



# THE POLICE AND CRIME COMMISSIONER FOR CLEVELAND AND THE CHIEF CONSTABLE OF CLEVELAND

## Payroll

Final Internal audit report 17.20/21

12 May 2021

This report is solely for the use of the persons to whom it is addressed.

To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party.

# 1. EXECUTIVE SUMMARY

With the use of secure portals for the transfer of information, and through electronic communication means, remote working has meant that we have been able to complete our audit / assignment and provide you with the assurances you require. It is these exceptional circumstances which mean that 100 per cent of our audit has been conducted remotely. Based on the information provided by you, we have been able to sample test the control framework.

## Why we completed this audit

The Payroll team at Cleveland Police process the following payrolls on behalf of the Force and the Office for the Police and Crime Commissioner for Cleveland:

- Four-weekly payroll for approximately 1,380 officers;
- Monthly payroll for approximately 680 Force staff; and
- Monthly payroll for approximately 35 staff from the Office for the Police and Crime Commissioner for Cleveland.

The Payroll team works with colleagues in Finance and HR as follows:

- HR administer starters, leavers and changes, although staff and officers can make some amendments themselves (e.g. bank details) via the HR self-service system.
- Payroll administer any amendments advised by HR and then process the payrolls themselves, including making any necessary adjustments, as and when advised, such as overtime, deductions, allowances, etc.
- Finance administer payments based upon the reports provided from Payroll.

Much of the process is automated using the Oracle payroll application.

## Conclusion

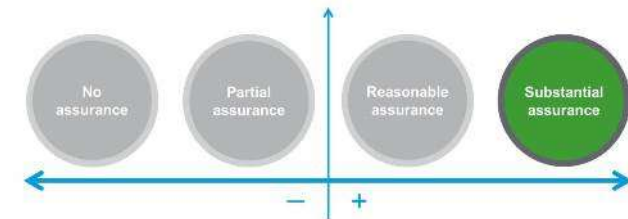
We found that the organisation has a robust set of procedures in place for the management of payroll which were operating effectively and consistently in practice. Testing identified two areas where the current control procedures could be enhanced.

As a result of our review, we have agreed **two low priority** management actions. Details of these actions can be found under section two of this report.

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### Internal audit opinion:

Taking account of the issues identified, the Police and Crime Commissioner for Cleveland and the Chief Constable of Cleveland can take **substantial assurance** that the controls upon which the organisations rely to manage this area are suitably designed, consistently applied and operating effectively.



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## Key findings

**Our audit review also identified that the following controls are suitably designed, consistently applied and are operating effectively:**



Appropriate segregation of duties is in place between payroll, HR and finance functions to ensure payroll standing data integrity is maintained, through the use of user access rights and controls. This was confirmed by review of the procedure notes supplied and testing carried out. In addition, officers and staff are able to administer a range of changes themselves via an on-line self-service portal.



Access to the Oracle payroll module is restricted to a defined list of staff. Review of a report of user access rights in respect of the Oracle payroll module and comparison to the list of staff in the Payroll team identified no issues.



A payroll checklist is completed to evidence all checks are completed in respect of each payroll. Review revealed that the checklist was a very comprehensive document, used by the senior Payroll staff as an aide memoire when running each payroll, and only the three most senior members of the Payroll team run the payrolls.



A well-understood process is in operation between the Payroll and Finance teams for the finalisation and subsequent payment of each payroll and testing of payroll reports through to the BACS payment confirmation report identified no issues.



No issues were identified during our testing of starters, leavers and changes to salary details. We selected a sample of 10 in each case and confirmed:

- New starters' details were confirmed by review of documentation from the HR team (contractual details form, TUPE transfer sheet or Appointment to the Force documentation as appropriate) and details including tax code, NI number, bank details and deductions were agreed to supporting documentation.

- Leavers were traced to relevant documentation from the HR team (e.g. retirement form, redundancy information, resignation letter) and we confirmed that they were processed on a timely basis and that the final salary calculations, including any outstanding leave had been calculated correctly.
- Changes to salary details were traced to supporting evidence, including annual uplifts in pay scales and promotions and had appropriate authorisation.



Our data analytics work identified no duplicate employee records, no “ghost” employee records and no duplicate payments to staff or officers during the months covered by this review. In addition, no issues were identified during testing of changes in payroll amounts from one period to the next (10 gross pay items and 10 net payment items).

