

## Board of Management Audit & Assurance Committee

<b>Date of Meeting</b>	<b>Thursday 14 March 2024</b>
<b>Paper No.</b>	<b>AAC3-J</b>
<b>Agenda Item</b>	<b>5.3.5</b>
<b>Subject of Paper</b>	<b>Internal Audit Report – Payroll</b>
<b>FOISA Status</b>	<b>Disclosable</b>
<b>Primary Contact</b>	<b>Henderson Loggie</b>
<b>Date of production</b>	<b>11 March 2024</b>
<b>Action</b>	<b>For Discussion and Decision</b>

### 1. Recommendations

The Committee is asked to consider and discuss the report and the management responses to the internal audit recommendations.

## 2. Purpose of report

The purpose of this review is to provide management and the Audit and Assurance Committee with assurance on key controls relating to the curriculum and financial plans in place for City of Glasgow College and their alignment with the regional plan for Glasgow and the college student number targets.

## 3. Key Insights

This internal audit of Payroll provides an outline of the objectives, scope, findings and graded recommendations as appropriate, together with management responses. This constitutes an action plan for improvement.

The Report includes a number of audit findings which are assessed and graded to denote the overall level of assurance that can be taken from the Report. The 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.

## 4. Impact and implications

Refer to internal audit report.

## Appendix – Internal Audit Report – Payroll

# City of Glasgow College

## Payroll

**Internal Audit report No:** 2024/07

**Draft issued:** 1 March 2024

**2<sup>nd</sup> Draft issued:** 8 March 2024

**Final issued:** 11 March 2024



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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:

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

### Action Grades

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



# Management Summary

## Overall Level of Assurance

<b>Good</b>	System meets control objectives.
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## Risk Assessment

This review focused on the controls in place to mitigate the following risk on the City of Glasgow College ('the College') Strategic Risk Register:

- SR10 Failure to attract, engage and retain suitable staff (risk score: 20, high)

## Background

As part of the Internal Audit programme at the College for 2023/24, we carried out a review of the College's payroll arrangements. The Audit Needs Assessment identified this as an area where risk can arise and where Internal Audit can assist in providing assurances to the Board of Management and the Principal 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 and HR team, both of which are overseen by the Vice Principal People and Corporate Support. They are supported by members of Finance staff as part of the month end process and payment.

The College uses iTrent, a fully integrated HR and Payroll system, for management of employee information. Access to the system is segregated between the HR and Payroll staff.

The College processes three different payrolls:

- Monthly payroll for academic staff,
- Monthly payroll for support staff,
- Four-weekly payroll for support staff.



### Scope, Objectives and Overall Findings

This audit considered the key internal controls in place over the College's spend on staff costs of approximately £63m per annum (for the financial year ending 31 July 2022). Our audit covered the procedures in place within both the Human Resources and Payroll teams.

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

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

### Audit Approach

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

Compliance testing has been carried out to ensure that the controls in place are operating effectively, concentrating on starters, leavers and variations to pay and staff expenses payments.



