

STAFFORDSHIRE FIRE & RESCUE SERVICE

Key Finance Controls

Internal audit report: 3.20/21

Final

13 November 2020

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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 Service, we have been able to sample test the control framework.

Background

A review of Key Finance Controls was undertaken at Staffordshire Fire and Rescue Services (the Service) 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

Daily operations across the Service's Finance Department are overseen by the Transactional Finance Manager, who reports to the Deputy Chief Finance Officer.

The Service has Financial Regulations in place which set out practical guidance for implementation of the Service's broad policies relating to financial control. The Regulations are supported by a Standing Orders document which sets out delegated authority levels across the Service.

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

Since the start of the current financial year, the Service has processed a total of 2874 purchase invoices, amounting to a total value of £25m.

The Service's loans and investments are managed by Staffordshire County Council (Treasury Department). At the time of our review, the Service had £19.5m in investments, split between the Debt Management Office (DMO) and private sector institutions. The Service had a total of £17m in loans, of which £16m has been borrowed from the Public Works Loan Board (PWLb).

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 Service's Aged Debtor Report contained a total of 10 debtors, with a total debt amounting to £82k.

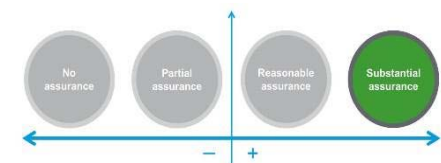
Conclusion

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

One area of improvement has been noted in relation to the updating of supplier standing data which has resulted in the agreement of one 'medium' priority management action.

Internal audit opinion:

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



Key findings

We identified the following exceptions with the Service's established control framework:



Due to the Covid-19 pandemic and staff members working remotely, supporting notifications for supplier bank account changes are not being physically printed and signed by the relevant verifier/amender and independent reviewer. It was therefore not possible to evidence that these checks had taken place for a sample of supplier bank account changes.

The Service needs to ensure email approval is maintained on file to confirm that the bank details have been verified with the supplier and accuracy checked once input into the Finance System. **(Medium)**

Our audit review identified that the following controls are suitably designed, consistently applied and are operating effectively:



The Service has a Financial Regulations document in place. The Regulations outline the duties and responsibilities of individuals and groups with regards to a variety of financial duties, including the procurement of goods and services, budgetary control, receipt of income and cash, and investment. The Regulations were found to have been maintained up to date and last updated in June 2020.



The Service has a Scheme of Delegation document in place. The Scheme was last updated in September 2019 and sets out the authorisation limits for approvers across all of the Service's budget areas.



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 Integra Finance System is restricted to appropriate staff members. A sample of 20 current users within the Integra 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 Integra Finance System in line with the Service's Scheme of Delegation. Through testing a sample of 20 paid invoices from the current financial year, it was confirmed that approval limits within the Finance System matched those documented within the Service's Scheme of Delegation.



Regular backups are completed of the General Ledger and Integra Finance System to ensure data can be easily retrieved in the event of a disaster or disruption. Backups are completed and maintained by the System provider (Capita) in line with a set backup schedule.



Automated system reports are e-mailed to all budget holders with their cost centre budget reports. Budget holders are able to interrogate the reports to a transactional level as well as view supporting documentation such as invoice and journals etc. Management accounts are produced and disseminated to senior management on a monthly basis. Additionally, a monthly Finance Newsletter is published for non-finance staff members and displayed on notice boards around the Service. Testing of the last three months confirmed that the reports, accounts and newsletters had been produced in a timely manner following month-end.



All journals are independently reviewed and approved in the Integra Finance System prior to posting. A sample of 20 journal postings were selected and tested from the current financial year. In all 20 instances, it was confirmed that the journals had been appropriately reviewed and authorised within the Finance System prior to posting.



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 Service has a Bank Suspense account in place which is used for the holding of income prior to allocation. The account is reviewed and cleared on a monthly basis. At the time of audit, the trial balance of the account confirmed its value to be zero.



Purchases for goods, services and works are procured in line with the Service's 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 Integra Finance System. Compliance was confirmed via testing of a sample of 20 paid invoices since the start of the current financial year.



A New Supplier Set Up form is completed for all new supplier requests. Approval is sought from the Procurement Department prior to authorisation by the Finance Department. Once approved, the form is compliance checked by the Finance Department and inputted into the Integra Finance System. An independent check of the supplier bank details is completed by another member of the Finance Department. A sample of 20 new suppliers since the start of the current financial year were selected and tested.

In all instances, a corresponding New Supplier Set Up form was found to have been maintained on file.