## 2. 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 internal audit testing undertaken.

| Area: Payroll                  |  |   |
|--------------------------------|--|---|
| <b>Control 1</b>               | <p>The Force has a suite of procedure notes governing all aspects of the payroll process including:</p> <ul style="list-style-type: none"> <li>• New starters.</li> <li>• Leavers.</li> <li>• Deductions and amendments.</li> <li>• Month-end and year-end procedures.</li> <li>• HMRC records.</li> </ul>   | <p><b>Assessment:</b></p> <p><b>Design</b> ✓</p> <p><b>Compliance</b> ×</p> |
| <b>Findings / Implications</b> | <p>We were supplied with the list of procedure notes used by the Payroll team and found that the individual procedures notes reviewed were all very comprehensive, with variants for the different payrolls or other variations of process. However, we found that the individual procedure notes varied in style, with some including screenshots to assist the user and some not. In addition, the procedure notes had different dates, for example:</p> <ul style="list-style-type: none"> <li>• New starters dated January or July 2020 (different dates on different documents).</li> <li>• Leavers dated December 2019.</li> <li>• Pay Award set up – no date.</li> <li>• Overtime dated January 2020.</li> <li>• Payroll procedure – no date.</li> <li>• Month-end procedures dated January or November 2015 (two dates on one document).</li> <li>• Year-end dated April 2019.</li> </ul> <p>The Payroll Business Partner explained that the procedure notes are reviewed on a periodic basis and that a number of recent review notes were awaiting collation when the team returns to the office.</p> <p>However, not having a single definitive set of procedures, or not having up to date procedure notes, could give rise to the risk of an error, omission or delay in the processing of payrolls and payroll data.</p> |   |

**Area: Payroll**

|                            |   |   |                                   |                         |
|----------------------------|---|---|-----------------------------------|-------------------------|
| <b>Management Action 1</b> | The suite of payroll procedure notes will be reviewed and revised, where necessary, to ensure that the organisation has one single definitive list of procedure notes, and that they are complete and up to date. | <b>Responsible Owner:</b><br>Payroll Business Partner | <b>Date:</b><br>30 September 2021 | <b>Priority:</b><br>Low |
|----------------------------|---|---|-----------------------------------|-------------------------|

**Area: Payroll**

|                  |   |  |
|------------------|---|--|
| <b>Control 2</b> | The following exception reports are produced for each payroll: <ul style="list-style-type: none"><li>A “net pay comparison exception report” is produced in and every item is reviewed prior to payroll being released. This highlights any person with a variance from the previous month of greater than 30%.</li><li>A net payment &gt;£5k report is produced.</li><li>A negative net pay report is produced.</li></ul> Each report is initialled and dated when it is completed and reviewed. | <b>Assessment:</b><br><br><b>Design</b> ✓<br><br><b>Compliance</b> × |
|------------------|---|--|

|                                |   |
|--------------------------------|---|
| <b>Findings / Implications</b> | <p>The production of payroll exception reports is detailed in the ‘Payroll Procedure’ process note. This lists the following reports:</p> <ul style="list-style-type: none"><li>Net pay comparison report.</li><li>Net payment &gt;£5k report.</li><li>Negative net pay report.</li></ul> <p>The following pay periods were covered during our review: July, August and September 2020 for staff and PCC; and weeks 16, 20 and 24 for officers. We were supplied net pay comparison exception reports in respect of all three periods for the staff, PCC and officer payrolls reviewed and also net payment &gt;£5k reports in respect of all three periods for both PCC and police officer payrolls.</p> <p>We were not supplied with any net payment &gt;£5k reports in respect of the staff payroll. However, a review of the BACS net pay runs showed that no staff member was paid more than £5k for any of these three payroll periods.</p> <p>We were not supplied with any negative pay reports for any of the payrolls for any of the periods under review. The Payroll Business Partner advised us that payroll exception reports are only filed if an exception is reported. However, this is contrary to the Payroll Procedure process note and, in addition, the lack of a report does not give a positive assurance that no exceptions existed.</p> <p>We were further advised that the reports themselves would be stored automatically by the Oracle system and that the person processing the payroll would annotate the respective checklist to confirm it had been done.</p> <p>We reviewed the checklist entries and found:</p> |
|--------------------------------|---|

## Area: Payroll

- In respect of the staff net pay >£5k report, only the September 2020 checklist had been initialled and dated against this check, but there was no annotation to indicate whether it had been a nil return. Nothing was noted against the same check on the August checklist and the copy of the July checklist we were supplied did not include this line (page missed from the scan).
- In respect of the negative net pay checks, all nine checklists for all three periods and payrolls were initialled and dated in respect of this check, although two were not annotated to confirm there were no entries (Staff for August and Officers for week 20).

