made by the employee include:

- Name;
- Address;
- Bank details;
- Emergency contact details; and
- Equalities information.

Once a change is submitted by an employee, Payroll is notified and will review the change prior to this being accepted. Where a change of bank details has been submitted, a member of the Payroll team will contact the employee either by telephone or Teams call to verify that the changes made are correct and have not been made in error or fraudulently. Once the change has been verified, this is processed through a process called sequencing, and the employee and payroll record updated as appropriate.

In exceptional cases, an employee may contact the Payroll team directly to request a change be made manually. Employees are encouraged to use the self-service portal in the first instance however if this is not possible then a manual change can be input by a member of Payroll staff. In these instances, a call will be arranged with the employee to confirm the change of details before this is amended.

We selected a sample of 10 changes made to employee standing data, which had been processed in the period August 2022 to March 2023, and performed testing to ensure that these changes had been appropriately reviewed and actioned in the Payroll system. In all cases we were able to confirm that the change had been reviewed by Payroll staff prior to authorisation. This included obtaining confirmation that a call had been made to each of the three members of staff where changes had been made to bank account details, which we tested as part of our sample. We also confirmed that the change was made to the Payroll system and that this was completed in a timely manner, being completed on the day the change request was received in all sampled cases.

Objective 5 - Starters and leavers are properly treated and enter and leave the system at the correct dates

Starters

Through discussion with the Senior Payroll Officer and HR Manager it was established that the new start process is largely HR led, with members of the HR team responsible for the input of details for the new start in the HR / payroll system.

Following successful recruitment, a new start is issued with an appointment letter and employment contract which details their job title, start date, salary / hourly rate and working pattern.

A member of the HR team will then create an employee record in the integrated HR / payroll system using information provided as part of the application process. The employee will automatically be allocated the next available employee number in the sequence, and details regarding post, salary and working pattern will be input to the record. This process is supported by the completion of a HR new start checklist to ensure that all steps have been taken, including completion of a bank details form, copy of ID taken, right to work documentation received, references received and PVG completed.

A 'Poly 1' form is then completed summarising key details about the employment and is signed by two members of the HR team. This is then transferred to the Payroll team where the form is reviewed and signed by two members of staff as authorised and correct. This is then stored in a central HR / payroll folder.

As part of our review, we completed testing on a sample of five new starts for the period August 2022 to March 2023. In each case we were able to review a copy of the appointment letter and contract and agree this to the details provided in the sample report. We then reviewed all new start paperwork which included HMRC checklist, internal HR checklist and record of PVG and were able to confirm this was in place and had been fully completed prior to the start date for all sampled starters. We then reviewed the Poly 1 form and ensured that in all cases the details were correct and in line with other paperwork received and had been signed by two members of the HR team and two members of the Payroll team. For all samples we then reviewed the employee record on the HR / payroll system and confirmed that details held were consistent with other paperwork reviewed.

For our five sampled starters we also performed a re-calculation of the first month's pay to ensure that this had been correctly calculated, and no issues were identified. It was noted during our testing that prior to 1 October 2022, where days needed to be apportioned for support staff, the calculation was based on working days in a month. However, from 1 October 2022 onwards days were calculated based on calendar days as a result of a national bargaining decision. This method was already used for Academic staff.

Objective 5 - Starters and leavers are properly treated and enter and leave the system at the correct dates (Continued)

Leavers

The leavers process begins with HR receiving notification that an employee will be leaving employment from the College. This may be for a variety of reasons such as resignation, end of fixed term contract or retirement.

A leavers checklist is completed by a member of the HR team and ensures that the employee has been removed from any systems they had access to as part of their employment, that equipment, access cards and College ID is returned, and that their leaving date has been entered into the HR / payroll system.

A Poly 1 form is then completed detailing the leaver information, including leaving date and is signed by two members of the HR team. This is then transferred to the Payroll team where the form is reviewed and signed by two members of staff as authorised and correct. This is then stored in a central HR / payroll folder.

As part of our review, we completed testing on a sample of five leavers for the period August 2022 to March 2023. In each case we were able to review either a resignation letter or other documentation which supported the date on which the employee left the College. We reviewed the leavers checklist for each employee and confirmed that this had been completed and signed by a member of HR staff. We also reviewed the Poly 1 form and confirmed that the information agreed to other records reviewed and was signed by two members of the HR team and two members of the Payroll team. Finally, we reviewed the employees HR / payroll record and ensured that the leaving date was correct and that payments could no longer be made to the employee.

