



TRANSPORT FOR THE NORTH

Payroll

Internal audit report 2.22/23

Final

25 August 2022

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1. EXECUTIVE SUMMARY

With the use of secure portals for the transfer of information, and through electronic communication means, 100 per cent of our audit has been conducted remotely. Remote working has meant that we have been able to complete our audit and provide you with the assurances you require. Based on the information provided by you, we have been able to sample test, and in some areas undertake full population testing, to complete the work in line with the agreed scope.

Why we completed this audit

As part of our internal audit plan for 2022/23 we have carried out a review of Transport for the North's (TfN's) payroll controls. As per the agreed scope our review has assessed the following areas:

- Policies and procedures;
- Starters, leavers and amendments;
- Monthly payroll review and authorisation procedures;
- Segregation of duties; and
- Establishment checks.

TfN uses the Talent module in the Dynamics 365 system to record employee data and payroll information. Responsibility for generating monthly payroll payment files has been outsourced to an external organisation (Hawson's). Hawson's generates the files based on payroll data provided by TfN.

Responsibility and deadlines for carrying out monthly internal validation checks on the payment files is shared between TfN's Human Resources (HR) and Finance teams, as detailed in TfN's payroll process document.

Our review was designed to provide assurance regarding TfN's controls for ensuring payroll is processed in an accurate and timely manner.

Conclusion

Through our work, we confirmed that TfN has established systems and processes in place in regard to its payroll function.

Through sample testing, we confirmed that controls were being consistently complied with for all areas tested. As such, we have raised no management actions. As part of our review of the payroll data, we also performed data analytics testing by utilising our in-house software. The results of our data analytics testing are outlined at Appendix B of this report.

Internal audit

Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage the identified area are suitably designed, consistently applied and operating effectively.



Key findings

We identified the following findings:

Financial Procedures



Documented Financial Procedures are incorporated within the TfN Constitution, which was approved by the Board in September 2021. The Financial Procedures include references to payroll activities and are easily accessible to staff via TfN's website.



TfN has a Payroll Process document in place which provides detailed information on the monthly payroll activities carried out by the Payroll and Finance Teams. This includes steps required to validate and process the monthly payroll file. The document sets out deadlines and owners for each stage of the process. We confirmed that the document was up-to-date and includes monthly payroll cut-off dates. We confirmed that the process document is accessible to all HR staff via a Microsoft Teams shared drive. We also confirmed that TfN has procedure notes in place that clearly outline the calculations for carrying out various payroll activities.

Starters



We obtained a report of all new starters for the testing period from 1 April 2021 to 30 June 2022. We selected a sample of 10 new starters, to confirm whether a new starter form had been completed and authorised in accordance with the Payroll signatory list.

Our sample testing of 10 identified:

- A new starter form had been fully completed in all cases sampled;
- All new starter forms had been completed and signed by a member of HR, in accordance with the Payroll signatory list;
- New starter forms had been approved by a member of HR and Finance, in accordance with the Payroll signatory list, for all ten new starters in the sample;
- All new starter forms sampled had been signed by the member of HR processing the form, in accordance with the Payroll signatory list; and
- All ten forms had been processed in a timely manner (before payroll cut-off dates for the first month of employment).

We also tested to confirm whether the details recorded on each new starter form had been accurately entered into the payroll system. We confirmed that the employee's start date, salary and grade had been accurately entered into the payroll system for all 10 new starters.

We confirmed that all new starters received their first payment in the correct month in accordance with the Payroll cut-off dates.

Leavers



We obtained a report of all leavers for the testing period from 1 April 2021 to 30 June 2022 and selected a sample of 10 leavers to confirm whether a leavers form had been completed and approved in accordance with the Payroll signatory list.

Our sample testing of 10 identified:

- A leavers form had been fully completed in all cases;
- All leavers forms had been completed, signed and dated by a member of HR, in accordance with the Payroll signatory list;
- Leavers forms had been approved by a member of HR and Finance, in accordance with the Payroll signatory list, for all 10 leavers in the sample;
- All leavers forms had been signed by the member of HR processing the form, in accordance with the Payroll signatory list; and
- All 10 forms had been processed in a timely manner (before payroll cut-off dates for the last month of employment).

