

STAFFORDSHIRE POLICE, FIRE & CRIME COMMISSIONER AND CHIEF CONSTABLE OF STAFFORDSHIRE

Key Finance Controls

Internal audit report 4.20/21

Final

3 December 2020

This report is solely for the use of the persons to whom it is addressed.

To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party.

1. EXECUTIVE SUMMARY

With the use of secure portals for the transfer of information, and through electronic communication means, remote working has meant that we have been able to complete our audit and provide you with the assurances you require. It is these exceptional circumstances which mean that 100 per cent of our audit has been conducted remotely. Based on the information provided by the Force, we have been able to sample test the control framework.

Background

A review of Key Finance Controls was undertaken at Staffordshire Police, Fire & Crime Commissioner and Chief Constable of Staffordshire (the Force) as part of the approved internal audit periodic plan for 2020/21.

The areas considered as part of this review are as follows:

- General Ledger;
- Payments and Creditors;
- Income and Debtors;
- Cash and Treasury Management

Day-to-day transactions including the purchasing of goods and services are processed through the Oracle Finance System.

The Service's loans and investments are managed by Staffordshire County Council (Treasury Department). At the time of our review, the Service had £26.6m in investments, split between the Debt Management Office (DMO) and private sector institutions. The Service had a total of £70.8m in loans, all of which has been borrowed from the Public Works Loan Board (PWLb).

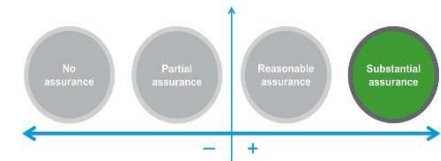
Conclusion

There is an appropriate control framework in place for governing Key Finance Controls across the Force. Our work confirmed that there are adequate controls in place which are being consistently applied.

Areas of improvement have been noted which has resulted in the agreement of one 'medium' priority management action.

Internal audit opinion:

Taking account of the issues identified, the Commissioner and the Force can take **substantial assurance** that the controls upon which the Organisation relies to manage the identified areas are suitably designed, consistently applied and operating effectively.



Key findings

We identified the following exception with the Force's established control framework:

Payment and Creditors

For our sample of 20 new suppliers that have been set up since April 2020, some exceptions were noted where supporting NCR1 and NCR2 New Supplier Forms had not been fully completed and maintained on file. In addition, where changes to the supplier standing data had been requested, there were two cases where the change made had not been verified.

(Medium)

We identified the following areas of well design controls and compliance:

General Ledger



The Force has Financial Regulations in place which set out practical guidance for implementation of the Force's broad policies relating to financial control. The Regulations are supported by a Standing Orders document which sets out delegated authority levels across the Force. The Finance Department has operational procedures in place to accompany the Financial Regulations and support regular activities carried out by the Department. Procedure notes are subject to regular review and are easily accessible by relevant staff members via a local share drive.



Access to the Oracle Finance System is restricted to appropriate staff members. A sample of 20 current users within the Oracle Finance System were selected and tested. In all 20 instances, it was confirmed that the user accounts related to current members of staff, and that access rights were appropriate based on their job role. Approval limits are pre-set within the Oracle Finance System, in line with the Force's Scheme of Delegation. Our testing throughout the audit has confirmed that approval limits within the Finance System corresponded to those documented within the Scheme of Delegation.



Regular backups are completed of the General Ledger and Oracle Finance System to ensure data can be easily retrieved in the event of a disaster or disruption. Backups are completed on a daily basis and maintained on-site as well as at a secondary data centre.



Monthly budget holder reports are produced for all six directorates across the Force. A Financial Performance Report is also produced for each directorate. Management accounts for the Force and Commissioner are produced as part of a monthly Group Finance Report.



Journals are posted to the Finance System to correct or reallocate transactions on the general ledger. The Deputy Chief Finance Officer completes monthly spot checks of journal postings to the System. A sample of 20 journal postings were selected and tested from the current financial year. In all 20 instances, we confirmed that supporting documentation for each journal had been maintained on file. Additionally, we confirmed that journal spot checks had been completed for the last three months.



The Finance Department has a month-end timetable in place. Each task within the timetable has been assigned to a relevant member of staff. Upon completion of a task the timetable is updated and marked as completed. Review of the 2020/21 timetable confirmed that it had been maintained up to date.



The Force has suspense accounts in place which are used for the holding of income prior to allocation. The accounts are reviewed and cleared on a monthly basis. We confirmed that all suspense accounts had been reviewed on a monthly basis for the last three months.