For the five sampled leavers we performed a re-calculation on the final pay and ensured that this had been correctly calculated and deductions made as required. It was noted during testing that as for starters, from 1 October 2022, where days needed to be apportioned this was now based on calendar days for both Academic and Support staff as opposed to working days in a given month.



Objective 6 - Proper authorisation, processing and recording of payments

Through discussion with the Senior Payroll Officer, we established the processes in place with regards to the processing, authorisation, and recording of payroll-related payments. It was noted that each month the College prepares three payrolls – for academic staff, support staff, and management – which are then combined into one payment run. We also examined the different exception and variance reports utilised by the Payroll team in order to identify, monitor, and investigate any variances and changes on the prior month's payroll. Finally, we traced a sample of net pay, HMRC, and payroll-related third-party payments for five months between August 2022 and March 2023 and ensured that they were processed in line with the procedures outlined in our discussion.

Prior to the monthly payroll being prepared, a Payroll Officer will first run and review a series of exception and variance reports. The integrated HR / payroll system – Cintra - offers a wide variety of exception and variance reporting capabilities. These include the following:

- Altered Pay Report – primarily used to highlight variances in net pay although it can highlight differences for any pay element. Sensitivity is set to £1, with variations of over 10% investigated by payroll staff;
- Exceptions Report – flags exceptions such as incorrect bank account numbers, ad-hoc payments where rates are missing, and notifies of starters and leavers, beginning or end of statutory payments, and when an SSP1 form is due. All exceptions output by the report are reviewed by the Payroll staff;
- Pay Variance Report – provides a breakdown of variances for all payroll elements from the current to the previous month. This is an additional report that is run following events such as the application of a pay award or uprating of pension contributions to ensure that these were processed correctly;
- Duplicate Bank Details and Duplicate Names Reports – identify any duplication of details on the system - any non-routine items are investigated; and
- Corrections Summary Report – displays any corrections made that relate to the previous pay periods based on information from the current pay period. The report is inspected to ensure that any backdated changes have not had an unexpected impact on any previous payroll periods.

The reports are generated and examined a day before the payroll for the month is prepared, although this can be done earlier if needed. Since the reports are run and inspected on Cintra, there is no audit trail of the checks made, except for when an entry has been investigated further.

After the reports noted above are examined and the Payroll Officer processing the payroll that month finds them satisfactory, an Excel extract is generated for each of the three payrolls in Cintra. These are then saved on the College's server and manually combined into one spreadsheet as a basis for the overall payroll payment run. Once complete, a Payroll Analysis Summary Report is generated to reconcile the totals on Cintra to the combined payroll file to ensure that any manual mistakes made in the process of merging the data can be identified. The report also reconciles the payroll costs incurred with the relevant liabilities (i.e. net pay, HMRC etc.) and shows an analysis of the different payroll elements incurred in the period.

The Payroll Cover Sheet is then created, setting out basic information about the payment run such as the tax month, intended payment date and BACS transfer date, total value, previous month's value for comparison. The Payroll Officer who checked the exception and variance reports, and prepared the payroll, signs and dates the document. This is then sent to the Director of People and Culture and the Finance Manager for authorisation through Microsoft Teams. This would be signed by the Vice Principal Operations in the Director of People and Culture's absence. The Finance Manager checks that the net amount matches the BACS and that the amount is in line with expectations based on previous months. If there was a variance and the amount was not as expected this would then be investigated in more detail through discussion with Payroll and checking pay variance reports etc. The Director of People and Culture has full access to the payroll system and all reports, not just the pay variance reports and exceptions, and carries out spot checks on these. After checking that the details on the Payroll Cover Sheet are accurate and complete, the approvers sign and date the document.



Objective 6 - Proper authorisation, processing and recording of payments (Continued)

Similar to the above, for HMRC and payroll-related third-party payments, Payroll staff prepare Memorandums setting out the monthly BACS transfer payment details, including who prepared it, when, what organisations need to be paid what amounts and to what bank account numbers, and what journal codes were used to code the costs. When the Memorandum has been received, a member of the Finance team marks the document to confirm who uploaded and authorised the BACS file, and who processed the payment and when.

Following authorisation, one of the Payroll Officers uploads the BACS file onto the Bottomline PTX payment system and performs an additional check to ensure that the total reconciles to Cintra. Payroll staff members do not have access to make the payment itself. Afterwards, the Finance Manager examines the BACS file and authorises it, after which they make the payment.

Subsequent to our discussion with the Senior Payroll Officer, we traced a sample of net pay, HMRC, and payroll-related third-party payments for a sample of five months during the period August 2022 and March 2023. As part of our testing, we ensured that the processes described above were operating correctly, with no issues identified.

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