We also tested to confirm whether the details on the leaver forms had been accurately entered into the payroll system. We confirmed that all 10 leavers had been recorded as a leaver in the payroll system and the leave date and date of last day of service had been accurately entered into the payroll system for all 10 leavers. We confirmed that all 10 leaver final payments included necessary deductions and none of the leavers were paid in the months after they left.

Amendments



We obtained a report of all amendments for the testing period from 1 April 2021 to 30 June 2022 and selected a sample of 10 amendments, to confirm whether an amendment form had been completed and it had been authorised in accordance with the Payroll signatory list.

Our testing identified for that the sample of 10:

- An amendment form had been fully completed for all 10 amendments;
- All amendment forms had been completed and signed by a member of HR, in accordance with the Payroll signatory list;
- All amendment forms had been approved by a member of HR and Finance, in accordance with the Payroll signatory list;
- Amendment forms had been signed by the member of HR processing the form, in accordance with the Payroll signatory list, for all amendments in the sample; and
- All 10 forms had been processed in a timely manner (the same month that the change was approved).

We also tested to confirm whether the details on the amendment form had been accurately entered into the payroll system. We confirmed that all ten amendments had been accurately changed in the payroll system and the change had been reflected in the following month's payroll run.

Monthly payroll review and authorisation procedures



TfN payroll files are generated by an external organisation (Hawson's) based on payroll data in the payroll system. We reviewed the three most recent payment runs (April, May and June 2022) to determine whether verification checks have taken place before the payroll payment file has been processed. We confirmed that verification checks had been carried out for all payroll files in the sample. For each month, we confirmed that emails were exchanged with Hawson's to discuss payroll queries.



A salary payment template is generated for each month's payroll containing details of the payments scheduled for each employee. The salary payment template requires HR and Finance approval before it can be processed. For all three payroll payments in our sample (April, May and June 2022) we confirmed that the salary payment template had been approved by HR and Finance in accordance with the Payroll signatory list. Approval had been obtained before the payment had been processed. For all three payroll payments we confirmed that the BACs salary payment had been approved by two approvers (Head of HR and Finance Director), in accordance with the Payroll signatory list. Furthermore, we confirmed that the Financial Controller had completed a line-by-line analysis of payment templates prior to sending. We also confirmed that there was adequate segregation of duties between staff preparing and approving the payroll payments.



Following the monthly payroll run, the payroll journal is uploaded to the general ledger. For all three months' payroll runs reviewed (April, May and June 2022), we confirmed that the payroll journal had been uploaded to the ledger. In all three instances the payroll journal matched the amount on the payroll salary template.

Segregation of duties



Access to the payroll system is restricted to authorised staff. We obtained a system-generated report detailing all staff with access to the 'Human Resource Manager' processing module in the Talent system and confirmed that four members of TfN staff have been set up as users. This was confirmed by the TfN HR Business Partner. Three members of TfN staff with access to the system were granted access when the system was set up for the first payroll payment in 2018. We were provided with a copy of an authorised 'Talent Authorisation Form' for the fourth individual. We reviewed the job titles of the four staff members with access to the system and confirmed that all four members of staff are of appropriate seniority for the responsibilities provided to them.



TfN has an authorised signatory list in place detailing the members of staff that can complete, process and approve payroll documentation and processes. As part of the audit, we have carried out testing to determine whether payroll forms and processes have been completed in accordance with the authorised signatory list.

Establishment Checks



Monthly establishment checks are carried out as part of the payroll review and verification process. For a sample of three monthly payroll runs (April, May and June 2022), we confirmed that establishment reviews were carried out as part of the monthly payroll review and validation process. Where necessary establishment reports include narrative to indicate review. All establishment reports are retained in the payroll files maintained by the Finance Team.

APPENDIX A: CATEGORISATION OF FINDINGS

Categorisation of internal audit findings

Priority	Definition
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The following table highlights the number and categories of management actions made as a result of this audit. No management actions have been raised as a result of the work undertaken.