### Summary of Main Findings

#### **Strengths**

- The College's Financial Regulations and Payroll Procedures clearly define roles and responsibilities for the College's payroll process and provide comprehensive practical guidance for staff;
- The College utilises an integrated HR and Payroll system – iTrent - which is segregated between HR and Payroll staff;
- Sample testing verified that gross pay and deductions had been correctly calculated, with salaries, rates and non-statutory deductions agreed to the relevant source documentation, with one exception noted (refer to **Points to Note**);
- Payments to part time staff who work variable hours and staff claiming overtime are made on the basis of timesheets which are appropriately signed and dated by the employee submitting them, verified by the appropriate Curriculum Head / Manager and finally authorised for payment by the appropriate Associate Dean / Director. The timesheets are also reviewed by the payroll department prior to being processed for payment. Sample testing confirmed that this process operated in all cases tested with correct payments made and no issues noted;
- Staff expense claims are made using standardised forms and receipts must be attached for all expenditure reported. The forms are signed and authorised, as well as reviewed by the Payroll or Finance department (for petty cash) prior to being processed for payment. Sample testing confirmed that this process operated in all cases with correct payments made and no issues noted;
- Changes to employee standing data are made through a self-service portal, allowing staff members to make changes to key information as required. The amendments are independently confirmed with the employees by payroll staff and all changes are reviewed as part of preparing the payroll for payment. Sample testing noted no issues in regard to the process;
- HR is responsible for ensuring that all new appointments are accurately notified to the payroll department, and they utilise a New Starter Payroll form which is prepared, checked, and authorised by three separate staff members, before being sent to the payroll department for processing on the iTrent system. Payroll review the information and annotate the form with calculations of the employee's first pay. Sample testing noted that the relevant supporting documentation was in place and agreed to the data on the iTrent system;
- For leavers, a Termination Form is prepared, checked, and authorised by three separate HR staff members, and is then forwarded to Payroll for processing.
- The employee's termination date is set on iTrent by HR and checked by Payroll to ensure accuracy. The Termination Form is annotated with a calculation of the employee's last pay, ensuring that all relevant pay elements have been captured.
- Our sample testing confirmed that the relevant supporting documentation was in place, that calculations of last payroll were accurate, and that the actual termination date agreed to the information recorded on the iTrent system;
- Comprehensive exception and variance reports are utilised when preparing each payroll. These are reviewed and any anomalies identified are investigated by the Payroll Manager; and
- Sample testing confirmed that there was appropriate checking and authorisation of payroll-related payments, which ensured adequate segregation of duties.

#### **Points to Note**

- We noted that for one staff member sampled, the relevant source documentation for their credit union deductions was unable to be located. This is because the deductions have been in place for an extended period of time and the latest amendment impacting them occurred in 2014. We confirmed that is an isolated case and therefore no specific recommendation has been raised in relation to this point, although we note that it would be good practice to introduce annual checks on all non-statutory payroll deductions to ensure that they are made accurately in line with any supporting documentation.



**Acknowledgments**

We would like to take this opportunity to thank the Payroll Manager and the other 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 College's Financial Regulations and Payroll Procedures provide practical guidance on the College's policies in relation to financial controls over payroll. They clearly outline the roles and responsibilities of staff members involved in the payroll process and document the arrangements in place to ensure effective and efficient operation of it. We noted that the Payroll Procedures were up to date, with the most recent review in in January 2024.

We selected a sample of 15 employees from the College's payroll and performed recalculations of their statutory PAYE and NI deductions, employee pension deductions, and other non-statutory deductions to ensure that they were accurate. For the non-statutory deductions, we also matched these back to the relevant source documentation. Finally, we verified the employees' annual salary rates as recorded on the integrated HR and Payroll system (iTrent) and agreed these values to the gross pay for the months sampled.

We noted that for one staff member sampled, their non-statutory credit union deductions could not be tracked back to the relevant source documentation, as it was unable to be located. This is because the deductions have been in place for an extended period and the latest amendment impacting on this deduction occurred in 2014. The deductions at their current level have been made and forwarded to the credit union since 2014 and neither the credit union nor the employee have queried the payments made. We confirmed that is an isolated case and therefore no specific recommendation has been raised in relation to this point, although we note that it would be good practice to introduce annual checks on all non-statutory payroll deductions to ensure that they are made accurately in line with any supporting documentation.



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

The College's staff members are automatically opted into the appropriate pension scheme as follows:

- Local Government Pension Scheme ('LGPS') for support staff
- Scottish Public Pensions Agency ('SPPA') for academic staff

Any employees wishing to opt out of contributing to their pension can contact HR.

For the sample of 15 employees selected, we recalculated the corresponding employer NI and Pension contributions and compared the results to the actual deductions made, as recorded in the payroll records held, in order to ensure that they were accurate. We noted no issues during our testing.



