

Date	24 th November 2016
To:	OCC / HCC Senior Sponsors
From:	Gary Westbrook
Title:	Review of OCC Payroll Configuration – Terms of Reference

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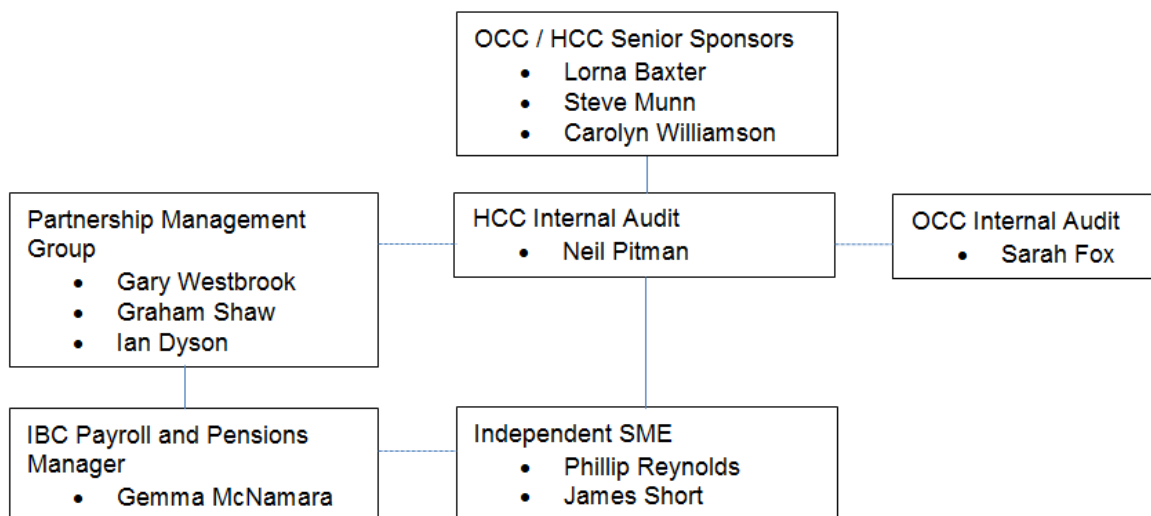
1 Introduction and Context

- 1.1. Oxfordshire County Council (OCC) on-boarded to the Integrated Business Centre (IBC) operating model in July 2015. The payroll operating model is underpinned by the design and build of a SAP payroll solution, including a full fit gap analysis, data validation and sign off and User Acceptance Testing (UAT) of payroll outputs through programme governance channels.
- 1.2. In October 2016, 2 issues were formally raised by OCC colleagues through formalised governance channels, following a letter from the Pension Fund Administrators to OCC's Director of HR:
 - During a 3 month cutover period following on-boarding, LGPS pension scheme members on maternity leave required a corrective adjustment to record an accurate Assumed Pensionable Pay (APP) figure. An adjustment was made in July 2015, but the remaining time limited adjustments were not made. This is not deemed to be a payroll configuration issue, but the failure to implement a number of time-limited manual adjustments in the 3 month period following on-boarding.
 - Anomalies were identified in the LGPS Career Average Revalued Earnings (CARE) scheme due to an incorrect APP figure being calculated and reported for half day absences. This appears to be due to the payroll system not being configured to accommodate half day absence from a pensions perspective.
- 1.3. An issue has also been identified relating to National Insurance employer contributions for Apprentices under the age of 25 not being implemented at the beginning of the financial year. This was not a formally recorded decision in either HCC or OCC.
- 1.4. An automated monthly data file (MARS) to OCC's LGPS Pension Fund Administrators was released in July 2016 following extensive UAT by the IBC, OCC as an employer and the Pension Fund Administrators. Issues have been identified following the release of the MARS date file, primarily associated with formatting. Standardised format validation checks were introduced in October 2016.