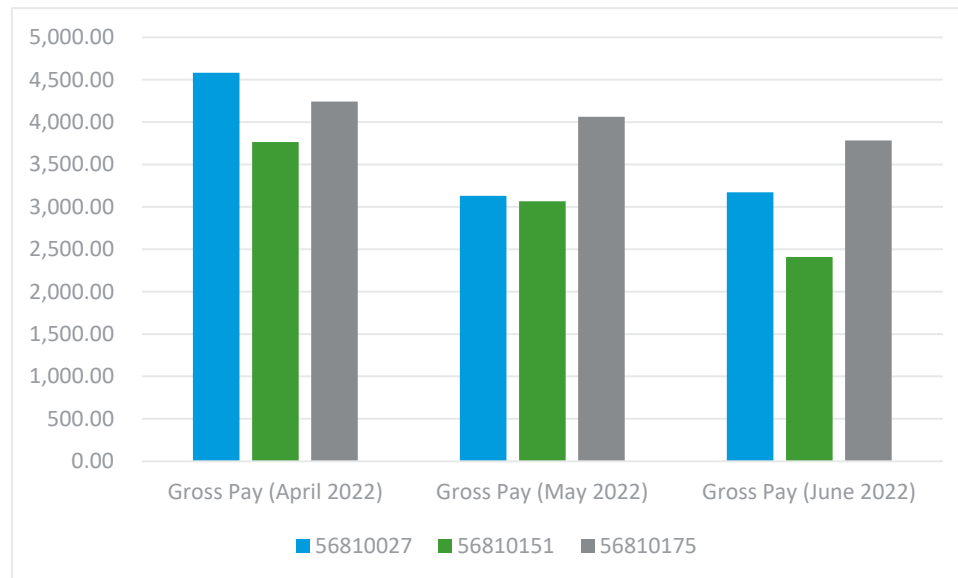
Area	Control design not effective*		Non Compliance with controls*		Agreed actions		
	0	(2)	0	(2)	Low	Medium	High
Financial Procedures	0	(2)	0	(2)	0	0	0
Starters, leavers and amendments	0	(3)	3	(3)	0	0	0
Monthly payroll review and authorisation procedures	0	(3)	0	(3)	0	0	0
Segregation of duties	0	(2)	0	(2)	0	0	0
Establishment checks	0	(1)	0	(1)	0	0	0
Total					0	0	0

APPENDIX B: DATA ANALYTICS

We have provided a summary of the data analytics testing undertaken as part of our review. Our testing considered the accounting period from April 2022 to June 2022:

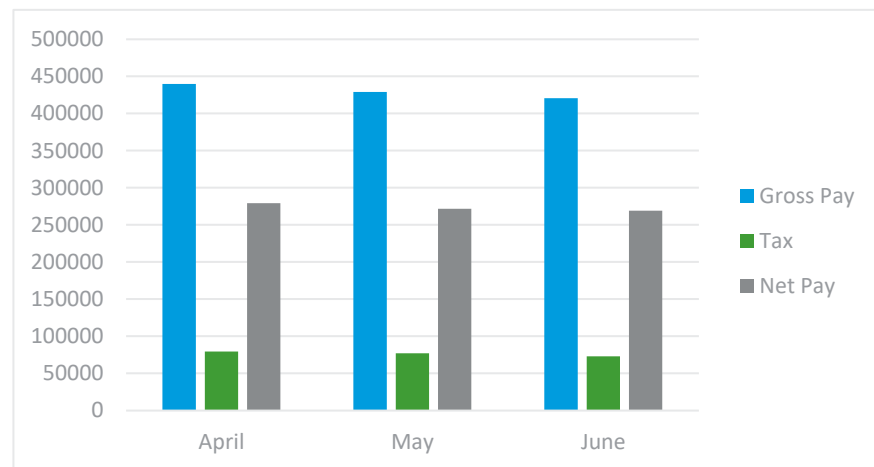
Payroll Variances

We completed testing to compare payroll files to identify if any employees had received unusually large salary increases. We noted the following three individuals had large variances over the period:

