School Internal Processes and Controls – Payroll (ver. 3)
Helping to keep your payroll free from fraud and error

CONTENTS

INTRODUCTION

This document outlines key internal payroll controls that are required for your school. It is an Education Payroll Ltd (EPL) and Ministry of Education collaboration, giving 'best practice' guidance around satisfactory controls, using the available EdPay functionality.

What are internal controls?
Internal controls are the mechanisms, rules and procedures implemented by a school to ensure the integrity of financial and accounting information, promote accountability, and prevent fraud. Besides complying with laws and regulations and preventing employees from misappropriating assets or committing fraud, internal controls can help improve operational efficiency by improving the accuracy and timeliness of financial reporting.

Why are internal controls important?
Good internal controls are essential to ensuring the accomplishment of your schools' goals and objectives. They provide reliable financial reporting for management decisions. Poor or excessive internal controls reduce productivity, increase the complexity of processing transactions, increase the time required to process transactions and add no value to the activities. Good internal controls help ensure efficient and effective operations and protect both employees and assets.

Are processes and controls different?
A control is not the same as a process. A process is all the individual steps that make up what is being done. A control will check or test that the process accurately records information and reduces the risk of fraud.
There are some key terms that are used in this guide, these are defined below:
*   authorising / approving – to give official permission or approval to undertake an action
*   submitting – the preparation of information prior to review and eventual approval for action
*   checking / reviewing – to verify the accuracy of the prepared documentation prior to approval to act being given.

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What is meant by the term "segregation of duties"?
Segregation of duties is the concept of having more than one person required in the process to complete a task. This is done to reduce the risk of error and fraud in financial reporting because it requires more than one person to participate in the error or fraud, this eliminates the risk of self-review occurring, where the person preparing the information is also the one approving it.

Reporting available in EdPay
EPL is continuing to develop the reporting aspects of EdPay. As a result, this guide will be refreshed as updated and new reporting becomes available. Please see the section *Interim processes for EdPay reports or enhancements currently in development* for interim processes that you will need to undertake as part of your school's internal controls.

Additional support available
For guidance around your internal control environment or audit, please contact your local Ministry of Education School Financial Advisor.

Their contact details can be found on the Ministry of Education website: https://www.education.govt.nz/school/funding-and-financials/school-finances/#contact

For assistance with functionality and reporting within EdPay, please contact your EdPay payroll advisor.

1. Checklist of payroll processes and controls for schools

Access to EdPay		
Payroll process or control	**Commentary**	**How to evidence this control**
1 **Access to EdPay must be controlled by the board.** Is access to EdPay controlled by the board (ie they approve all payroll access or delegate authority where appropriate)? How often does the board check and approve this report?	Access for the principal must be approved and signed by a board member. Access for school administrators must be approved and signed by the principal or a board member. To remove authorised users, use an EP5c form. This must be done in addition to the termination of their job.	The Authorised User report, which lists a school's authorised users, should be reviewed and approved by the board every six months (minimum), as part of school's review cycle. It should be checked against the school's delegated authority. This review listed are will be recorded in board by the minutes, with the board confirming that all authorised users are currently employed by the school.
2 **Authorised users must not share their usernames / passwords.** How does the school ensure that usernames / passwords are not being shared?	Payroll requires a high level of privacy and security.	Authorised users should receive appropriate cyber safety training and sign a cybersafety use agreement. School operating procedures should provide guidelines for: • the approval and removal access to the payroll system • instructions to protect passwords and use of the payroll system • ensuring best practice for selecting complex passwords eg use a combination of alpha, numeric and special characters and change them every 90 days.