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. Compliance was confirmed via testing of a sample of 20 paid invoices since the start of the current financial year. Investigation by the Finance Department was found to have been completed for all instances where a discrepancy was present between the original purchase order value and invoice or GRN value. Where the invoice value was in excess of the original corresponding purchase order, additional budget holder approval was found to have been obtained in all instances.



Creditor BACS payment runs are completed twice a week. A member of the Finance Department will prepare a summary report of all payments to be processed. An exception report is also processed and reviewed to identify any duplicate payments. A second member of staff completes an additional spot check of supplier payments and provides e-mail approval. Once approval has been received, the original preparer will submit the BACS run for payment. Compliance was confirmed via testing of a sample of 20 paid invoices since the start of the current financial year. Supporting documentation for the relevant BACS run each invoice was paid within was obtained and reviewed. All BACS runs were found to have been processed, reviewed and authorised in line with procedure.



There is adequate segregation of duties in the ordering, goods receipting and approving of invoices process. Purchase orders are requisitioned within the Finance System. An appropriate approver in line with the Scheme of Delegation approves the purchase order. The original requisitioner will goods receipt the relevant goods or services when received.

Upon receipt of an invoice, the System will attempt to auto match the order, receipting and invoice, in preparation for payment (any discrepancies are manually resolved). Additionally, a sample check of supplier invoices is also completed as part of the BACS run process.



Invoices are processed in a timely manner to ensure they are paid in line with supplier payment terms and due dates. Compliance was confirmed via testing of a sample of 20 paid invoices.



Non-purchase order invoices are identified and monitored by the Finance Department. Through testing a sample of 20 paid invoices, two instances were noted where a purchase order had not been raised. One instance related to an annual service charge and the other related to the Transport Department – which has its own ordering system. In both instances, appropriate budget holder approval was found to have been obtained prior to payment. Additionally, a further 10 non-purchase order invoices were selected and tested. All 10 invoices were found to have been in relation to valid exemptions.



A Sales Invoice Request form is completed prior to the raising of a sales invoice. The requestor completed the relevant information such as debtor information and amounts to be invoiced. Following receipt of a completed form, the Finance Department will authorise the 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 Sales 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. At the time of audit, the Service had a total of 10 debtors within their current Aged Debtor Report. A sample of five debtors were selected and tested.

In all five instances, it was 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. Since the start of the current financial year, the Service has had a total of three write offs. A corresponding fully completed and authorised Write Off form was found to have been maintained on file for all write offs. Details and amounts within the Write off forms were found to correspond to the write offs within the Finance System.



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



The Service's loans and investments are managed by the Staffordshire County Council (Treasury Department). The Council provides the Service with a weekly settlement update which details any updates on deals and payments. 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, it was confirmed that the Service had received timely correspondence and updates report from the Council.

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	All requests for changes to supplier standing data are independently verified, with supporting evidence being maintained on file. Once the revised bank details have been input into the Integra Finance System, another member of staff will independently review the details for accuracy.	Assessment:		
		Design		✓
		Compliance		×
Findings / Implications	A report of supplier bank detail amendments since the start of the current financial year was obtained and reviewed. The report confirmed that there had been seven supplier bank detail changes.			
	In all seven instances, we confirmed that the original notification from the relevant supplier had been maintained on file. However, in all instances it was noted that the original notifications had not been signed by the individual responsible for verifying the details with the supplier and input into the Finance System.			
	Additionally, the notifications had not been signed by an independent reviewer to confirm the accuracy of the revised details had been checked back to the original supporting notification.			
	Through discussion with the Transactional Finance Manager we were advised that the original notifications had not been signed as the Finance Department have been working from home during the Covid-19 pandemic, and as a result, the original notifications had not been physically printed. We would recommend that email approval is maintained on file to confirm that the bank details have been verified with the supplier and accuracy checked once input into the System. (This is an area that is the subject of a number of attempted, sometimes successful frauds, and controls in this area need to be working effectively).			
	If supplier bank detail changes are not independently verified with the relevant supplier prior to being actioned within the Integra System as well as being checked for accuracy once input, there is a risk of financial loss to the Service.			
Management Action 1	All supplier bank detail changes will be independently verified with the relevant supplier prior to being actioned within the Integra System. Once inputted, the revised details will be independently checked by another member of staff.		Responsible Owner:	Date:
	An electronic audit trail will be maintained on file to support the verification and accuracy check.		Transactional Finance Manager	30 November 2020
			Priority:	Medium

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	(3)	0	(3)	0	0	0
General Ledger	0	(8)	0	(8)	0	0	0
Payments and Creditors	0	(10)	1	(10)	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; and
- Loan covenants, where in place, are monitored on a regular basis with risks identified and actioned in a timely manner.

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;
- 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.

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