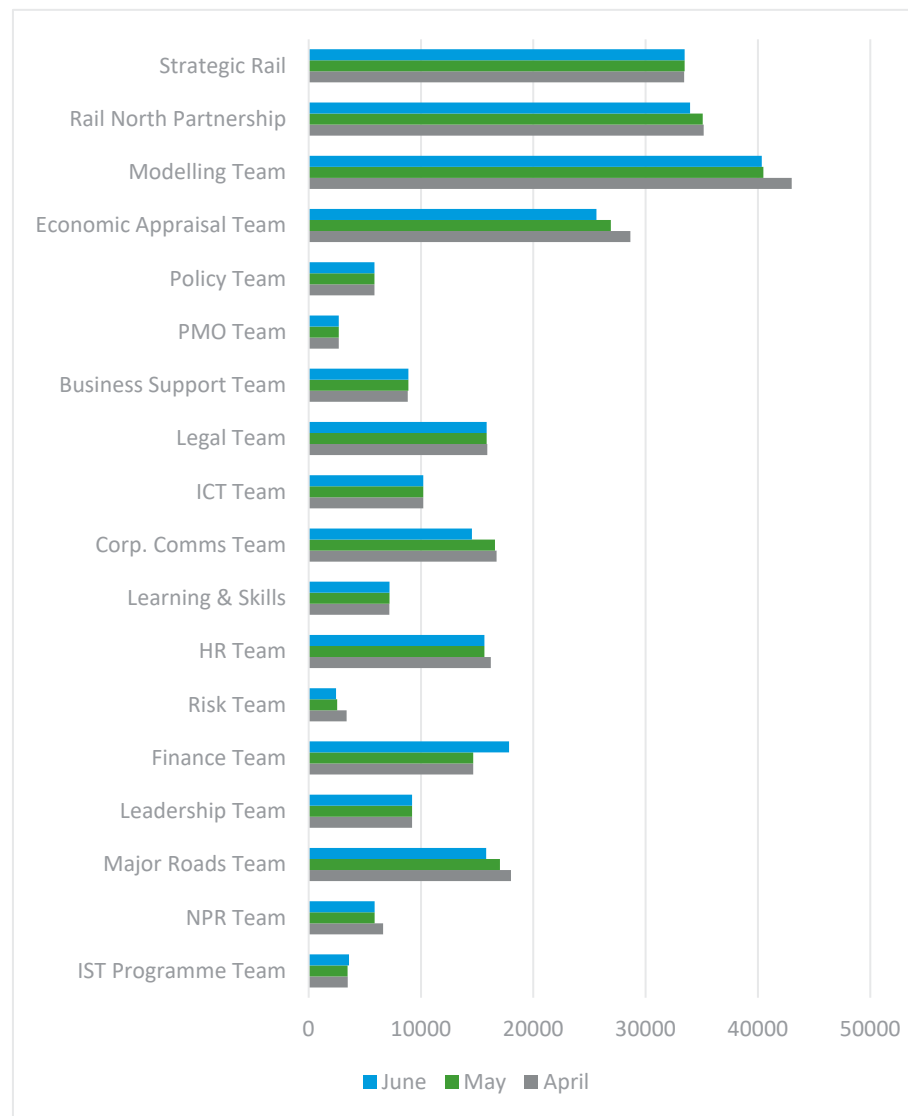


Through discussions with the HR Business Partner, we were informed these variances in pay related to maternity payments in two cases and flexible working arrangements in the remaining case. As such, no issues were identified.

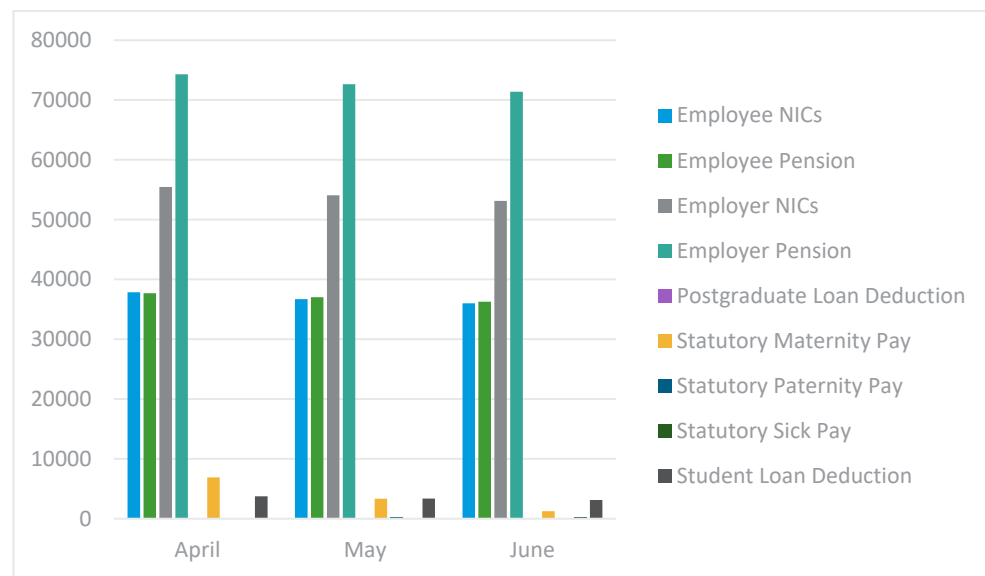
Gross Pay, Net Pay and Tax over the period (April – June 2022)