- 1.5. In October 2016, the annual refresh of GMB union deductions was deducted twice for 50 employees in OCC schools. This refresh was a first time event.
- 1.6. There are a number of Change Requests relating to payroll configuration that have been included in Appendix B for completeness. These are currently being managed through manual processes to ensure pay is correct, but are being reviewed and automated to ensure where possible the solution is automated and system driven.
- 1.7. Given the issues identified above, concerns have been raised by OCC relating to assurances on the configuration of the payroll solution for calculating, actioning and reporting statutorily compliant payroll transactions. It has therefore been agreed to perform an independent review of payroll configuration.

2. Approach

- 2.1. To retain independence, a payroll and pensions Subject Matter Expert (SME) will be appointed in December 2016 to conduct the review. For purposes of the this project, the SME will report directly into the Chief Internal Auditor and into the Partnership Senior Sponsors to maintain independence from the business operation. The existing Partnership Management Group will provide oversight of the existing operation and be the key point of senior contact into HCC and OCC.



- 2.2. The review will be based on the verification of rules using SAP payroll outputs, performing parallel calculations and understanding / explaining any variances for a range of risk based scenarios. The scope of the scenarios that will be validated will be a risk based assessment and formally signed off by OCC and HCC during the first week of the review. An evidence file will be collated of all the tested scenarios, with any unexplained variances captured and reported as part of a closure report.

- 2.3. To give assurances that future configuration changes are processed accurately and in a compliant manner, the change control process will be reviewed for first time events. This will be designed to ensure that changes are fully tested and released to give assurances on the future integrity of the system.

3. Objectives

- 3.1. This review will assess the current and future ability of the SAP Payroll system to calculate, process and report payroll (and associated) transactions in statutorily compliant, accurate and timely manner.

4. Scope

- 4.1. As part of the mid-year review of internal controls, External Audit successfully completed a range of payroll testing in 2016/17 covering key statutory deductions including National Insurance and Income Tax across all partner organisations. Given the anticipated caveats that will be placed upon the assurance from External Audit, it is proposed that deductions tests are re-performed.
- 4.2. The final scope of scenarios will be signed off in week 2 of the project, but is anticipated to focus on areas of high risk based on complexity, volume and value. Employee and Employer pensions deductions and associated reporting to Pension Fund Administrators will be included across all pension schemes and employee groups based on the issues identified in October 2016. A draft matrix by pension scheme has been included in Appendix A.
- 4.3. Exclusions:
- SAP payroll actions are reliant on Wage Types which were reviewed and signed off during the on-boarding programme. A key principle of the review will not be to question the Wage Type instructions, but to ensure that the payroll system appropriately and accurate outputs based on this instruction.
 - The agreed operating model is driven by Self Service actions from the employee or their line-manager. The review will not be considering whether this initial instruction is appropriate.
 - The governance of communications and escalation of issues between payroll teams, OCC employer teams and Oxfordshire Pension Fund will be separately reviewed.

5. Reporting and Deliverables

- 5.1. **Scoping Document** – a full scoping document of all proposed risk based testing scenarios will be developed in week 1 of the project and agreed in week 2 of the project by the Partnership Management Group.
- 5.2. **Scenario Test Scripts** – A full evidence pack of scenarios tested, including SAP generated outputs and manually calculated comparisons.

- 5.3. **Exceptions Report** – A summary of exceptions including explanations for all variances.
- 5.4. **Findings and Closure Report** - A summary report to be presented to the OCC / HCC Senior Sponsors in January 2016.

6. Timing

- 6.1. The review will commence w/c 5th December 2016 and is anticipated to run for 6 weeks until project close. An interim update will be reported to OCC / HCC Senior Sponsors at the end of week 3.

Appendix B – OCC Payroll Configuration Change Requests

<u>CR Reference</u>	<u>Description</u>	<u>Date Raised</u>
1895	Apprentice National Insurance	19/10/16
1849	National Insurance Payments after leaving	05/10/16
1479	Unpaid leave not being deducted if date after cat 6 and time eval jobs are run	27/06/16
1384	Er contributions rate shown on O6% OCC LGPS pension scheme in SAP incorrect	30/09/16
985	OCC Unpaid Leave not deducting for weekends	18/01/16
1766	Starter eform contains incorrect pay scales for casuals	31/08/16