Control account reviews are completed for all balance sheet codes. A reconciliation schedule is prepared with supporting documentation, including system generated reports. The individual who prepares the reconciliation signs and dates the schedule. This is reviewed and dated by a second member of staff. All discrepancies are investigated and rectified during the reconciliation process and evidence is retained of this.

Payments and Creditors



Purchases for goods, services and works are procured in line with the Contract Standing Orders. Purchase orders are completed for all purchases and authorised by the relevant budget holder in line with the delegated authority limits. Prior to the payment of invoices, budget holders confirm receipt of the goods or services within the Oracle Finance System. Compliance was confirmed via testing of a sample of 20 paid invoices since the start of the current financial year.



Invoice values are matched to purchase order and goods receipted amounts prior to payment. Where differences are identified, the variances are investigated by the Finance Department prior to payment. Additional budget holder approval is obtained where required. Where the invoice does not have a corresponding purchase order in place (Non-POP), the invoice is signed and dated to confirm the receipt of the goods or services and signed to authorise the invoice for payment in line with the delegated authority limits. Compliance was confirmed via testing of a sample of 20 paid invoices since the start of the current financial year.



There is adequate segregation of duties in the ordering, goods receipting and approval of invoices processes. Purchase orders are requisitioned within the Oracle Finance System. An appropriate approver in line with the Scheme of Delegation approves the purchase order and the original requisitioner confirms the goods have been received. Upon receipt of an invoice, the System attempts to auto-match the order, receipting and invoice, in preparation for payment (any discrepancies are manually resolved). Furthermore, a sample check of supplier invoices is also completed as part of the BACS run process.



A sample of 20 paid invoices were selected and tested from the current financial year. Nine instances were noted where invoices had been paid after their payment due date. Through discussion with the Technical Finance Manager we confirmed that the Force have had to prioritise certain invoices during the Covid-19 pandemic, such as those relating to PPE supplies. As a result, other regular supplier invoices have been processed later than usual. Processes have now been put in place to ensure invoices are being prioritised based on their due dates. As such, no management action is included at this time.



Eleven instances (from a sample of 20) were noted where supplier payment spot checks completed as part of the payment run had been completed by the same person preparing and transmitting the BACS run, highlighting a lack of segregation of duties. However, it is accepted that staffing resources and availability have been constrained over recent months, which has prevented a segregation of duties in all cases. We were advised that the Force have a new resource which will now provide for the segregation and therefore, given this weakness has already been addressed, we have not agreed a management action.

Income and Debtors



The Partnership and Income Manager communicates with the various departments across the Force to ensure income due to the Force is invoiced. The Manager completes a cross reference to any agreements in place as well as the Charges and Fees Handbook to ensure the correct amounts are invoiced. Prior to an invoice being raised, an Invoice Request Form is sent to the Finance Department. Following receipt of a completed form, the Finance Department authorise the relevant Form and raise the corresponding invoice. A sample of 20 raised sales invoices were selected and tested from the current financial year. In all instances, a fully completed and authorised Invoice Request Form was found to have been maintained on file. Debtor details and values in each Form were found to correspond to each invoice raised.



An Aged Debtor Report is produced and reviewed on a monthly basis by the Finance Department. Regular and structured debt chasing activities are completed to ensure aged debts are recovered. As of November 2020, the Force's Aged Debtor Report contained a total of 22 debtors, with a total debt amounting to £759k. A sample of 10 debtors were selected and tested. In all 10 instances, we confirmed that appropriate and timely debt chasing activity, in line with procedure, had been completed for each debt.



Debt write offs are subject to approval in line with delegated authorities. A Write Off Form is completed and authorised prior to the actioning of each write off within the Oracle Finance System. Since the start of the current financial year, the Force had not actioned any bad debt write offs.

Cash and Treasury Management



Cash flow forecasts are prepared and updated on a monthly basis which are reviewed by the Deputy Chief Finance Officer and Director of Finance. For the last three months, we confirmed that the cash flow forecast was produced in a timely manner following month-end.



The Force's loans and investments are managed by the Treasury Department at Staffordshire County Council. The Council provides the Force with a weekly settlement update which details any updates on deals and payments. All new investments and loans were signed off by the Director of Finance. Additionally, a monthly principle outstanding update is provided in relation to principle values, interest rates and maturity dates etc. Through testing of the last three months, we confirmed that the Force had received timely correspondence and update reports.

