



YORK AND NORTH YORKSHIRE OFFICE FOR POLICING, FIRE, CRIME AND COMMISSIONING, FIRE AND RESCUE AUTHORITY

Payroll: Process and Control Assurance

Final Internal Audit Report: 2.24/25

30 October 2024

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AUDIT OUTCOME OVERVIEW

In line with our scope, the overview of our findings is detailed below.

Background / Why we did the audit

In 2022/23, RSM carried out a review of the Service's payroll processes, which resulted in a partial assurance opinion being provided with a number of actions for management agreed. This review has revisited the areas covered within the 2022/23 audit to allow the assurance to be taken on the Service's current payroll processes.

The Service uses the Resource Link system to process payroll, which is hosted by North Yorkshire Council (NYC) (previously North Yorkshire County Council) and managed internally by the Payroll Team. Our audit has considered the arrangements for processing new starters, leavers, amendments and deductions (both voluntary and involuntary), and has also considered the checking arrangements in place to ensure payroll is processed accurately.

We have also used our data analysis tool, Alteryx, to scrutinise the Service's payroll data and carry out a full population analysis of transactions processed within the last 12 months. Any discrepancies identified in this analysis have been considered with the Payroll Team.

Conclusion: Our sample testing of payroll processes confirmed that the Service effectively uses new starter forms and leaver forms as instructions to process payroll tasks. Whilst we identified some issues in relation to timeliness of processing, we confirmed for our samples that new starter and leaver forms were authorised and retained on file. In addition, all new starters had signed employee contracts in place, which reconciled to underlying payroll data. We further confirmed that the Payroll Team uses exception reporting to confirm that payroll changes have been enacted. In addition, our data analysis identified no unexplainable instances of duplicate employee records or national insurance numbers, nor did we identify any instances of duplicate payments made to employees which could not be justified, for example, different individuals with the same names.

We have however identified some areas for further enhancement in payroll processes, resulting in **three medium** and **three low** priority management actions being agreed. Findings included the timeliness of adding new starters to the payroll system, the completion and evidencing of independent checks completed by the Finance Team, and the lack of an overarching record of payroll amendments which has limited our testing ability. The full details of management actions agreed and associated findings can be found under section 2 of this report.

Internal audit opinion:



Minimal Assurance



Partial Assurance



Reasonable Assurance



Substantial Assurance

Taking account of the issues identified, the board can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified risk(s).

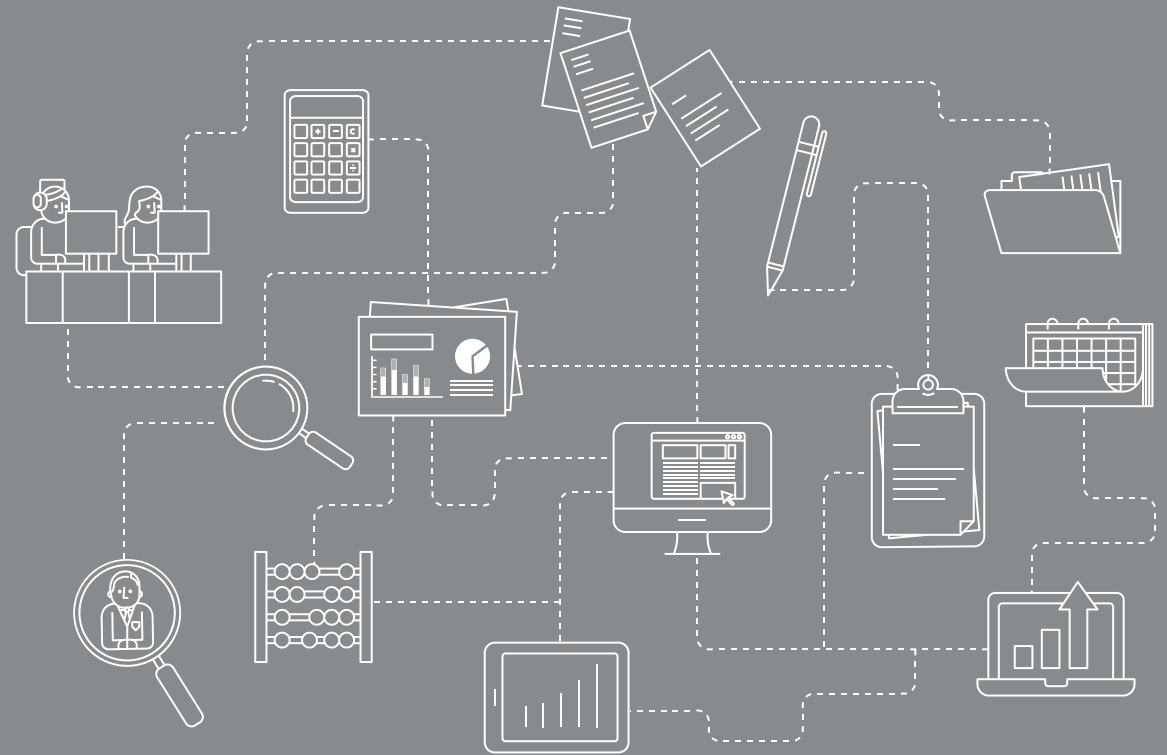
Audit themes:

