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| **REPORT TO:** | **Audit Committee** |
| **DATE:** | **16 December 2010** |
| **SUBJECT:** | **Payroll Review Update** |
| **SPONSOR:** | **Deputy Chief Constable** |
| **AUTHOR:** | **Sue Brown, HR Organisational Development Manager** |

## 1    PURPOSE OF PAPER

1.1    The purpose of this paper is to update the Members of the Audit Committee on the progress achieved to date in Payroll Review Project, this includes the progress update on the pay and allowances project which arose as a consequence of the payroll audit report produced by Tribal and feedback from the National Audit Office (NAO). The project has been renamed Payroll Streamlining Project. Following a full review of progress and objectives in November 2010.

## 2    BACKGROUND

2.1    Between October and November 2009, Tribal reviewed British Transport Police's (BTP) payroll arrangements as part of its planned internal audit work for 2009/10 with some further tests to be carried out later in March 2010.  A final report containing the Tribal Audit[1] findings and recommended course of actions for management was submitted to BTP in June 2010; the findings included:

- No single point of responsibility to confirm integrity of payroll

- Payroll and Human Resources (HR) systems have not been reconciled

- A breakdown of separation of duties in the payroll department

- Open plan nature of payroll office compromises security and confidentiality

- Information being passed directly to payroll when it should go via HR

- Data passed from HR to be input to payroll is not forwarded in controlled conditions, risking it being mislaid

- Payroll procedures not documented

- Area approval procedures for timesheets bypassed by visiting officers submitting, and FHQ payroll processing, timesheets

- Underpayments and overpayments

- Multiple versions of forms in use

- Missing and incomplete employee files; poor file housekeeping

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[1] Tribal Audit Report: British Transport Police, Review of the Payroll Arrangements: Audit Plan 2008/10. Report Issued: June 2010.

2.2 Some of the identified issues are simple and relate to defective processes or procedures that can be addressed through process improvements, better communications and joined-up working between the Finance, Payroll and HR Departments. Other problems appear to be more complex including inadequacies in current arrangements, specifically; communication; silo working between HR and Payroll Departments on issues that cross over both sides; incorrect assumptions and occasionally, unrealistic expectations.

2.3 The objectives of the Payroll Review Project have stemmed from a number of recommendations made as part of the internal Reviews on Pay and Allowances and more recently the Tribal Audit Review. To solve the issues, several work streams have been developed, the individual work streams / objectives of the project are as follows:

- Co-locate the payroll function currently located in the Finance Team at FHQ within the HR Business Centre at Birmingham by 1 May 2011.

- Introduce systems to allow the use of electronic timesheets and expenses claims by 1 May 2011.

- Investigate the introduction of electronic payslips, with a view to introducing them by 1 June 2011.

- Produce a strategy to introduce and a specification for an integrated timesheets / expense / Pay / HR system to eliminate duplicate input, delays and errors and improve processes and information flows, thus reducing costs compared to current spend. The strategy to be approved by 31 December 2010 and business case and specification to tender to be agreed by 30 September 2011.

- Negotiate an extension to the current payroll contract (ends 31 August 2011) and any others needed to continue to provide the current service to allow time for the new, integrated service to be procured, by 31 March 2011.

2.4 The work streams detailed above will ensure that:

- The immediate issues identified with the payroll service are addressed and resolved, this includes the police officer and police staff file audit.

- Interim improvements based around replacing manual systems with an electronic solution and co-locating services are introduced within 6 months.

- In the longer term, the structural weaknesses and inefficiencies with the payroll and HR services are removed by the maximum possible level of electronic integration.

2.5 Members are asked to note that in the early stages, the project will monitor progress on responding to the Tribal / NAO recommendations but this will be as a prelude to the co-location work stream, rather than a work stream in its own right. Previous progress reports have focused solely on the progress against the NAO report.

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2.6 The timescale for the project is 1 November 2010 to 30 September 2011. The key milestones and planned implementation date to support the delivery of the workstreams are as follows:

| Milestones and Deliverable | Owner | Target Date |
|---|---|---|
| Produce a strategy for an integrated timesheet / expense / pay / HR system | CIO | 31 December 2011 |
| Verify management and supervisory issues in payroll have been addressed effectively. | Project Board | 31 December 2011 |
| Co-location of payroll to HR Business Centre, Birmingham | HR | 1 May 2011 |
| Negotiate an extension to current payroll contract | Programme Manager / Procurement | 31 March 2011 |
| Introduce electronic timesheets and expenses | HR systems / Technology | 1 May 2011 |
| Re-engineer business processes to facilitate the use of electronic timesheets | HR | 1 May 2011 |
| Introduce electronic payslips | HR | 1 June 2011 |
| Produce a specification for an integrated timesheets / expense / pay / HR system | Programme Manager / HR | 30 September 2011 |
| Pay and Allowances Audit of all police officer and police staff files | HR | December 2011 |

2.7 HR, Finance and Technology are working in partnership to ensure that the outcomes of the project meet BTP's needs. The project is being managed in a staged approach quality assuring the outputs of each workstream prior to implementation.


3 **UPDATE ON PROGRESS**

3.1 There has been significant progress on the project since the last update, and progress has been made against all the workstreams. The most notable progress being against the review of staff files, BTP has received positive feedback from Tribal and NAO who is content with the work undertaken to date. At the meeting on 23 November the Project Board reconstituted the project as the 'Payroll Streamlining Project' and a new Programme Manager was appointed to monitor the progress of the workstreams. The British Transport Police Authority (BTPA) is represented by Liz Pike (Authority Finance Director) and Member Mr. Michael Holden who have been appointed as members of the Project Board to provide an external quality assurance role to the team, as well as enabling them to reassure the BTPA of the Projects' progress.