2. DETAILED FINDINGS AND ACTIONS

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Area: Payments and Creditors			
Control	A New Creditor Form is completed for all new supplier requests. A New Creditor Request Form (NCR1) is completed by the member of staff who wants a new supplier to be set up. This form captures details such as the name of the requestor, date requested, reason for set up, supplier detail etc. The completed form is then reviewed and approved by the Purchasing Manager.		Assessment:
	A New Creditor Request (NCR2) Form is then sent to the supplier for completion. This Form confirms the company details with the supplier, captures the supplier's bank details and is reviewed by the Purchasing Manager prior to actioning in the Finance system.		Design ✓ Compliance ×
Findings / Implications	A sample of 20 new suppliers were selected and tested from the current financial year.		
	<u>NCR1 Forms</u> <ul style="list-style-type: none"> In three instances, a Claim for Professional Fees Form had been provided and maintained on file which contained the relevant bank details for the supplier. Three instances were noted where an email request from the Procurement Department had been maintained on file for the suppliers to be set up and therefore a NCR1 Form was not required. Corresponding email approval for each of the three requests by the Purchasing Department was found to have been maintained on file. In eight instances, a corresponding NCR1 Form was held on file. Six instances were noted where email approval by the Purchasing Department for the NCR1 Forms had been maintained on file. However, no evidence could be provided for the remaining two NCR1 Forms to confirm they had been approved by the Purchasing Department. A supporting NCR1 Form had not been completed and maintained on file for the remaining six supplier set ups. <u>NCR2 Forms</u> <ul style="list-style-type: none"> In 17 instances, a corresponding NCR2 Form was found to have been maintained on file. In the remaining three instances, a Claim for Professional Fees Form had been provided and maintained on file which contained the relevant bank details for the supplier. However, it was noted that five of the NCR2 Forms reviewed had not been signed by the supplier. <p>If NCR1 and NCR2 Forms are not fully completed prior to the setting up of new suppliers, there is a risk of unauthorised suppliers being added to the Finance System.</p>		

Area: Payments and Creditors

Management Action 1	The Force will ensure that a NCR1 and NCR2 Form is fully completed and maintained on file prior to the setting up of new suppliers. Any amendments that are made to the supplier standing data will be checked and independently verified.	Responsible Owner: Purchasing Manager	Date: 31 December 2020	Priority: Medium
----------------------------	--	---	----------------------------------	----------------------------

Area: Payments and Creditors

Control	<p>All requests for changes to supplier standing data are independently verified, with supporting evidence being maintained on file.</p> <p>Once the revised bank details have been input into the Finance System, another member of staff will independently review the details for accuracy.</p>	<p>Assessment:</p> <p>Design ✓</p> <p>Compliance ×</p>
Findings / Implications	<p>The Finance System does not have functionality to produce a report of supplier standing data amendments. The Purchasing Manager maintains a Supplier Changes Log.</p> <p>A sample of 15 supplier changes were selected and tested from the Log. In all 15 instances, the original notification which the Force had been notified of the change had been maintained on file.</p> <p>Three of the 15 changes reviewed related to supplier bank account changes. In one instance, evidence was found to have been maintained on file to confirm the details had been independently verified with the relevant supplier. However, no evidence could be provided in the remaining two instances to confirm the bank details had been independently verified with the relevant suppliers prior to actioning.</p> <p>If requests for changes to supplier standing data are not independently verified prior to actioning within the Finance System, there is a risk of financial loss to the Force.</p>	
Management Action	Refer to Management Action 1	

APPENDIX A: CATEGORISATION OF FINDINGS

Categorisation of internal audit findings

Priority	Definition
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The following table highlights the number and categories of management actions made as a result of this audit.

Area	Control design not effective*		Non-Compliance with controls*		Agreed management actions		
					Low	Medium	High
Policy and Procedures	0	(7)	0	(7)	0	0	0
General Ledger	0	(4)	0	(4)	0	0	0
Payments and Creditors	0	(8)	4	(8)	0	1	0
Income and Debtors	0	(3)	0	(3)	0	0	0
Treasury and Cashflow	0	(2)	0	(2)	0	0	0
Total					0	1	0

* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

APPENDIX B: SCOPE

Scope of the review

The scope was planned to provide assurance on the controls and mitigations in place relating to the following risks:

Objective of the risk under review

Yearly coverage of the organisation's key financial controls systems to ensure they are adequately designed and are being complied with.