The following themes have resulting in the agreement of three medium and three low priority management actions:

- **Record keeping (payroll amendments):** The Payroll Team were unable to provide us with a record of payroll amendments processed for the current financial year, meaning our ability to carry out sample testing in this area was limited. A lack of overarching record could impact on the effectiveness of exception reporting. **(Medium)**
- **Supporting evidence:** Testing identified examples of missing evidence relating to voluntary and involuntary deductions processed on the payroll and the completion of final pay calculation checks carried out by the Finance Team. **(Low)** However, our testing did establish that new starter forms, leaver forms and employee contracts were all retained on file for samples selected.
- **Timeliness:** Issues in the timeliness of new starter additions to the payroll system and completion of final salary calculations for leavers, resulting in some instances of late holiday pay, were identified during the audit. **(Medium)**
- **Payroll Processing / BACS review – Evidence of** final review and sign off of the on-call and wholetime BACS and final pay calculation files was provided for two months. For June 2024, evidence of independent review and approval could not be provided, and therefore we were unable to confirm whether these checks had been carried out. **(Medium)**
- **Data analysis:** Our analysis identified one instance of a new starter paid prior to their employment start date, which the Payroll Team had already identified as an issue prior to the audit. This was identified as an error with an incorrect date added, impacting on the payment processed. The remaining data analysis tests including duplicate payment, employee and national insurance number analysis identified no unexplainable exceptions.

Summary of Actions for Management

01



SUMMARY OF MANAGEMENT ACTIONS

The action priorities are defined as*:

High

Immediate management attention is necessary.

Medium

Timely management attention is necessary.

Low

There is scope for enhancing control or improving efficiency.

Ref	Action	Priority	Responsible Owner	Date
1	The Service will implement an operating timescale for the completion of new starter forms and will ensure forms are completed in a timely manner to permit the timely addition of new starters to the payroll system.	Medium	Senior Payroll and Pensions Officer Talent Acquisition Partner	31 August 2025
2	The Service will review its processes for ensuring holiday entitlements are paid accurately and in a timely manner.	Low	Senior Payroll and Pensions Officer	28 February 2025
3	The Payroll Team will consider how it retains an overarching record of amendments processed via payroll to ensure adequate audit trail exists to support changes made and enable effective payroll report checking. The Payroll Team should liaise with the People Services Team to facilitate the overarching record.	Medium	Senior Payroll and Pensions Officer	31 March 2025
4	The Payroll Team should consider how long it retains evidence of voluntary or involuntary deduction evidence and document this timeframe within a procedural document. The Payroll Team should issue a reminder to all employees that it is their responsibility to opt out of any voluntary deductions.	Low	Senior Payroll and Pensions Officer	28 February 2025
5	Evidence of review and approval of BACS and final pay calculations will be retained on file in a central location.	Medium	Senior Payroll and Pensions Officer	31 December 2024
6	The Payroll Team will review the current checking processes in place (e.g. exception reporting) to ensure that processes are adequate to enable effective checking of new starter and leaver payments. Checks should be completed against a list of amendments processed within the applicable pay month (as agreed under management action 3).	Low	Senior Payroll and Pensions Officer	31 March 2025

* Refer to Appendix A for more detail

Detailed Findings and Actions

02



DETAILED FINDINGS AND ACTIONS

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all audit testing undertaken.

