



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

## Key Financial Controls

Item 5 (iv)

Internal audit report 7.21/22

FINAL

3 February 2022

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# 1. EXECUTIVE SUMMARY

## Why we completed this audit

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 2021/22.

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

- 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).

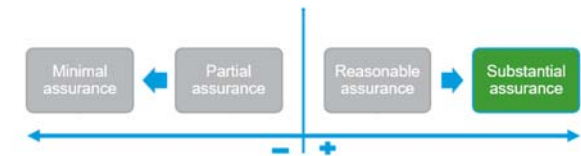
## Conclusion

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 four 'Low' priority actions, further details are outlined in Section 2 below.

## 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 this risk are suitably designed, consistently applied and effective.



## Key findings

### We identified the following findings:

Our sample testing of control account reconciliations and suspense account clearing identified that:

- In 4/30 cases, the control account reconciliation was not evidenced as reviewed;
- In 10/30 cases, the control account reconciliation was prepared in advance of the month end; and
- In 16/30 cases, the suspense account clearing was completed in advance of the month end.



We were informed by the Chief Accountant that reconciliations had been reviewed and completed following the month end, however, the excel document recording the reconciliations had not been updated resulting in previous dates being carried forward. **(Low)**

Our sample testing of 20 new suppliers identified that:

- In 3/20 cases, the new supplier did not have an NCR1 form;
- In 5/20 cases, we were not provided with evidence that the NCR1 form had been authorised by a member of the Purchasing Team before being setup; and
- In 3/20 cases, the NCR2 form had not been signed by the supplier. We were informed by the Purchasing Manager that signatures are often contained in email as the forms are completed electronically, especially during Covid-19.

If NCR1 forms and approval evidence are not maintained on file, then the Force cannot demonstrate that appropriate documentation was completed and checks completed, prior to purchasing goods from the new supplier. **(Low)**

Our sample testing of 10 supplier amendments identified that in one case, we were unable to obtain evidence of the original notification, via which the Force were notified, of the change. **(Low)**

Our sample testing of 20 paid purchase invoices identified that in ten cases, the payment was made after the due date outlined on the invoice. Late payment of invoices could result in reduced credit terms for the Force and reputational damage. We were informed by the Deputy Chief Finance Officer that work is currently being undertaken to improve the level of prompt invoice payments. **(Low)**

The Force have Financial, Contract and Procurement Regulations and a Scheme of Delegation as part of the Joint Corporate Governance Framework. The Framework was last reviewed in June 2020 and is available to all staff through the Staffordshire Police website.

The Finance Department have a series of procedures which cover standard financial operations. They are maintained up to date and are located on the local shared drive which is accessible to all relevant staff members.

Our sample testing of 20 current Oracle users on the system confirmed they were all current staff members at the Force.

The Finance Department complete daily backups at 6pm using the NetBack system. A report is produced to show if all aspects of the backup were successful. Any failures that occur are investigated.

All six directorates receive monthly budget holder reports and Group Finance reports.

Our sample testing of 20 journals confirmed that each entry had a corresponding electronic record, contained sufficient narrative and had been correctly authorised by a second member of staff.

The Force have a month end timetable that outlines tasks, responsible owners, date of completion and supplementary notes. We confirmed that each task had an assigned responsible owner.

Our sample testing of 20 paid invoices confirmed that a Purchase Order (PO) had been raised for all invoices that required them. We identified that three POs were raised retrospectively, however the reasons for this were acceptable and thus we have not agreed a management action.

For the sample of 20 paid invoices, we confirmed the Payment Instructions Register had been reviewed, compared to the BACS Audit Listing and invoices over £10,000 had been highlighted to confirm the invoice and payment details were correct.

We identified one exception where a member of the Transactional Team did not sign the Payment Instructions Register, but had highlighted the document for high value invoices, therefore we have not agreed a management action.



Segregation of duties is evidenced throughout the purchasing process as members of the Purchasing Team cannot undertake activities of the Transactional Team, and vice versa.



Our sample testing of 20 sales invoices confirmed that a corresponding invoice request form was maintained on file, the invoice was raised in a timely manner and the details in the request form matched those of the invoice.



Our sample testing of 10 aged debts confirmed adequate debt chasing activities had been completed by the Force.



The Force have had one bad debt since April 2021 of £11,502.70 due to the liquidation of a debtor. We confirmed that the write off was approved by the Force Deputy Chief Finance Officer which is in line with the Force Bad Debt and Write Off Policy.



The Force have prepared a cashflow forecast for the 2021/22 financial year. The forecast also showed detailed cash movement from the year to date, with variations between actual and forecasted figures calculated. Where variances are significant, a note is prepared explaining the reason why.



The Service's loans and investments are managed by the Staffordshire Pension Fund as part of the Staffordshire County Council. The Council provides 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 they 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.