	Authorising, checking, approving and segregation of duties		
	Payroll process or control	**Commentary**	**How to evidence this control**
3	**The school must have segregation of payroll duties.** Has the school identified who is responsible for: • authorising changes • submitting payroll data • checking the timesheet, leave and activity histories • approving the SUE Report.	Best practice requires that one person makes the change and a different person checks the change. In smaller schools, this may not always be possible. It is essential however, that in addition to a check for accuracy, approval of the final SUE Report and master file changes (eg bank account changes) is carried out by someone who does not have access to the payroll system. This approval task may be delegated to a member of the board.	A list of payroll roles and responsibilities, approved and recorded in board minutes and evidenced in payroll documentation. Examples: Timesheet history (for a pay period date range) signed and dated by checker, prior to paying employees. SUE Report for a pay period signed and dated by approver.
4	**All changes must be authorised by those delegated to do so.** Are the authorisers of all changes documented?	Clear lines of authorisation should be approved and recorded in board minutes or documented by the principal, if delegated by the board. Delegated authority lists should be updated to reflect the delegations to ensure approvers have the correct level of delegation.	Retain evidence of requests and authorisation of changes. Where it is a request to change bank account details, verify that bank account is in the name of the employee. Retain supporting documents eg bank deposit slip or an internet banking screenshot. For permanent employee terminations, a resignation letter and final pay calculations available in the SUE Report should be approved, signed and kept in personnel file. Fixed-term employees do not need to submit a resignation letter unless they end their employment before their fixed-term end date. For staff on timesheets, retain the approval and confirmation of the hours worked. This can through a time-sheeting system or in summarised reports from another electronic or paper-based source.
5	**Transactions should be checked and transaction records signed, before employees are paid.** Are transactions histories showing changes entered into EdPay checked against authorisations? By whom?	The frequency of checking and signing each transaction history may vary according to transaction volume. Fortnightly is the expected minimum (each pay period). For staff on timesheets, retain the approval and confirmation of the hours worked. This can be evidenced through a time-sheeting system or in summarised reports from another electronic or paper-based source.	The following transaction histories should be saved, checked and signed, after submission but prior to payment: • timesheet history • leave history • activity history. Entries must match authorised payroll additions and amendments. The online activity history for the following function is in development. • personal details changes To evidence this control, please refer to the interim processes in section 2.
6	**Instructions sent via email must be verified.** If changes are advised by email, what are the controls around this?	How is the sender verified?	For more significant changes (eg bank account change, email address change) verify by phone call or text. Document that this has been done and file with the instruction documentation and screenshot showing proof of change. Document approval by someone who does not have access to the payroll system, alongside final SUE Report approval.
7	**After the payroll is processed the SUE Report should be checked and approved by someone independent, who does not have access to the payroll system.**	Payments made should match authorised changes. In addition to an overall check, the checker should be looking to identify and note any variations from usual patterns of entry, through a comparison with previous SUE Reports. Final termination pay should be in the SUE Report following the employee's last day of duty. The employee should then no longer feature in future SUE Reports.	It is essential that approval of the final SUE Report is carried out by someone who does not have access to the payroll system. This approval task may be delegated to a member of the board.

2. Interim processes for EdPay reports or enhancements currently in development

Checking and approval	Interim process for evidence
Approving a list of authorised users – Authorised User report	Download report from EdPay for a list of authorised users for approval at a board meeting. .
Annualisation change	File EP24nt form (Annualisation agreement change of hours/pay rate for non-teachers form) after submitting.
Personal details change (eg change of address)	Check the authorisation and the saved EdPay screenshot that shows updated details in employee's personal details, then sign (this check should be carried out by a different person to the one who entered the change).
Deductions	Check authorisation form (eg KS2 for KiwiSaver rate change, IR330 for tax rate change) and the saved EdPay screenshot showing the new rate, then sign (this check should be carried out by a different person to the one who entered the change).

3. Document retention

Retain all supporting documents, physically or digitally, for end of year audit inspection. Use screenshots as evidence if CSV or pdf printing functions are not available. Documents checked and/or approved should have evidence of checking, with initial/signature of checker and date. If checking is via email (eg by a board member), the approval email should be filed in the same folder as the document that was checked.

Retain all relevant documents that initiate changes. These changes must be approved. These changes include:	Documentation is retained and review evidenced by the school for:
- allowances - salary adjustments - attestations - timesheets - leave - KiwiSaver - tax rate - tenure changes - termination	- authorisation of pay impacting changes - authorisation of changes to financial details - authorisation of changes to personal details - forms (EP and NOVO) - transaction histories (EdPay) - timesheet transaction history - leave transaction history - activity history - fortnightly SUE Reports (EdPay) - Authorised User reports (EdPay)