Area: New Starters

Control	New starter forms are completed by the People Services Team and provided to the Payroll Team for processing. New starters are added to the system in a timely manner to ensure payment within the first applicable pay month.	Assessment:	
		Design	✓
		Compliance	×

Findings / Implications	We have tested a sample of 10 new starters and identified the following:		
	<ul style="list-style-type: none"> In all 10 cases, we confirmed a new starter form had been fully completed and signed off by the People Services and Payroll Teams; however, in one of these cases, there was no date present on the document to confirm the date of approval from the People Services Team. We were therefore unable to confirm whether People Services checks had been completed in advance of the Payroll Team checks. We reviewed the dates that new starters had been added to the payroll system, and in four cases, we identified that new starters had not been added in a timely manner when compared with the individual's employment start date. These exceptions ranged from 10 days to 28 days after the employee start date. <p>Where new starters are not added to the system in a timely manner, there is a risk that payroll cut off dates may be missed, resulting in new starters missing the first applicable pay month.</p>		

Management Action 1	The Service will implement an operating timescale for the completion of new starter forms and will ensure forms are completed in a timely manner to permit the timely addition of new starters to the payroll system.	Responsible Owner: Senior Payroll and Pensions Officer Talent Acquisition Partner	Date: 31 January 2025	Priority: Medium
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Area: Leavers

Control	Line managers document outstanding holiday entitlement or any repayments in the leaver movement form. Final pay calculations are processed by the Payroll Team in accordance with the leaver movement form.	Assessment:	
		Design	✓
		Compliance	×

Area: Leavers

Findings / Implications We completed the leaver testing to confirm line managers had documented any outstanding holiday pay on the leaver movement form to enable the Payroll Team to make the final salary calculations as per the agreed end date:

- For all 10 samples, we confirmed that the line manager had outlined the individual’s outstanding annual leave on the leaver movement form.
- For eight of the sample, the final salary calculations included all owed holiday pay. In one case, the employee left on the 23 December 2023, but their holiday pay was paid on 12 January 2024. Given the Christmas period, we have not considered this to be an issue. However, in the final two cases, holiday pay was paid to the employees. In the final case, the individual was paid the remaining holidays totalling £13.44 on 8 March 2024, which was considerably after the individual’s leave date (8 October 2023).

Where final salary calculations do not include all holiday payments owed, there is a risk that the Service is not paying leavers in a timely manner and payments may need to be reimbursed at a later date, impacting on staffing budgets.

Management Action 2	The Service will review its processes for ensuring holiday entitlements are paid accurately and in a timely manner.	Responsible Owner: Senior Payroll and Pensions Officer	Date: 28 February 2025	Priority: Low
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Area: Amendments

Control Any payroll amendments are supported by a movement form, which is completed by the People Services Team and provided to the Payroll Team for timely processing.

Partially missing control - The Payroll Team do not maintain an overarching record of amendments processed through the payroll.

Assessment:

Design	×
Compliance	-

Findings / Implications During the audit, we made attempts to obtain a list of amendments to the payroll system within the last 12 months. However, we were unable to acquire a list from the Payroll or People Services Team to facilitate sample testing. We understand that changes are often communicated via email which may not always be retained.

This has been raised as a further query since the completion of our quality assurance processes, as a list to facilitate sample testing was provided during the 2022/23 internal audit review. However, we have not received a response to this request.

We have therefore agreed a management action for the Payroll Team to liaise with the People Services Team to ensure there is an overarching record retained of all amendments required for processing through payroll. Without a clear record of the amendments processed, this limits our ability to carry out sample testing and there is a risk that unauthorised amendments could be processed through the payroll system. In addition, where the Payroll Team does not retain a complete record of amendments processed through payroll, there is a risk that payroll checks are not adequately conducted ensuring that all changes have been processed accurately and as instructed or approved.

Management Action 3	The Payroll Team will consider how it retains an overarching record of amendments processed via payroll to ensure adequate audit trail exists to support changes made and enable effective payroll report checking.	Responsible Owner: Senior Payroll and Pensions Officer	Date: 31 March 2025	Priority: Medium
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Area: Amendments

The Payroll Team should liaise with the People Services Team to facilitate the overarching record.

Area: Voluntary deductions

Control	Voluntary deductions are processed following clear instruction from the employee. Evidence of these requests are saved centrally.	Assessment:	
	Employees are requested to complete a pension set up form when joining the Service. Pension deductions are made during every payroll run and are dependent on the employee's salary.	Design Compliance	✓ x

Findings / Implications

Voluntary deductions

For 10 voluntary deductions made to employee payslips in 2024, evidence from the employee authorising the deduction could be provided in eight cases. In the remaining two cases, evidence to support the deduction could not be located. However, the Payroll Team informed us that the two deductions were historic requests, starting in 2001 and 2012. The Service should review whether it retains evidence of deduction opt in decisions for all current employees or may consider implementing a timeframe for retaining evidence of deduction authorisation on employee records to mitigate the risk of disputes if payments are incorrectly deducted.

