



STAFFORDSHIRE FIRE & RESCUE SERVICES

Item 5 (iv)

Key Finance Controls

FINAL Internal Audit Report 3.21/22

3 February 2022

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1. EXECUTIVE SUMMARY

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 2021/22.

The key controls in the following areas were considered as part of this review:

- Policies & Procedures:
- General Ledger;
- Payments and Creditors;
- Income and Debtors; and
- Cash and Treasury Management.

The Service has Financial Regulations which provides clarity to the way the Service will be governed, supported by a Scheme of Delegation framework which sets out the authorisation limits for approvers across all of the Service's budget areas.

The Service utilises the Integra Finance System to manage its day-to-day transactions, including the purchasing of goods and services.

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.

Internal audit opinion:

Taking account of the issues identified, the Authority 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

Based on our sample testing, it has not been necessary to agree any management actions. The following paragraphs detail the coverage and outcomes from our testing:



The Service's Financial Regulations were approved by the Strategic Governance Board and were last updated in June 2020.

The Regulations provides clarity to the way the Service will be governed, to do business in the right way, for the right reasons at the right time and outlines 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 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 Creditors and Debtors operational procedures in place to accompany the Financial Regulations

and support regular activities carried out. The procedure notes are subject to regular review and are easily accessible via a local share drive by relevant staff members.



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, we 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, we confirmed that approval limits within the Finance System matched those documented within the Service's Scheme of Delegation.



The General Ledger and Integra Finance System are regularly backed up by Capita Integrated Business Solutions to ensure data can be easily retrieved in the event of a disaster or disruption. Internal tests and External Data Recovery (DR) tests are undertaken. Evidence of the tests is appropriately held and was reviewed as part of the audit with no issues identified.



Automated system cost centre budget reports are e-mailed to all budget holders. In addition, 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. We checked that the management accounts are reconciled back to the ledger prior to the reports being presented and no issues were noted. Additionally, a Recourse Control Report is circulated to Budget

Holders in accordance with the timetable and a Finance Newsletter is published for non-finance staff members and displayed on notice boards around the Service.



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, we 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 2021/22 timetable confirmed that it had been maintained up to date.



Creditor, Debtors, Bank, Precepts and Investments control account reconciliations are completed on a monthly basis and the our review found that these had been completed timely, following month-end, independently reviewed, and any discrepancies identified had been investigated and resolved.



The Service has a Bank Suspense account in place which is used for 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 the majority of all new supplier requests. Approval is sought from the Procurement Department prior to authorisation by the Finance Department. An independent check of the supplier bank details is completed by another member of the Finance Department, and once approved, the Form is compliance checked by the Finance Department and inputted into the Integra Finance System. 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.



Changes to supplier information were amended in accordance with the Service's change process with independent verification of bank details being undertaken (confirming to details already held, which is an important control to have operating effectively).



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 submits 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.



Purchase orders are completed for all purchases. Where it is a non-purchase order item, invoices are identified and monitored by the Finance Department.



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 seven debtors (totalling £87k) within their current Aged Debtor Report.

A sample of three debtors were selected and tested. In all three 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 with a Write Off Form being completed and authorised prior to the actioning of each write off. However, as at the 17 November 2021 the Service have had no write-off in the current financial year.



A Sales Invoice Request form is completed prior to raising 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 authorises 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



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, we 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 Pension Fund as part of the Staffordshire County Council. The Council provides the Service with a weekly settlement update which details any updates on deals and payments and a monthly outstanding update is provided in relation to principle values, interest rates and maturity dates etc. There have not been any long term loan transactions completed to date during 2021/22 and therefore we have not undertaken any testing in this area.

In addition, there are quarterly Treasury Management Meetings held with the Chief Finance Officer. Through testing of the last three months, we confirmed that the Service had received timely correspondence and update reports from the Council. The reports include detail on investments, cash balances, debt balance and loan obligations. We have not completed any testing on any transactions made, as these are managed and processed by Staffordshire County Council.

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 actions		
					Low	Medium	High
Policy & Procedure Framework	0	(7)	0	(7)	0	0	0
General Ledger	0	(4)	0	(4)	0	0	0
Payments and Creditors	0	(10)	0	(10)	0	0	0
Income and Debtors	0	(3)	0	(3)	0	0	0
Cash and Treasury Management	0	(2)	0	(2)	0	0	0
Total					0	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 internal audit assignment has been scoped to provide assurance on how Herefordshire and Worcestershire CCG is monitoring and managing the CHC Financial Recovery Action Plan:

Objective of the area under review

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

The following areas will be considered as part of the review:

- 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 (we will not confirm that the rules applied by the Local Authority have been applied);
- For 2021/22 any loans that have been made are in line with the organisations treasury management rules following approval in line with the delegated authorities (we will not confirm that the rules applied by the Local Authority have been applied); and
- Loan covenants, where in place, are monitored on a regular basis and are included within the management reports received from Staffordshire County Council.

Where necessary, our work will incorporate the use of data analytics using the IDEA software package.

The following limitations apply to the scope of our work:

- We will not confirm that the finance system work flows 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;
- All testing will be compliance-based sample testing only; and
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

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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.

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