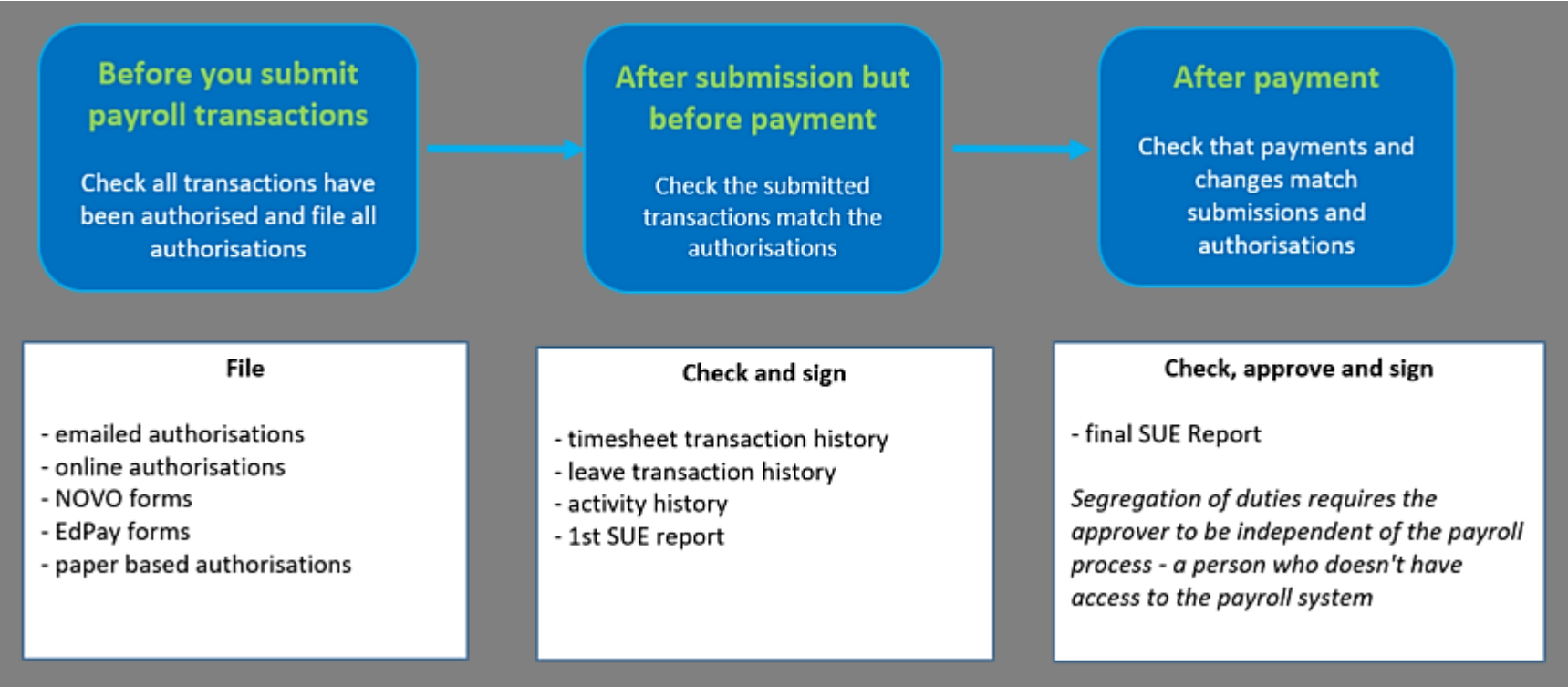24/03/22

4. Pay period checking calendar - from 20 April 2022

Fortnightly pay cycle from 20 April 2022						
Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
		Day 1	Day 2	Day 3	Day 4	Day 5
		Pay period begins **Termination pay** from previous pay period paid (separate payslip)	**12pm Cut-off** out of cycle payments (submit a NOVO31)	**Out of cycle payments** paid (separate payslip)		
		Ongoing checking of transactions using timesheet history, leave history, activity history				
Day 6	Day 7	Day 8	Day 9	Day 10	Day 11	Day 12
5pm deadline for all transactions that generate a ticket: NOVO forms EdPay forms EdPay tickets (To be processed by payroll advisers in time for pay day)			**5.30pm cut-off** EdPay pay transactions that are immediately processed no ticket generated (After 5.30pm, submissions will be processed but paid next pay period)	**9am** **1st SUE report** available **5pm deadline** **SUE error adjustments** Check 1st SUE report and submit adjustments via EdPay31		
	Ongoing checking of transactions using timesheet history, leave history, activity history					
Day 13	Day 14	**NOTE** EdPay transactions should ideally be checked by a person different to the person who entered them. This checking should be completed after submitting but before payment, using a system that suits your school. Use the timesheet history, leave history, activity history and 1st SUE report for this checking. Alert your payroll advisor to any errors to entries that show on the 1st SUE via an EdPay31, with the email subject line **SUE adjustment**. It is essential that approval of the final SUE report is carried out by someone who does not have access to the payroll system. This may be delegated to a member of the school board.				
	9am **Final SUE report** and payslips available Approve final SUE report and file a signed copy in financial records					
						From 20 April 2022

5. Guidance for pay period checking

- ✔ Checking should be carried out by a different person to the one who entered the change. In approving transactions and payments, the checker is indicating that the transactions have been authorised, accurately submitted, and that only authorised payments have been paid to employees.