For the remaining eight deductions, we confirmed that the correct amount was deducted based on the evidence provided of the employee's instruction in five instances. In the remaining three instances, a different amount had been deducted in two cases and in the final instance, it was unclear what value should be deducted. However, the evidence on file to support the deductions was again historic, and it was explained that rates have changed either due to inflation or a change of rates since the deduction was agreed. To mitigate the risk of employees disputing any deductions processed, the Service may consider issuing regular reminders to all employees that they should inform the Payroll Team if they wish to opt out of any voluntary deductions.

Pension

Using the sample of 10 new starters considered earlier, we confirmed all 10 new starters had completed a pension form. Whilst six forms were not completed prior to the employee start date, the Payroll Team outlined that this is the employee responsibility to complete the form in a timely manner. We confirmed that pension deductions had been made in the first available pay period for seven of the 10 employees. In the remaining three instances, we noted that these were on-call volunteers who had not yet been paid due to not completing all required training, and pension deductions would be processed in the next available pay period. We have not raised this as a management action.

Management Action 4

The Payroll Team should consider how long it retains evidence of voluntary or involuntary deduction evidence and document this timeframe within a procedural document.

The Payroll Team should issue a reminder to all employees that it is their responsibility to opt out of any voluntary deductions.

Responsible Owner:

Senior Payroll and Pension Officer

Date:

28 February 2025

Priority:

Low

Area: Involuntary deductions

Control	Evidence to support involuntary deductions is retained on file. Deductions are processed in line with instructions.	Assessment:	
		Design	✓
		Compliance	×
Findings / Implications	<p>For a sample of 12 involuntary deductions processed in 2024, evidence could be provided to support deductions in eight instances. In the remaining four instances (three student loan deductions and one attachment of earnings order), evidence could not be supplied to support the deduction.</p> <p>We understand that the three student loan deductions had been requested a number of years ago, therefore evidence could not be supplied to support the deductions. As student loans are initially processed when an employee starts the company and inflated based on rate of pay, we have not considered this to be an issue.</p> <p>In the final case, the attachment of earnings order (£31 per month) was again a historic deduction, which has been in place for at least 10 years we understand. We have raised management action four above for the Service to consider how long it retains evidence of deductions on employee files.</p>		
Management Action	See management action 4.		

Area: Payroll Processing

Control	BACS and final pay calculation files are produced by NYC, who administer the Resource Link payroll system based on updates input by the Payroll Team on the system.	Assessment:	
	The Senior Payroll and Pensions Officer completes a final review of the BACS payroll run, before sending a summary to a member of the Finance Team for independent review.	Design	✓
		Compliance	×
Findings / Implications	<p>For a sample of three months, we requested evidence of final review and sign off of the on-call and wholetime BACS and final pay calculation files. For both payrolls for May and July 2024, we were provided with evidence of review and approval and confirmed that final sign off had been provided by the Chief Accountant and the Senior Finance Manager. For June 2024, evidence of independent review and approval could not be provided, and therefore we were unable to confirm whether these checks had been carried out.</p> <p>Where complete payroll checks are not undertaken by an independent reviewer, there is a risk that any unauthorised payments may not be identified and the payroll processed may contain errors, which could impact on overarching pay budgets.</p>		
Management Action 5	Evidence of review and approval of BACS and final pay calculations will be retained on file in a central location.	Responsible Owner:	Date:
		Senior Payroll and Pensions Officer	31 December 2024
			Priority:
			Medium

Area: Data Analytics

Control	New starters are not paid before their start date and leavers are not paid after their leave date.	Assessment:
		Design ✓
		Compliance ×

Findings / Implications

New starters - We identified two individuals in this test where a payment had been recorded before the employee's start date. For one discrepancy, we confirmed had left as their temporary contract came to an end, before being almost immediately re-hired on a permanent contract. The individual had been paid the correct salary for their temporary contract work, though this was before their re-hiring several days later. We have therefore not considered this to be a discrepancy.