Not having such a positive assurance could give rise to the risk that an exception is not identified and investigated when required.

|                            |  |   |                             |                                |
|----------------------------|--|---|-----------------------------|--------------------------------|
| <b>Management Action 2</b> | The payroll exception reporting process will be reiterated to ensure that a 'positive assurance' statement is recorded on the relevant checklist in the event that no exceptions are reported each period for each payroll (i.e. a nil return on an exception report). | <b>Responsible Owner:</b><br>Payroll Business Partner | <b>Date:</b><br>31 May 2021 | <b>Priority:</b><br><b>Low</b> |
|----------------------------|--|---|-----------------------------|--------------------------------|

## 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.

| Area         | Control design not effective* |      | Non Compliance with controls* |      | Agreed management actions |          |          |
|--------------|-------------------------------|------|-------------------------------|------|---------------------------|----------|----------|
|              |                               |      |                               |      | Low                       | Medium   | High     |
| Payroll      | 0                             | (11) | 2                             | (11) | 2                         | 0        | 0        |
| <b>Total</b> |                               |      |                               |      | <b>2</b>                  | <b>0</b> | <b>0</b> |

\* 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.



## APPENDIX B: DATA ANALYTICS

### Analytics Findings:

The following is a summary of findings from our data analytics work which we have discussed with management. This has involved us sharing the data analytics spread sheets which detail the findings for further consideration and checking.

| Area: Duplicate employees   |   |
|-----------------------------|---|
| <b>Criteria:</b>            | Whether duplicate employee records exist on the payroll system.   |
| <b>Source Data/Reports:</b> | Obtained payroll reports for gross pay (basic and basic plus allowances) and net pay.                             |
| <b>Period Covered:</b>      | July, August and September 2020 for staff and PCC payrolls, and the equivalents for police (Weeks 16, 20 and 24). |
| <b>Testing Undertaken:</b>  | Reports reviewed to identify any potential duplicate employees.   |
| <b>Issues identified:</b>   | None found.   |
| <b>Overall Conclusion:</b>  | No further action is required.  |

| Area: Duplicate payments to employees |   |
|---------------------------------------|---|
| <b>Criteria:</b>                      | Whether duplicate payments have been made to employees via the payroll system.                                    |
| <b>Source Data/Reports:</b>           | Obtained payroll reports for gross pay (basic and basic plus allowances), net pay and BACS payments.              |
| <b>Period Covered:</b>                | July, August and September 2020 for staff and PCC payrolls, and the equivalents for police (Weeks 16, 20 and 24). |
| <b>Testing Undertaken:</b>            | Reports reviewed to identify any potential duplicate payments to employees.                                       |
| <b>Issues identified:</b>             | None found.   |
| <b>Overall Conclusion:</b>            | No further action is required.  |

#### Area: Potential “ghost” employees

|                             |  |
|-----------------------------|--|
| <b>Criteria:</b>            | To determine whether “ghost” employees exist in the payroll system.  |
| <b>Source Data/Reports:</b> | Report of all employees across all three payrolls, including National Insurance Numbers (NINOs).                       |
| <b>Period Covered:</b>      | July, August and September 2020 for staff and PCC payrolls, and the equivalents for police (Weeks 16, 20 and 24).      |
| <b>Testing Undertaken:</b>  | Cross checked the payroll reports to the National Fraud Initiative report to identify any potential “ghost employees”. |
| <b>Issues identified:</b>   | None found.  |
| <b>Overall Conclusion:</b>  | No further action is required.   |