Net Pay over the period by Department (April – June 2022)



Payroll Elements over the period (April – June 2022)



The above graphs show consistent payroll figures throughout the period. As such, no issues have been identified.

APPENDIX C: BENCHMARKING

We have included some comparative data to benchmark the level of assurance and number of management actions agreed in this audit compared to similar audits conducted across our clients.

Level of assurance	Percentage of reviews	Results of the audit
Substantial assurance	41.28%	✓
Reasonable assurance	46.18%	
Partial assurance	12.54%	
No assurance	0%	

Management actions	Average number in similar audits	Number in this audit
High	0.21	0
Medium	1.78	0
Low	2.19	0
Total	4.18	0

Please note that the assurance opinions and management actions raised within all our audits reflect the scopes agreed with management at the time of the audits.

APPENDIX D: SCOPE

Scope of the review

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

Objective of the area under review

This review is designed to provide assurance regarding TfN's controls for ensuring payroll is processed in an accurate and timely manner.

The following areas will be considered as part of the review:

We will carry out a review of TfN's controls for ensuring payroll is processed in an accurate and timely manner. Our review will include consideration of the following areas:

- Policies and procedures in place;
- Starters, leavers and amendments to the payroll are appropriately authorised and passed for processing in a timely manner;
- Monthly payroll review and authorisation procedures;
- Segregation of duties; and
- Establishment checks.

As part of our review of the Payroll data, we will utilise our in-house data analytic software to identify the following:

1. Compare employee by name, address with data recorded in the HR system
2. Identify staff records with missing information such as national insurance; tax code; bank details
3. Summarise and stratify salaries by department for reconciliation to the general ledger
4. Analyse and summarise costs for special pay, overtime, maternity leave, bonuses and other allowances
5. Calculate gross pay, net pay, deductions and any other value fields
6. Identify items where the payment amount exceeds predefined limits requiring additional approval
7. Comparison of payroll file at different periods to determine the number of starters, leavers and changes in pay are as expected.
8. Identify duplicate items such as employee name, number, and address and bank account details (to the supplier database also)
9. Compare payroll files to identify if any employees had received unusually large salary increases
10. Ensure each employee's salary is between the minimum and maximum for his/her position or grade.

Limitations to the scope of the audit assignment:

- The above tests are subject to the completeness and accuracy of the data captured within the key systems.
- We will not comment on the financial limits or benchmark these with other organisations to comment on the appropriateness.
- We will not verify the accuracy of the payroll data back to source documents for all employees, only where anomalies in the data warrant further investigation.
- Any testing undertaken as part of this audit will be subject to being completed remotely.
- We will not confirm the accuracy, or the appropriateness of all payments made.
- We did not test severance payments as part of our audit.
- Reconciliations will not be substantively re-performed.
- The results of our work are reliant on the quality and completeness of the information provided to us.
- As a result of TfN's system limitations we were unable to perform data analytics testing in relation to some of the 10 data analytics bullet points listed above in our scope. We were able to perform data analytics testing in relation to:
 1. Summarise and stratify salaries by department;
 2. Analyse and summarise costs for special pay, overtime, maternity leave, bonuses and other allowances;
 3. Calculate gross pay, net pay, deductions and any other value fields; and
 4. Compare payroll files to identify if any employees had received unusually large salary increases.
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

Debrief held 19 July 2022
Draft report issued 27 July 2022
Responses received 24 August 2022

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Final report issued 25 August 2022

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The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Actions for improvements should be assessed by you for their full impact. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

Our report is prepared solely for the confidential use of Transport for the North, and solely for the purposes set out herein. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM UK Risk Assurance Services LLP for any purpose or in any context. Any third party which obtains access to this report or a copy and chooses to rely on it (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM UK Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

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We have no responsibility to update this report for events and circumstances occurring after the date of this report.

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