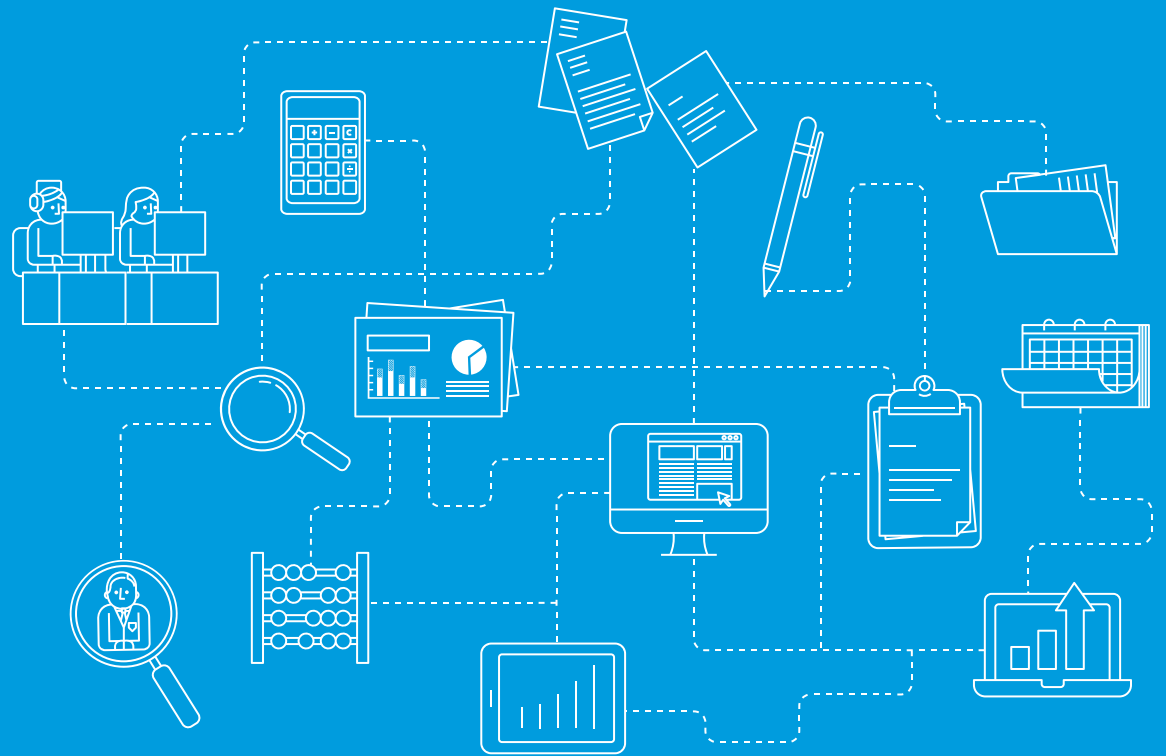
For the second discrepancy, we noted that the Payroll Team had paid the individual from the date they received the new starter form, rather than the agreed start date. The Payroll Team explained that this issue had been raised back in November 2023, when the individual was paid, and guidance was provided to the team to prevent this from happening in the future. As this was an isolated discrepancy in our data analysis, we have not considered this to be a high priority action; however, without appropriate checking mechanisms in place to review any changes made to payroll in the relevant period, there is a risk that similar errors may be processed and not identified.

Leavers - We identified 34 and 26 instances where individuals were paid after their leave date for on-call and wholetime respectively. We sampled five on-call and five wholetime discrepancies and discussed each with the Payroll Team. From review, we confirmed all payments were appropriate, for example, drill payments. It was explained that any drills undertaken are always paid in arrears, meaning any drills undertaken during an individual's final month of employment, would always be paid after their leave date. We have therefore not identified this as an issue, but management should remain vigilant of late payments when completing payroll checks.

Management Action 6	The Payroll Team will review the current checking processes in place (e.g. exception reporting) to ensure that processes are adequate to enable effective checking of new starter and leaver payments.	Responsible Owner:	Date:	Priority:
	Checks should be completed against a list of amendments processed within the applicable pay month (as agreed per management action 3).	Senior Payroll and Pensions Officer	31 March 2025	Low

Appendices

03



APPENDIX A: CATEGORISATION OF FINDINGS

Categorisation of internal audit findings

Low

There is scope for enhancing control or improving efficiency.

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.

Area	Control design not effective*	Non-compliance with controls*	Agreed actions**		
			Low	Medium	High
Payroll: process and control assurance	1 (18)	6 (18)	3	3	0
		Total	3	3	0

* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

** We have raised one management relating to one control.

Debrief held 19 August 2024
Further evidence requested 20 September 2024 ¹
Draft report issued 27 October 2024
Responses received 29 October 2024
Final report issued 30 October 2024

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¹ Additional evidence was requested on this date relating to the amendments report; however, no further evidence has been provided.

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