

Internal audit report

Date: May 15, 2023

To: The Board of Directors

From: Internal Audit Manager

Subject: Internal Audit Report on Payroll System

Executive Summary

This internal audit report provides an assessment of the payroll system at [Name of British Local Council]. The objective of the audit was to evaluate the effectiveness, efficiency, and compliance of the payroll system, ensuring accurate and timely payment to employees. The audit covered the period from January 1, 2023, to April 30, 2023. Overall, the payroll system is functioning well, but certain areas require attention and improvement to enhance controls and mitigate risks.

Scope and Methodology

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. The methodology included interviews with key personnel, documentation review, and transactional testing. The scope of the audit covered the payroll process, including data input, processing, and reporting.

Findings

3.1. Payroll Data Accuracy

Finding: The audit identified instances of data inaccuracies within the payroll system. This includes errors in employee information, such as incorrect pay rates, tax codes, and employee status.

Recommendation: The Human Resources department should strengthen its data validation processes, including implementing system controls and periodic data reconciliations. Additionally, regular training should be provided to staff involved in data entry to ensure accurate and up-to-date employee information.

3.2. Segregation of Duties

Finding: The audit found instances where segregation of duties was not adequately maintained in the payroll system. Certain personnel had the ability to initiate, process, and authorize payroll transactions, which increases the risk of fraudulent activities and unauthorized changes.

Recommendation: The Council should review and enhance the payroll system's user access controls to ensure that segregation of duties is maintained. This can be achieved by limiting access rights and introducing dual authorization for critical payroll transactions.

3.3. Payroll Processing Controls

Finding: The audit identified weaknesses in the controls surrounding payroll processing. There were instances where payroll transactions were processed without appropriate management approvals, leading to the potential for unauthorized or incorrect payments.

Recommendation: The Council should establish a robust payroll approval process, requiring proper authorization at each stage of the payroll cycle. This includes implementing automated controls within the system that prevent payroll processing without appropriate approvals.

3.4. Payroll Tax Compliance

Finding: The audit revealed instances of non-compliance with payroll tax regulations. This included late filing and remittance of payroll taxes, resulting in potential penalties and interest charges.

Recommendation: The Finance department should establish a payroll tax compliance calendar, ensuring timely filing and remittance of payroll taxes. Regular monitoring and reconciliation of payroll tax records should be conducted to identify and rectify any discrepancies promptly.

3.5. Payroll Reconciliation

Finding: The audit identified discrepancies between the payroll system and the general ledger. The reconciliation process between payroll records and financial statements was not performed consistently or timely.

Recommendation: The Finance department should establish a robust reconciliation process that includes periodic reconciliations between the payroll

system and general ledger. This will help identify and resolve any discrepancies, ensuring the accuracy and integrity of financial reporting.

Conclusion

Overall, the payroll system at [Name of British Local Council] is functioning well, but certain areas require attention and improvement to enhance controls and mitigate risks. The audit identified weaknesses in data accuracy, segregation of duties, payroll processing controls, payroll tax compliance, and payroll reconciliation. Implementing the recommended actions will strengthen the payroll system's effectiveness, efficiency, and compliance, resulting in accurate and timely payments to employees.

Management Response

Management has reviewed the findings and recommendations outlined in this report. They agree with the observations and have committed to implementing the recommended actions. A detailed action plan has been developed to address each finding, and responsible individuals have been assigned to ensure timely implementation. The anticipated completion dates for each action are as follows:

3.1. Payroll Data Accuracy:

Strengthen data validation processes: Implementation within 30 days.

System controls and periodic data reconciliations: Implementation within 60 days.

Regular training for staff involved in data entry: Implementation within 30 days.

3.2. Segregation of Duties:

Review and enhance user access controls: Implementation within 45 days.

Introduce dual authorization for critical payroll transactions: Implementation within 60 days.

3.3. Payroll Processing Controls:

Establish a robust payroll approval process: Implementation within 30 days.

Implement automated controls within the system: Implementation within 60 days.

3.4. Payroll Tax Compliance:

Establish a payroll tax compliance calendar: Implementation within 30 days.

Regular monitoring and reconciliation of payroll tax records: Ongoing process.

3.5. Payroll Reconciliation:

Establish a robust reconciliation process: Implementation within 45 days.

Perform periodic reconciliations between payroll system and general ledger: Ongoing process.

Management acknowledges the importance of maintaining an effective payroll system and is committed to ensuring the necessary resources and support are provided to implement the recommended actions. Regular progress updates will be provided to the Internal Audit department, and any challenges encountered during the implementation process will be promptly communicated.

Conclusion

In conclusion, the audit of the payroll system at [Name of British Local Council] has identified areas that require attention and improvement to enhance controls and mitigate risks. The management response demonstrates a commitment to addressing the findings and implementing the recommended actions. By implementing these actions, the Council will strengthen the payroll system's effectiveness, efficiency, and compliance, ensuring accurate and timely payments to employees. The Internal Audit department will continue to monitor the progress of the action plan and provide support as needed to ensure the successful implementation of the recommended improvements.

Acknowledgments

The Internal Audit department would like to express its gratitude to the personnel from various departments who provided assistance and cooperation during the audit process. Their valuable insights and cooperation greatly contributed to the completion of this internal audit report.

Internal Audit Manager:

[Your Name]

[Your Designation]

[Date]