### Objective 3 - Part-time lecturers, overtime and staff expenses payments are properly authorised

Staff members who work variable contracted hours, or employees working hours in excess of the hours set out in their contract of employment, are required to submit timesheets in order for these hours to be paid. The part time lecturers' timesheets are completed monthly and are utilised to record the class contact hours, as well as any non-class contact hours, with the additional preparation time being automatically calculated by the payroll department. The timesheets are signed and dated by the employee submitting them, the appropriate Curriculum Head who verifies the hours, and finally the appropriate Associate Dean who authorises them for payment. Afterwards, these are issued to the payroll department's e-mail inbox. The form provides guidance on how the timesheet should be completed and submitted for verification. The timesheets utilised by other staff members such as exam invigilators differ slightly and require a single authorisation.

Overtime timesheets require the employee to detail the day, date, start and finish times for each instance of overtime worked and describe the reasons for it. The claim form is then signed by the employee and passed on to their Line Manager or Authorising Officer for approval. Once the form is received by the payroll department, it is determined which hours worked are eligible for which rate of overtime (i.e. plain time, time and a half, or double time) and the total to be paid within the next payroll is calculated.

We selected a sample of eight employees who were paid for additional hours worked and seven employees who were paid for overtime. We confirmed that each payment was supported by an appropriately completed and authorised claim, and that the hourly rates used to calculate the payments and totals paid out according to the payroll system were accurate. We noted no issues during our testing.

For travel and subsistence expenses other than mileage, staff members are required to complete the appropriate form detailing the date that they have incurred the expenditure, description of it, and the amount. The forms are signed and dated by the claimant as well as an Authorising Officer, and if over a certain value (i.e. £200) they also need to be signed by an Executive. The claims can be paid by BACS or through petty cash, and advance payments can be issued for trips where required, with a Record of Expenditure completed upon the employee's return and submitted to payroll within 14 days. For all staff expense claims, receipts are required to be provided as evidence of the reported expenditure.

For mileage expenses, the staff complete an appropriate form detailing the date of travel, departure and return times, details of any journeys including the starting and finishing points, passengers carried etc, and the miles travelled. The vehicle's registration number, engine capacity, and make should also be noted. The claimant then signs and dates the form, passes it onto their Head of Department for authorisation, and the form is then sent to the payroll department for processing. The miles travelled are multiplied by the HMRC-approved mileage rates and the total to be paid to the employee is calculated. Mileage claims are paid through payroll.

We reviewed a sample of nine travel and subsistence payments and six mileage payments, and confirmed that a valid and appropriately authorised expense form was in place for each. We verified that details of the travel were shown, the expenditures were supported by receipts or confirmations of payment where applicable, and the amounts reimbursed to the employees agreed to supporting documentation. We noted no issues during our testing.

Both Timesheets and Travel Expense claim forms are checked, calculated, and input directly onto the iTrent system by a Payroll Officer. They are then double-checked by another Payroll Officer prior to being processed for payment.



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

Staff members have the facility to change their own personal details, including bank details, through iTrent's self-service portal. A background workflow automatically issues a notification to the payroll enquiries e-mail inbox if any employee amends their own standing data. A payroll colleague then contacts the employee to confirm that the change made was genuine. This is normally done using their College e-mail address but may also be completed through a phone call.

There is a list of valid sort codes built into iTrent. If an employee attempted to change their sort code to one that is not included on the list, then they would not be able to do so and would need to contact Payroll staff in order to confirm that the code is bona fide.

The Payroll Manager performs a check over all bank detail changes as an integral part of the processing of the four-weekly and monthly payrolls. This involves verifying that all changes have been confirmed with the individual employees. The bank details for each payee included in the payroll are also compared to the prior period's data and, where differences are identified, it is ensured that the checks described above were carried out. Any confirmed changes to employee bank details are highlighted to the accounts team when the payroll BACS file is sent to them for processing.

We tested a sample of 5 changes made to employee standing data on iTrent between February and December 2024 and verified that these were independently confirmed with the relevant staff members by a member of the payroll team.



