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## Information Commissioner's Office

Internal Audit 2013-14: Payroll and Pensions review

Last updated 11 February 2014

Distribution		Timetable	
For action	Director of Corporate Services	Fieldwork completed	24 January 2014
For information	Head of Organisational Development	Draft report issued	7 February 2014
For information	Audit Committee	Management comments	7 February 2014
		Final report issued	11 February 2014

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It is the responsibility solely of the ICO management to ensure that there are adequate arrangements in place in relation to risk management, governance and control.

# 1 Executive Summary

## 1.1 Background

The ICO outsources its payroll function to Capita, who have recently relocated the delivery of Capita payroll services, resulting in a new set of staff being responsible for processing the ICO's payroll.

Given these changes, it was agreed that the review of HR and staff development included in the 2013-14 Internal Audit plan would be changed to a review of the ICO's payroll and pensions controls, focussing particularly on set up of and amendments to core data, as well as the level of management information available.

Payroll expenditure is around £12 million per annum, representing around 60% of the ICO's total expenditure. The ICO is considering a move towards online payslips, however this is currently only in the early stages of consideration internally, and at present no discussions have been held with Capita.

## 1.2 Scope

Our review involved an assessment of the following risks:

### Payroll

- The ICO may not have robust controls (including appropriate segregation of duties and authorisations) in place and operating regarding adding, amending or removing staff from the payroll;
- Controls may not include appropriate arrangements to check changes to standing data or flexible amounts prior to their communication to Capita for processing or reconciliation of changes made once processed; and
- The ICO may not have appropriate arrangements to monitor the payroll.

### Pensions

- The ICO may not have robust controls in place and operating regarding the enrolment of staff pension schemes and the application of selections to the payroll; and
- Amendments to pension scheme selections (including leavers), and any impact on payroll deductions may not be applied correctly.

Further details on responsibilities, approach and scope are included in Appendix A.

## 1.3 Overall assessment

We have made an overall assessment of our findings as:

Overall assessment	
We have identified matters which, if resolved, will help management fulfil their responsibility to maintain a robust system of internal control.	Green

Please refer to appendix B for further information regarding our overall assessment and audit finding ratings.

## 1.4 Key findings

Risk / Process	High	Medium	Low	Imp
Amending staff on the payroll	-	-	-	-
Changes to payroll standing data	-	1	-	-
Monitoring the payroll	-	-	1	-
Enrolment of staff pension schemes	-	-	-	-
Amending pension scheme selections	-	-	-	-
<b>Total</b>	-	<b>1</b>	<b>1</b>	-

The following finding was rated as medium priority:

- At present there are no exception reports provided by Capita to highlight changes made to bank details. Though there are mitigating controls in place to prevent the addition of a fake employee with fraudulent bank details, review of an exception report if changes to bank details would provide the ICO with greater assurance that only legitimate changes have been made.

Further details of our findings and recommendations are provided in Section 2.

### 1.5 Basis of preparation

Whilst we report by exception, we draw attention to the following matters in addition to the issues raised within the findings section of this report.

#### Payroll

The ICO does not have access to the Capita payroll system. A payroll workbook (an excel spreadsheet) is used by the ICO to record all required changes to the monthly payroll, and these are subsequently processed by Capita.

As part of our review we completed sample testing of starters, leavers, pay amendments and changes to standing data to confirm that all changes had appropriate supporting documentation, had been recorded in the payroll workbook and had subsequently been processed by Capita per the relevant monthly payslips. We reviewed monthly and individual pay files for all amendments in the sample, covering payrolls from April to December 2013. We identify the key controls below:

- Changes to payroll standing data are required directly from the member of staff themselves. This can be either via an email from the staff member's secure ICO email account or via a signed paper form delivered in person to HR.
- The Head of Organisational Development reviews and approves additions to the monthly payroll workbook. It is then sent to Capita for processing, together with copies of documentation to support the changes requested. As part of processing the changes, Capita are relied

upon to only make changes per the workbook that are accompanied by accurate supporting documentation.

- On return of the first run of the payroll, all changes requested per the workbook are checked to processed payslips for accuracy by the Head of Organisational Development.
- Following authorisation of the final payroll by the Head of Organisational Development, the Head of Finance reviews the payroll before approving the total payment amount for release to Capita. This involves confirming that all staff payments agree to known starters and leavers, and reviewing and investigating variances on an individual basis.
- The payroll is compared to budget on a monthly basis by the Head of Finance, and reported on to Management Team in the monthly finance reports.

#### Pensions

As members of the Civil Service, ICO employees join a Civil Service pension scheme which differs depending on their employment history. Standard Civil Service pensions selection forms and guidance are provided to staff on joining the ICO, to either explain the options for a first-time joiner or identify the relevant scheme for a new starter with an historic Civil Service pension.