- ✔ It is essential that approval of the SUE Report is carried out by someone who does not have access to the payroll system. This approval task may be delegated to a member of the board.

- ✔ Signed evidence of checking and approval of submissions and payments should be kept on file.

Ongoing checking of transactions using timesheet history, leave history, activity history

Transactions should be checked on a line-by-line basis to ensure they reflect authorisations. This check should be performed after submission but before payment.

Before you submit payroll transactions

Check all transactions have been authorised and file all authorisations

After submission but before payment

Check the submitted transactions match the authorisations

After payment

Check that payments and changes match submissions and authorisations

File

- emailed authorisations
- online authorisations
- NOVO forms
- EdPay forms
- paper based authorisations

Check and sign

- timesheet transaction history
- leave transaction history
- activity history
- 1st SUE report

Check, approve and sign

- final SUE Report

Segregation of duties requires the approver to be independent of the payroll process - a person who doesn't have access to the payroll system

Date Worked	Name	MoE#	Contract Title	Pay Code	Hours/Unit	Funding	Department	Date Submitted
14/12/2021	Kennedy, Forrest	4335289	01 Teacher	CAMP	1	Bulk Grant	99999 Bulk Grant - No Department	21/12/2021
10/12/2021	Gilbert, Alexis	4207310	03 Learning Support Coordinator	CAMP	4	Bulk Grant	99999 Bulk Grant - No Department	21/12/2021
9/12/2021	Colon, Rosemary	4213929	13 Teacher	MVA	2	Bulk Grant	99999 Bulk Grant - No Department	21/12/2021
3/12/2021	Mack, Damon	4567185	06 Teacher	INCID	3	Bulk Grant	99999 Bulk Grant - No Department	21/12/2021
25/11/2021	Mann, Hugo	4352563	01 Teacher	CAMP	1	Bulk Grant	99999 Bulk Grant - No Department	21/12/2021
26/03/2021	Colon, Rosemary	4213929	13 Teacher	CAMP	1	Bulk Grant	48014	1/04/2021
6/03/2020	Mack, Damon	4567185	06 Teacher	CAMP	5	Bulk Grant	99999 Bulk Grant - No Department	23/03/2020

checked by _Gillian Thompson_

signed _G. Tm._

date _15/12/21_

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a. **Checking of master file changes**

Changes to employee financial details (eg bank accounts, KiwiSaver, tax) should be checked for authorisation and evidence of change, with evidence of checking being kept on file. Bank account changes are listed in the EdPay activity history.

Payroll control	How to evidence this control
Bank account change – input checking	Check the instruction/authorisation and the saved EdPay screenshot of the new account number in employee's financial details, then sign to approve (this approval carried out by someone who does not have access to the payroll system).
Deductions – input checking	Check authorisation form (eg KS2 for KiwiSaver rate change, IR330 for tax rate change) and the saved EdPay screenshot showing the new rate, then sign (this check should be carried out by a different person to the one who entered the change)

Example:

Email from employee instructing bank account change

Payroll administrator confirms instruction via text or phone call, noting date and time

Evidence of new account screenshot – signed and filed, then approved by someone who does not have access to the payroll system (alongside final SUE Report approval)

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b. **Checking the final SUE Report**

The final SUE Report (day 14) should be checked to ensure payments match authorised submissions, including any corrections submitted via an EP31 (advice of changes) form following the day 10 1st draft SUE. Best practice demands line-by-line checking. It

is essential that approval of the final SUE Report is carried out by someone who does not have access to the payroll system. This approval task may be delegated to a member of the board.

6. Education Payroll Ltd resources – links to guides and videos

For videos and how-to guides, including our transaction checking and approval in EdPay video, go to the EdPay training page:

https://www.edpay.govt.nz/Site/Training/default.aspx

For guidance around your internal control environment or audit, please contact your local Ministry of Education School Financial Advisor.

Their contact details can be found on the Ministry of Education website:

https://www.education.govt.nz/school/funding-and-financials/school-finances/#contact