

CHIEF CONSTABLE OF STAFFORDSHIRE

Key Financial Controls

Internal audit report 5.19/20

Final

2 December 2019

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.

EXECUTIVE SUMMARY

Why we completed this audit

We have completed an audit of the Key Financial Control Processes in place at the Force. The focus of our review has been on the key controls in place for:

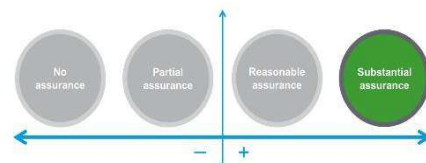
- General Ledger;
- Bank;
- Reconciliations; and
- Income / Debtors.

Conclusion

The opinion of this review has been formed upon the basis of an effectively designed and consistently complied control framework for those specific areas considered as part of this review. We identified two low level housekeeping issues as areas for improvement, which have been explained in our Detailed Findings section below.

Internal audit opinion:

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



Key findings

We identified the following key weaknesses / findings:



Our audit has highlighted that there were 31 policies and procedures for the sales ledger and bank held within the Finance area of the shared R: drive. These policies and procedures were saved within a multitude of locations in the folder with both duplicates and outdated versions.



The Oracle finance system is not able to generate a system report detailing additions or amendments to the chart of accounts. We included a management action to address this within our Key Financial Controls 4.18/19 report, but the action has yet to be implemented. The management action is not repeated here as the action remains on the internal action log. We included a management action within our previous Key Financial Controls report (4.18/19) to introduce a sample check of journals raised, to confirm appropriateness. It is pleasing to note that this had been actioned, however these sample checks need to be completed on a timely basis, in order to inform the month end process and checks.

Additional findings

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

General



There is a set of Financial Regulations in place, which were updated and approved by the Strategic Governance Board on 1 April 2019. The document outlines the roles and responsibilities and specifically for debtors, bank and general ledger functions.

General Ledger



As part of the audit we selected a sample of employees with various levels of access rights to the Finance system. Testing confirmed that in all cases the employees were current members of staff and were working in functions which required access to the Finance Ledger and the access that was granted was appropriate to their role and responsibilities.



There is a month end timetable in place for the production of financial reporting and month end close down. The timetable includes the dates key tasks must be undertaken and the responsible officer. Our audit confirmed that the month end timetable was consistently applied.



Our audit confirmed that the closing balances from the 2018/19 financial year were accurately carried forward to open the 2019/20 financial year. No exceptions were noted.

Bank



There is an up to date Bank Mandate in place that includes all current appropriate members of staff. No exceptions were noted.

Debtors



From our testing of 20 debtor invoices we confirmed that in all cases there was an invoice request form on file, and that the invoice had been raised in a timely manner (within 10 days), in line with procedure.



There is a bad debt recovery and write off policy in place that was approved by the Force Executive in November 2018. No exceptions were noted from the sample testing completed.

Reconciliations



Control account reconciliations are completed for the balance sheet codes. Reconciliations are prepared with supporting documentation and system reports. Our testing for a sample of control account reconciliations for the last three months did not highlight any exceptions.



There is only one suspense account being used and on review of the last three months closing balances/reconciliations it was confirmed that the account was being reviewed and cleared appropriately.

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.

1. Policies and Procedures		Assessment	
Control	Policies and procedures are in place for managing the general ledger, covering the purchasing and creditor payment functions and for the raising of invoices, credit control, debt recovery and write off functions. These documents are available to all staff within Finance via the Finance shared drive.	Design	✓
		Compliance	×
Findings / Implications	<p>In a meeting with the Business Services Lead we reviewed the various procedure folders within the 'R:/Restricted Share/Finance' shared folder which only Finance staff have access to. Review of the Finance area of the server confirmed multiple folders containing policies and procedures in different locations within the 'Finance' folder. Where procedures are held in various locations, there is a risk that staff are using different versions and may therefore be working to inconsistent procedures and standards.</p> <p>We were provided with 31 procedure note documents which included, but were not limited to, the following:</p> <ul style="list-style-type: none"> • Income receipting; • Invoices and payments; • Bad Debt & Write Off Policy; • Lloyds Link processes; • Sales Ledger Process notes (folder); • Cash Handling Policy and Procedure; • Imprest Policy and Procedure; • Cash Banking Journal Template; and • Corporate credit card policy. <p>There was no cover sheet/log detailing the policies and procedures in place and many of the documents did not include the responsible owner or a version control, increasing the risk that staff may be using different versions of the same document.</p>		
Management Action	An exercise will be undertaken to review all policy and procedural documentation held in the 'Finance' folder in the R: drive and ensure that there is one central Policy and Procedures folder which holds the most recent versions of each. Procedures within each area will be condensed where possible (ie Income, Payments, General) and out of date documentation will be reviewed and updated and historic versions deleted.	John Bloomer, Chief Finance Officer Kirsten Courtney, Deputy Chief Finance Officer	31 March 2020 Low