- Pensions selections for new starters are recorded by the staff member on the Civil Service selection form, documented in the payroll workbook by HR, and are subsequently checked to payslips by the Head of Organisational Development following processing by Capita. The same checks are completed where a request to change pensions scheme is made. For the sample of new starters we confirmed that the pension scheme identified in the pensions questionnaire had been correctly recorded on the payroll workbook and subsequently processed per the payslip. A sample of pensions amendments were included in our testing of pay amendments.

- Where a member of staff leaves, the ICO is required to inform My CSP, an external Civil Service pensions function, who will take the relevant next steps with the member of staff. For the sample of leavers, we confirmed that a notification of the leaver had been sent to My CSP in all instances.

### **1.6 Elsewhere in the sector**

We detail below other ways of working and commonly occurring issues that we have experienced during similar types of reviews for other public bodies. The following does not necessarily purport to be good practice but is included for your information and consideration.

- Where possible, other organisations have one member of HR who deals with the completion of new starter or leaver paperwork, and a separate member of staff who enters the details into the payroll system, giving additional segregation of duties.

### **1.7 Acknowledgement**

We would like to take this opportunity to thank the staff involved for their co-operation during this internal audit.

## 2 Detailed Findings

### 2.1 Controls may not include appropriate arrangements to check changes to payroll standing data or flexible payments to staff prior to their communication to Capita for processing, or reconciliation of changes made once processes

1.	Medium	Changes to staff bank details
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Finding and Implication	Proposed action	Agreed action ( <i>Date / Ownership</i> )
<p>There are exception reports produced by Capita which highlight changes made to the payroll in the month (including and staff added), however there is not an exception report for changes to bank details. Therefore while the Head of Organisational Development is able to confirm that all changes requested in the workbook have been made, it is not possible to identify any unauthorised changes made.</p> <p>This risk may be mitigated by the fact that exception reports identify any new staff added, and therefore the only unauthorised bank detail changes that could be made are to change those of a legitimate staff member.</p> <p>The availability of an exception report highlighting changes to bank details however would provide additional assurance over the risk of any illegitimate or fraudulent changes to bank details being made.</p>	<p>The ICO should investigate with Capita the possibility of obtaining an exception report on bank detail changes.</p> <p>If this is possible, it should be used by the Head of Organisational Development to review bank details changes prior to authorisation of the final payroll.</p>	<p><i>Agreed action</i></p> <p><i>Capita payroll have been asked to produce a monthly report of changed bank details.</i></p> <p><i>Date Effective:</i></p> <p><i>February 2014</i></p> <p><i>Owner:</i></p> <p><i>Mike Collins</i></p>

**2.2 The ICO may not have appropriate arrangements to monitor the payroll**

<b>2.</b>	<b>Low</b>	<b>Documenting the payroll approval process</b>
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Finding and Implication	Proposed action	Agreed action ( <i>Date / Ownership</i> )
<p>Monthly payroll amendments are added to the payroll workbook by HR staff. Checks to supporting documentation are completed by the Head of Organisational Development prior to sending the workbook to Capita for processing, and further checks are made on the accuracy and completeness of processed data before the final payroll is authorised.</p> <p>This process is not documented however, nor are the various checks formally signed off as completed. The only documentary evidence of these checks is in the form of amendments returned to Capita after review of the processed payroll. Should there be no further processing required however, then there is no evidence that the monthly checks have been undertaken.</p> <p>Through our testing of additions and amendments to monthly payrolls, we found no issues with the accuracy of added or changed data. Further, we were able to evidence that where further processing had been required by Capita, that such additional work had been identified by Head of Organisational Development as a result of his checks.</p> <p>Without having a clearly documented payroll process, there is a risk that should the Head of Organisational Development be unavailable, key checks of the accuracy of the payroll may not be completed, resulting in incorrect or inappropriate payments made by the ICO. Further, a lack of formal sign off to evidence completion of these checks increases the risk of them not being completed, or not being completed in full.</p>	<p>The ICO should produce a monthly payroll checklist, which documents the key stages in the payroll approval process and the required checks to be undertaken.</p> <p>This should be signed and dated for each relevant stage of the process, and filed with the monthly pay file as evidence of the checks completed.</p>	<p><i>Agreed action</i></p> <p><i>A checklist for the manual payfile has been produced. This details the checks required and actions needed along with confirmation of who has completed them.</i></p> <p><i>Date Effective:</i></p> <p><i>February 2014</i></p> <p><i>Owner:</i></p> <p><i>Mike Collins</i></p>

## A Internal audit approach

### Approach

Our role as internal auditor to a Public Body is to provide an independent and objective opinion to the Accounting Officer on risk management, control and governance processes, by measuring and evaluating their effectiveness in achieving the organisation's agreed strategic objectives.

Our audit was carried out in accordance with the guidance contained within the Government's Internal Audit Standards (2013) and the Auditing Practices Board's 'Guidance for Internal Auditors'. We also had regard to the Institute of Internal Auditors' guidance on risk based internal auditing (2005). In addition, we comply in all material respects with other Government guidance applicable to Public Bodies and have had regard to the HM Treasury guidelines on effective risk management (the 'Orange Book').