#### Area: Large increases in basic salary amounts between months

|                             |  |
|-----------------------------|--|
| <b>Criteria:</b>            | To determine whether any large increases in basic salary amounts between months have been identified and appropriately investigated.   |
| <b>Source Data/Reports:</b> | Payroll reports with basic pay details and payroll reports including total gross pay (i.e. basic pay plus other elements such as overtime and allowances).   |
| <b>Period Covered:</b>      | July, August and September 2020 for staff and PCC payrolls, and the equivalents for police (Weeks 16, 20 and 24).  |
| <b>Testing Undertaken:</b>  | <p>Reports reviewed to identify any large differences from one payroll run to the next. Specifically, we compared, for each:</p> <ul style="list-style-type: none"><li>• For staff and PCC month 5 (August) to month 6 (September).</li><li>• For officers week 20 to week 24.</li></ul>   |
| <b>Issues identified:</b>   | <p>The data analysis indicated there were:</p> <p><b>Staff and PCC:</b></p> <ul style="list-style-type: none"><li>• Month 5-6 basic, 664 records which changed from one period to the next from an average payroll run of around 700 staff (staff and PCC), 36 of which were greater than 30% (+/-).</li><li>• Month 5 to 6 gross, 665 records which changed from one period to the next from an average payroll run of around 700 staff (staff and PCC), 47 of which were greater than 30% (+/-).</li></ul> |

## Area: Large increases in basic salary amounts between months

### Officers:

- Week 20 to 24 basic, 1,372 records which changed from one period to the next from an average payroll run of around 1,380 officers, 18 of which were greater than 30% (+/-).
- Week 20 to 24 gross, 1,372 records which changed from one period to the next from an average payroll run of around 1,380 officers, 78 of which were greater than 30% (+/-).

Review of the reports indicated that most of the changes were very small. A "Net Pay Comparison" report is run for each payroll by the Payroll team which highlights any net pay amounts which have changed by more than 30% from the previous pay period. For this reason, we selected this parameter as the cut-off point for our further investigation (although acknowledging these items relate to gross pay elements).

The Payroll Business Partner reviewed the information supplied and advised us that she had performed some spot-checking of the data and was confident that all large changes had been correctly identified during payroll run processes.

Our review of a sample of 10 items in total with changes greater than 30% (+/-) revealed:

- In all but two cases the sample item was traced to the relevant net pay >£5k report, indicating this control mechanism was working. The remaining two items had a net pay change of less than 30%.
- In all 10 cases satisfactory explanations were obtained from the Payroll Business Partner in respect of the change.

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### Overall Conclusion:

No further action is required.

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**Area: Large increases in BACS payments between months (i.e. net pay following all deductions)**

|                             |  |
|-----------------------------|--|
| <b>Criteria:</b>            | To determine whether any large increases in net pay amounts between months have been identified and appropriately investigated.  |
| <b>Source Data/Reports:</b> | BACS net pay payroll reports.  |
| <b>Period Covered:</b>      | July, August and September 2020 for staff and PCC payrolls, and the equivalents for police (Weeks 16, 20 and 24).  |
| <b>Testing Undertaken:</b>  | <p>Reports reviewed to identify any large differences from one payroll run to the next. Specifically, we compared, for each:</p> <ul style="list-style-type: none"><li>• For staff and PCC month 4 (July) to month 5 (August) and then month 5 (August) to month 6 (September).</li><li>• For officers week 16 to week 20 and then week 20 to week 24.</li></ul>   |
| <b>Issues identified:</b>   | <p>The data analysis indicated there were:</p> <p><b>Staff:</b></p> <ul style="list-style-type: none"><li>• Month 4 to month 5, 449 records which changed from one period to the next from an average payroll run of around 680 staff, 23 of which were greater than 30% (+/-).</li><li>• Month 5 to month 6, 664 records which changed from one period to the next from an average payroll run of around 680 staff, 39 of which were greater than 30% (+/-).</li></ul> <p><b>PCC:</b></p> <ul style="list-style-type: none"><li>• Month 4 to month 5, 21 records which changed from one period to the next from an average payroll run of around 36 staff, 3 of which were greater than 30% (+/-).</li><li>• Month 5 to month 6, 31 records which changed from one period to the next from an average payroll run of around 36 staff, 4 of which were greater than 30% (+/-).</li></ul> <p><b>Officers:</b></p> <ul style="list-style-type: none"><li>• Week 16 to week 20, 1,288 records which changed from one period to the next from an average payroll run of around 1,380 officers, 51 of which were greater than 30% (+/-).</li><li>• Week 20 to week 24, 1,370 records which changed from one period to the next from an average payroll run of around 1,380 officers, 76 of which were greater than 30% (+/-).</li></ul> |

#### Area: Large increases in BACS payments between months (i.e. net pay following all deductions)

Review of the reports indicated that most of the changes were very small. A “Net Pay Comparison” report is run for each payroll by the Payroll team which highlights any net pay amounts which have changed by more than 30% from the previous pay period. For this reason, we selected this parameter as the cut-off point for our further investigation.