When planning the audit, the following areas for consideration and limitations were agreed:

Areas for consideration:

- There are clear financial regulations, policies and procedures are in place for all key financial areas;
- Access to the finance system is adequately controlled; this includes amendments to approval limits; and
- Controls are in place to ensure accurate financial reporting is made to all levels of the organisation (strategic and operational information).

General Ledger

- Journal creation and posting is controlled and includes a segregation of duties;
- The finance system is periodically backed up and assurances are received confirming its completion;
- There is a month end timetable in place which sets out the key deadlines; and
- Control account reconciliations are undertaken and independently reviewed in a timely manner following month end (reconciliations include Purchase Ledger, Sales Ledger, Cash Book, Bank Account(s) and Suspense Account(s)).

Payments and Creditors

- New suppliers are subject to due diligence checks and authorisation before being set up on the finance system;
- Amendments to supplier details (including bank details) are subject to independent due diligence checks;
- The organisations quotation rules have been followed;
- Purchase orders are used for all purchases and are authorised in line with the delegated authorities;
- Goods are received on the finance system when received by the organisation;
- Invoices received are matched to purchase orders and goods received notes;

- Non purchase order purchases are subject to review and challenge;
- Payment runs are prepared for all invoiced and received goods;
- The payment run is subject to authorisation in line with the delegated authorities;
- There is adequate segregation of duties in the ordering, goods receipting and approving of invoices process; and
- The payment of invoices in accordance with prompt payment targets is monitored.

Income and Debtors

- Processes are in place to identify all income due to the organisation;
- Invoices are subject to review and approval in line with the delegated authorities;
- Invoices are raised and issued in a timely manner;
- There is adequate segregation of duties in the agreeing the sale, the income value and the sales invoice;
- Aged debtor reports are run on a regular basis and reviewed by management;
- Regular and structured debt chasing activities are undertaken with the outcomes clearly documented;
- Bad and doubtful debts are subject to review and enhanced debt chasing activities; this includes the consideration of the use of debt recovery agencies; and
- Debt write offs are subject to approval in line with the delegated authorities.

Cash and Treasury Management

- Cash flow forecasts are prepared on a regular basis using information from AP and AR;
- Cash flow forecasts are subject to regular review by management and actions taken to ensure adequate cash flow;
- Cash flow forecast accuracy is monitored to improve the reliability of the information provided;
- Investments are only made in line with the organisations treasury management rules following approval in line with the delegated authorities;
- Loans are only made in line with the organisations treasury management rules following approval in line with the delegated authorities.

Where necessary, our work will incorporate the use of Computer Assisted Audit Techniques (CAATs) using the IDEA software package.

Limitations to the scope of the audit assignment:

- We will not confirm that the finance system workflows are enforcing approval limits;
- We will not confirm that journals are valid, only that they have been reviewed and approved appropriately;
- We will not confirm that the finance system has been backed up, only that a confirmation has been received;

- We will not substantively re-perform control account reconciliations;
- We will not confirm the accuracy of budget reporting within this review;
- We will not confirm the validity or appropriateness of new suppliers or amendments to supplier details;
- We will not confirm that goods and services paid for have been received by the organisation;
- We will not confirm the amount paid for goods and services reflect value for money;
- We will not confirm that all income due has been identified and invoiced for in a timely manner;
- We will not confirm that all actions have been taken to collect income due to the organisation;
- We will not confirm that overtime or additional payments claimed has been worked;
- We will not confirm loan covenants have been complied with;
- All testing will be compliance-based sample testing only;
- The results of our work are reliant on the quality and completeness of the information provided to us; and
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

Debrief held 27 November 2020
Draft report issued 30 November 2020
Responses received 3 December 2020

Final report issued 3 December 2020

Internal audit Contacts Daniel.Harris@rsmuk.com
Head of Internal Audit / 07792 948767

Angela.Ward@rsmuk.com

Senior Manager / 07966 914171

Client sponsor David Greensmith, Director of Finance

Distribution David Greensmith, Director of Finance

John Bloomer, Chief Finance Officer

rsmuk.com

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Actions for improvements should be assessed by you for their full impact. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

Our report is prepared solely for the confidential use of Staffordshire Police, Fire & Crime Commissioner and Chief Constable of Staffordshire, and solely for the purposes set out herein. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM Risk Assurance Services LLP for any purpose or in any context. Any third party which obtains access to this report or a copy and chooses to rely on it (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

This report is released to you on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

RSM Risk Assurance Services LLP is a limited liability partnership registered in England and Wales no. OC389499 at 6th floor, 25 Farringdon Street, London EC4A 4AB.