As part of our 2013-14 Audit Plan, we agreed with the Audit Committee and management that we should carry out a review of the ICO's arrangements for managing credit and debit card payments in ICE, to further inform our ongoing understanding of the ICO's key internal control activities.

Our aim in completing this audit was to ensure that the ICO has appropriate arrangements in place to identify, manage and report on risk.

We achieved our audit objectives by:

- Walking through both the payroll and pensions processes to gain an understanding of the arrangements in place;
- Reviewing key process documents that support the arrangements in place;
- Testing a sample of specific processes, including payroll starters, leavers, amendments and pensions starters, leavers and amendments to assess their operation;
- Reviewing the payroll and pensions management information available, as well as any checks carried out on its completeness and accuracy.

The findings and conclusions from this review will support our annual opinion to the Audit Committee on the adequacy and effectiveness of internal control arrangements.

### Responsibilities

The Information Commissioner acts through his Board of Management and the Information Commissioner's Office ("ICO") discharges his obligations. Therefore references to the Information Commissioner and the ICO in this report relate to one and the same party.

It is the responsibility of the Information Commissioner to ensure that the ICO has adequate and effective risk management, control and governance processes.

HM Treasury's Corporate Governance in Central Government Departments (2011) states that boards of Public Bodies should determine the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board should therefore maintain sound risk management and internal control systems and should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the organisation's auditors.

Please refer to our letter of engagement for full details of responsibilities and other terms and conditions.

## Scope

Our review involved an assessment of the following risks:

### Payroll

- The ICO may not have robust controls (including appropriate segregation of duties and authorisations) in place and operating regarding adding, amending or removing staff from the payroll leading to inappropriate payments or failure to pay the correct amount due to staff;
- Controls may not include appropriate arrangements to check changes to standing data or flexible amounts prior to their communication to Capita for processing or reconciliation of changes made once processed, leading to an incomplete or inaccurate payroll; and
- The ICO may not have appropriate arrangements to monitor the payroll, resulting in movements in the monthly payroll not being identified and validated or remediated as appropriate.

### Pensions

- The ICO may not have robust controls in place and operating regarding the enrolment of staff pension schemes and the application of selections to the payroll leading to the unidentified enrolment of

staff into inappropriate schemes and/or incorrect deductions being taken from their pay; and

- Amendments to pension scheme selections (including leavers), and any impact on payroll deductions may not be applied correctly, resulting in inappropriate scheme selection and/or incorrect deductions being taken from their pay.

## Additional information

### Client staff

The following staff were consulted as part of this review:

- Michael Collins, Head of Organisational Development
- Andrew Cryer, Head of Finance
- Richard Norman, Finance Manager

### Documents received

The following documents were received during the course of this audit:

- Access to view and physically verify evidence in 2013-14 monthly pay files and payroll workbooks was provided during the course of the audit. No copies of staff payroll information were taken.

### Locations

The following locations were visited during the course of this review:

- The Information Commissioner's Office, Wilmslow



## B Overall assessment and audit issues ratings

### Overall assessment

Rating	Description
<b>Red</b>	Following agreement of the nature and significance of individual issues with management, in our view this report contains matters which should be raised with Senior Management and the Audit Committee at the earliest opportunity.
<b>Amber</b>	Following agreement of the nature and significance of individual issues with management, in our view this report contains matters which require the attention of management to resolve and report on progress in line with current follow up processes.
<b>Green</b>	We have identified matters which, if resolved, will help management fulfil their responsibility to maintain a robust system of internal control.

### Audit issue rating

Within each report, every audit issue is given a rating. This is summarised in the table below.

Rating	Description	Features
<b>High</b>	Findings that are fundamental to the management of risk in the business area, representing a weakness in control that requires the immediate attention of management	<ul style="list-style-type: none"> <li>• Key control not designed or operating effectively</li> <li>• Potential for fraud identified</li> <li>• Non compliance with key procedures / standards</li> <li>• Non compliance with regulation</li> </ul>
<b>Medium</b>	Important findings that are to be resolved by line management.	<ul style="list-style-type: none"> <li>• Impact is contained within the department and compensating controls would detect errors</li> <li>• Possibility for fraud exists</li> <li>• Control failures identified but not in key controls</li> <li>• Non compliance with procedures / standards (but not resulting in key control failure)</li> </ul>
<b>Low</b>	Findings that identify non-compliance with established procedures.	<ul style="list-style-type: none"> <li>• Minor control weakness</li> <li>• Minor non compliance with procedures / standards</li> </ul>
<b>Improvement</b>	Items requiring no action but which may be of interest to management or best practice advice	<ul style="list-style-type: none"> <li>• Information for department management</li> <li>• Control operating but not necessarily in accordance with best practice</li> </ul>



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