The Payroll Business Partner reviewed the information supplied and advised us that she had performed some spot-checking of the data and was confident that all large changes had been correctly identified during payroll run processes.

Our review of a sample of 10 items in total with changes greater than 30% (+/-) revealed:

- In all 10 cases the sample item was traced to the relevant net pay >£5k report, indicating this control mechanism was working.
- In all 10 cases satisfactory explanations were obtained from the Payroll Business Partner in respect of the change.

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#### Overall Conclusion:

No further action is required.

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## APPENDIX C: SCOPE

The scope below is a copy of the original document issued.

### Scope of the review

The internal audit assignment has been scoped to provide assurance on how the organisations manage the following area:

#### Objective of the area under review

The organisation has an appropriate framework in place to ensure that staff are paid all monies due to them each month in a timely manner.

### Scope of the review

Our review will focus on the payments made to police officers, police staff and Police and Crime Commissioner staff. In particular, we will consider the following:

- Policies and procedures relating to the payroll function (starters, leavers, amendments) are in place which are subject to periodic review to ensure that they remain up to date and reflect current operating practice.
- Appropriate segregation of duties is in place between payroll, HR and finance functions to ensure payroll standing data integrity is maintained, through the use of user access rights and controls.
- Exception reports are prepared and reviewed independently prior to payment.
- An independent review of payroll (finance) is undertaken prior to processing payments.
- Payroll control accounts are reconciled to the general ledger monthly and subject to independent review.

#### New starters:

- New starters tax codes have been correctly obtained and utilised from previous employers or allocated a basic rate tax code to allow for the correct amount of tax to be deducted to HMRC.
- New starters core information including salary details have been correctly recorded.
- Other deductions (pension, salary sacrifice) are accurately captured and processed upon instructions from the employee.
- Periodic checks are undertaken on deductions to ensure that they are correctly calculated, including auto enrolment for pensions (unless opted out) / compliance with court orders.
- New starter information reconciles back to supporting information (contract / new starter form) into relation salary, start date and bank account.
- Contracts of employment are in place signed by the employee and the organisation prior to starting employment.

**Leavers:**

- Leaver forms are completed and processed in a timely manner.
- Final salary calculations are performed to ensure that all entitlements (holiday pay) are captured and paid correctly.

**Amendments:**

- Amendments (annual uplifts / change in bank details / maternity / paternity / sick leave) to payroll standing data are subject to appropriate review and authorisation prior to processing.

**IDEA:**

We will use our data analytics tool, IDEA, to scrutinise the organisation's payroll data and in particular focus on the following areas for further explanation / testing:

- Duplicate employees.
- Duplicate payments have not been made to employees.
- Ghost employees are not present in the payroll system, including review of the validity of National Insurance Numbers (NINOs).
- Identify any large increases in basic salary payments between months.
- Identify any large increases in BACS payments between months (i.e. net pay following all deductions).

**The following limitations apply to the scope of our work:**

- We will only consider permanent staff paid through the payroll.
- We will not consider overtime, expenses or honorarium payments made to staff.
- We will not consider the appropriateness of payments made to staff, only that these are the correct amounts due to them.
- The audit will not include an evaluation of PAYE or NI.
- We will not provide assurance over the accuracy of submissions to the payroll team such as time-sheets and sickness documentation only that these have been processed by payroll correctly.
- We will not provide assurance that the payroll payments have been made into the correct employees' bank accounts.

- Testing will be completed on a sample basis from transactions within the current financial year.
- All tests run using our IDEA software package will be dependent on the quality of reports extracted from the payroll system,
- Our work does not provide any guarantee against material errors, loss or fraud, or provide an absolute assurance that material error; loss or fraud does not exist.

**Debrief held** 12 March 2021  
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**Final report issued** 12 May 2021

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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.

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