2. Journals		Assessment		
Control	Journals are used to correct or reallocate transactions on the general ledger.	Design		✓
	There is no process at the organisation for authorisation of journals prior to posting to the finance system. The Deputy Chief Finance Officer reviews a sample of 10 journals for each month.	Compliance		×
Findings / Implications	A sample of 20 journals were selected from the period 1 April to 12 November 2019 and testing identified that in all cases there was a supporting electronic record for each journal which contained sufficient narrative outlining the reason the adjustment was made. In line with the action raised as a part of Financial Management 1.18/19 internal audit review we confirmed that the Deputy Chief Finance Officer now reviews a sample of 10 journals (judgementally including various areas and values) from each month to confirm that they are legitimate and correctly posted, with relevant back up documentation on file and the action has therefore been considered as implemented. We reviewed the ‘Q2 Journal Checks’ spreadsheet and confirmed that the Deputy Chief Finance Officer had reviewed a sample of 10 journals for each month in quarter 2 (July, August and September 2019). However, testing of each month’s journal check identified the following: <ul style="list-style-type: none">In six (20%) cases the journal evidence had not been received from the Business Analyst as at 15 November 2019. In a meeting with the Business Analyst we identified that these were on file, however as another member of staff had sent the evidence to the Deputy Chief Finance Officer they had not been able to find the relevant evidence. We were assured that the evidence was on file and would be sent. Where the journal checks are completed on a quarterly basis, there is a risk that issues are not identified until four or more months after their posting to the Finance Ledger which may could result in incorrect reporting on a long-term basis.			
Management Action	The quarterly journal checks must be completed and all journals approved or investigated, prior to the month end following the quarter under review.	Kirsten Courtney, Deputy Chief Finance Officer	30 January 2020	Low

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.

Risk	Control design not effective*		Non Compliance with controls*		Agreed actions		
					Low	Medium	High
The quick brown fox jumps over the lazy dog.	1	(13)	1	(13)	2	0	0
Total					2	0	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 area under review

Safeguard the Organisation's assets and interests from losses of all kinds.

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

As part of our review we will test a sample of key controls in the following areas:

- General Ledger (journals, opening and closing balances, access;
- Reconciliations (control account balances and suspense accounts);
- Bank Accounts (bank mandate and reconciliations);
- Income & Debtors (raising an invoice, chasing outstanding debtors).

Limitations to the scope of the audit assignment:

- We will undertake an assessment of the adequacy of selected aspects of the control framework in the areas for consideration and undertake limited testing to confirm its operation in practice;
- The review will not consider the strategic financial management or budget setting process;
- We will not assess the VAT compliance or VAT return for appropriateness;
- We will not form an opinion on the accuracy of the cash flow information;
- We will not circularise financial institutions to confirm the existence of bank deposits;
- Our review does not provide an opinion on the appropriateness or security of the investments or banking deposits, or the appropriateness of investment policies;
- Conclusions are based on our assessments made through discussions with management, assessment of the current framework of controls and an initial review of relevant documentation available, either internally or externally generated;
- Our audit does not seek to replicate advice provided to you by any third parties and external advisors;
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

Debrief held 14 November 2019
Draft report issued 27 November 2019
Responses received 2 December 2019

Final report issued 2 December 2019

Internal audit Contacts Daniel Harris – Head of Internal Audit
Daniel.Harris@rsmuk.com / 07792 948767
Angela Ward – Senior Manager
Angela.Ward@rsmuk.com / 07966 091471

Client sponsor John Bloomer, Chief Finance Officer

Distribution 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 the 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.