3.2 **Tribal Audit Update:** Positive progress has been made against the actions and both NAO and Tribal are content with the output to date. A full update of actions is attached as Appendix A

3.3 **File reconciliation**: All police officer and police staff files have been checked. Appendix B sets out the detail of progress in relation to police staff files. The NAO completed a second

sample audit of 20 police officer files on 25 November. Only four issues were raised, three of which were resolved satisfactorily on the day. The remaining issue relates to a timesheet matter, unconnected with the staff files themselves, and concerns a police officer on Higher Grade Duty (HGD) who was paid at the overtime rate for working on Good Friday 2010. The payment may be correct but is being verified with the Area concerned. The NAO Auditors have commented that this is a rare combination of circumstances which is unlikely to have any significant impact when extrapolated across BTP. Further checks with the Area concerned and against BTP national agreements have confirmed that the payment was correct.

3.4 **Co-location of Payroll to HR:** The proposed structure and implementation dates were agreed by the Project Board on the 23 November. There will be a gradual handover of function from Finance to HR staring in January 2011 lasting 5 months, this will ensure that end of year process is not impacted in a negative may. Recruitment will be phased from January to allow for sufficient time to hire and training of new staff, this will be supported by a dual operation of the existing function from London, to support the end of year payroll processes. All payroll process are being mapped and desk manuals for the new payroll team are being developed this work will be complete by the end of December and signed off the HR and Payroll in January. Formal consultation with the Payroll team in London has commenced.

3.5 **Implementation of electronic timesheets and expenses workflows**: The implementation of an electronic time management workflow will be facilitated by the HR ORIGIN system this will provide a single data capture point that will feed the ongoing overtime and TOIL processes. This will eliminate the current issues of inaccuracies of overtime payment and inefficiencies of process. There will also be improved ability to audit the authorisation process. A detailed user specification for the workflow has been developed and was signed off by the business users at the Project Board meeting on 23 November 2010. A separate workflow for expenses and allowances will be implemented, the specification for this is currently being designed and will be put to the Project Board on 13 December for discussion, the key challenge for this workflow will be around the technical requirement for capturing receipt data.

3.6 **E-Payslips**: scoping in relation to this continues, the current Payroll system that is used by BTP is a hosted service provided by MidlandHR known as TRENT. This system is manually administered by Area based payroll staff. The data is supplied on paper based time sheets and this has been the cause of inaccuracies. One of the issues highlighted by the report by Superintendent Peter Mason was the ability for officers to have access to both current and historic data pertaining to pay and the calculations made to reach the payment they receive. An investigation into the functionality of the current system has highlighted that no ability for data interrogation exists and no e-payslip capability exists. The most up to date release of the system is iTrent and this has full functionality regarding supplying e-payslips to employees as well as allowing self service functionality giving a full range of data mining capabilities to the employee. To enable BTP to move to the iTrent implementation of the product would necessitate the purchase of further modules of the product as well as the infrastructure to support them. MidlandHR are currently preparing a proposal with costs and timescales that will be presented to the board.

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3.7 **Business systems integration**: BTP currently has separate HR and payroll systems, the former being the Cedar Origin system and the latter the MidlandHR Trent payroll system. Various issues have arisen around the lack of integration between these two systems. .To be able to resolve these issues a strategic decision needs to be made on when and how the functionality that these system supply will be replaced to support the organisations future requirements. The timescale factor that currently dominates the development and implementation of systems within BTP is the 2012 Olympic Games (and subsequent Paralympic Games).  The IS Strategy holds that no new systems will be introduced into the organisation from the end of 2011, in order to achieve stability and optimise the performance of all existing systems in good time for the Games. The main issue here is the type of implementation that best fits the BTP's requirements and support its business plans. The two main options are:-

- Option 1: Use 'Best of Breed', standalone HR and Payroll systems.
- Option 2: Address the requirements of a range of back office functions (HR, payroll, finance, procurement, asset management, customer relationship management and others) by making use of an Enterprise Resources Planning (ERP) system, procured by BTP and operated for the organisation's exclusive needs.

3.8 Further work is required before these options can be fully explored.  It is most unlikely that the cost of an ERP solution is affordable with the current budget constraints and, in any case, the argument for such a solution is not yet fully articulated and the basic principle has not yet been agreed.

3.9 There are other options regarding in respect of shared services and these are being explored in the wider context of the Futures Programme.

3.10 In the interim BTP will negotiate an extension to the exiting contract with Trent


4    **FINANCIAL IMPLICATIONS**
4.1 The project budget will be approved by the Project Board, the costs for the project are being managed within existing HR and Finance budgets and tracked by the Project Manager on a monthly basis, any required for additional funding will be subject to approval by the BTP's Programme Board.


5    **RISK IMPLICATIONS**
5.1 All full project risk register is maintained by the Project Manager and was signed off by the Project Board on 23 November. The immediate risk to the NAO reconciliation of Payroll to HR files has been significantly reduced. Both HR and Finance continue to work with Tribal and NAO to quality assure the outputs from the project to ensure that all solutions for fit for purpose and meet the necessary internal controls.

**Agenda Item 8**

## 6    DIVERSITY ISSUES

6.1    There are no direct diversity issues to note as a result of this project.


## 7    RECOMMENDATIONS

7.1    Members are invited to note the progress achieved to date in the Payroll Streamlining Project.