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

HR is responsible for ensuring that all new appointments are accurately notified to the payroll department, and they utilise a New Starter Payroll form for this purpose. It contains the starter's personal details including bank details as well as salary, hours of work, pension enrolment arrangements, and any comments. The form is prepared, checked, and authorised by three separate staff members, demonstrating segregation of duties, before being sent to the payroll department for processing onto the iTrent system. Any omissions or errors are investigated by the Payroll Officers and/or the Payroll Manager. The form is also annotated with a calculation of the employee's first month's pay.

We selected a sample of 5 recent starters and verified that a copy of an appointment letter was held in place containing all the necessary details. We ensured that an HMRC Starter Checklist and a New Starter Payroll form exists which was prepared, checked, and authorised by the appropriate employees. We also reviewed whether checks have been carried out over the employee's Right to Work. Finally, we confirmed whether details shown on each form agree to the record created on the payroll system and that the employee's first pay had been calculated correctly in relation to the start date by reviewing their first payslip. We noted no issues during our testing.

For leavers, a Termination Form is prepared, checked, and authorised by three separate HR staff members, and forwarded to Payroll for processing. The employee's termination date is set on iTrent by HR and checked by Payroll to ensure accuracy. The Termination Form is annotated with a calculation of the employee's last pay, ensuring that all relevant pay elements have been captured. Payroll should be notified of any terminations by the appropriate cut-off dates in order to avoid any overpayments of salary – otherwise, the leavers should be communicated to the Payroll Manager to be processed as soon as possible. P45's are produced automatically by the iTrent system.

We tested a sample of 5 recent leavers and examined whether a letter of resignation or other supporting documentation was available in each case, the leaver's notification operated effectively, and a Termination Form was prepared, checked, and authorised by the appropriate employees. We verified that a calculation for outstanding deductions was completed, and that the termination date shown on leaver's documentation agrees with the leaving date recorded on the payroll system. Finally, we reviewed a copy of the employee's last payslip to confirm that all pay ceased on their last day of service, any outstanding financial sums were deducted, and gross pay has been correctly calculated in relation to their leaving date. We noted no issues during our testing.



### Objective 6 - Proper authorisation, processing and recording of payments

Prior to the payroll runs being processed for payments, timesheets, travel expense claim forms, and other additional payments are checked to ensure that they have the correct authorisations. The amounts to be paid out are calculated and input onto iTrent by a Payroll Officer and double-checked by another Payroll Officer within the team. The Absence Calculation Report is run for each type of absence together with the Employees by Element Report and checked by a Payroll Officer.

Various check reports are generated as part of the payroll calculations, including:

- HMRC Data Quality Report
- Errors & Warnings
- Element Difference Report for all permanent elements
- Net Pay Difference Report
- Element Difference Reports for employee and employer pension contributions
- Element Difference Report for tax differences

These reports are reviewed and compared to the previous pay period to verify any movements in pay. Any anomalies are investigated by a Payroll Officer, and any differences that remain unaccounted for are reported to the Payroll Manager.

Once the above checks are completed and the payroll run is prepared, a Payroll Officer checks the following final reports:

- Cumulative Adjustments
- Payroll Differences – Reconciliation
- Net Pay Reconciliation
- Payment Method Analysis
- Payment Reconciliation
- Year to Date Reconciliation

Once the reports are reviewed and the payroll run is fully reconciled, a Payroll Officer generates the Net Pay BACS file and relevant third party reports, completes the payroll checklist form and passes these on to the Payroll Manager who reviews them, posts the payslips online to the employee self-service portal on iTrent and sends the BACS files to the Head of Finance, Finance Manager, Management Accountant and Assistant Accountants for checking and processing for payment. Finally, the Head of Finance authorises the BACS report and the payments are issued.

We tested a sample of six payroll payments to ensure that the payroll payment runs were fully checked, reconciled, and approved, and that segregation of duties was demonstrating in the processing of payroll for payment. We noted no issues during our testing.



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