## 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: General ledger				
Control	Control account reviews are completed for all balance sheet codes.	Assessment:		
	A reconciliation schedule is prepared with supporting documentation, including system generated reports.	Design		✓
	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.	Compliance		×
Findings / Implications	We selected a sample of 10 control accounts across the months August to October. The controls accounts, we tested covered the below:			
	• CRED02- Creditors Control Account and DEBT02- Debtors Control Account			
	• DEBT24- Central Government Bodies and CRED28- Other			
	• CASH20- Staffordshire Police Account and CASH26- Online Payments Account			
	• SUSP16- Payroll Suspense Account and SUSP03 - Officer Pension Tax Liability			
	• VATX07- VAT Repayments and SUSP17- Payroll Child Care Vouchers			
	Our testing found the following exceptions:			
	• In 4/30 cases, the reconciliation was not evidenced as reviewed; and			
	• In 10/30 cases, the reconciliation was completed in advance of month end.			
	We were informed by the Chief Accountant that reconciliations had been reviewed and completed following month end as per the records on the ledger, however, the excel document recording reconciliations had not been updated. This resulted in previous dates being carried forward.			
Management Action 1	The Force will ensure control and suspense account reconciliations are correctly documented each month. Reconciliations should only be signed off when they have been completed properly.	Responsible Owner: Chief Accountant	Date: 31 January 2022	Priority: Low

## Area: General ledger

<b>Control</b>	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.	<b>Assessment:</b>	
		<b>Design</b>	✓
		<b>Compliance</b>	×
<b>Findings / Implications</b>	<p>The Force have a total of 17 suspense accounts. We selected a sample of 10 suspense accounts across the months August to October. The suspense accounts we tested included the below:</p> <ul style="list-style-type: none"> <li>• SUSM02 - Income Suspense and SUSM30 - Garages</li> <li>• SUSM36 - VAT Suspense and SUSP02 - Monthly Pensions</li> <li>• SUSP10 - Loans and Overpayments and SUSP12 - Payroll Bank Adjustments</li> <li>• SUSP14 - Payroll BACS Payments and SUSP16 - Vendors Suspense</li> <li>• SUSP17 - Childcare Vouchers and SUSP18 - Tuskers Lease Cars</li> </ul> <p>Our testing found the following exceptions:</p> <ul style="list-style-type: none"> <li>• In 16/30 cases, the reconciliation was completed in advance of month end.</li> </ul> <p>We were informed by the Chief Accountant, that reconciliations had been reviewed and completed following month end as per the records on the ledger, however, the excel document recording reconciliations had not been updated. This resulted in previous dates being carried forward.</p>		
<b>Management Action</b>	Please refer to Management action 1.		

## Area: Payments and creditors

<b>Control</b>	A New Creditor Form is completed for all new supplier requests.	<b>Assessment:</b>	
	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 and who the goods are to be used by (PCC, Police, Both). The completed form is then reviewed and approved by the Purchasing Manager.	<b>Design</b>	✓
	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 then reviewed by the Purchasing Manager prior to actioning in the Finance system.	<b>Compliance</b>	×

<b>Findings / Implications</b>	<p>A sample of 20 new suppliers were selected and tested from the current financial year. Testing identified the following exceptions:</p> <ul style="list-style-type: none"> <li>• In 3/20 cases, the new supplier did not have an NCR1 form;</li> <li>• In 5/20 cases, we were not provided with evidence that the NCR1 form had been authorised by a member of the Purchasing Team before being setup; and</li> <li>• In 3/20 cases, the NCR2 form had not been signed by the supplier. We were informed by the Purchasing Manager that signatures are often contained in email as the forms are filled in electronically, especially during Covid-19.</li> </ul> <p>If NCR1 forms and approval evidence are not maintained on file, then the Force cannot demonstrate that appropriate documentation was completed prior to purchasing goods from the new supplier.</p>			
<b>Management Action 2</b>	The Purchasing Team will ensure an NCR1 form and approval of the form is completed for all new suppliers and retained on file.	<b>Responsible Owner:</b> Purchasing Manager	<b>Date:</b> 31 January 2022	<b>Priority:</b> Low

#### Area: Payments and creditors

<b>Control</b>	<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>		<b>Assessment:</b>	
			<b>Design</b>	✓
			<b>Compliance</b>	×
<b>Findings / Implications</b>	<p>A sample of 10 supplier amendments were selected and tested from the current financial year. Testing identified the following exceptions:</p> <ul style="list-style-type: none"> <li>• In 2/10 cases, the supplier amendment related to a change in bank details. The Force retained evidence of a change from verifying details with the supplier, however, it was noted that an independent check is not completed to confirm the accuracy of the data. We discussed this with the Purchasing Manager as a control to implement, however, due to the small size of the Purchasing Team and level of risk to the Force, it will not be implemented. We were also informed that this had been discussed in previous Key Financial Controls audits, with the same reasoning provided; and</li> <li>• In 1/10 cases, we were unable to obtain evidence of the original change notification from the supplier.</li> </ul> <p>If supplier amendment requests are not retained by the Force then in the event of a dispute, the Force cannot evidence the request had been submitted.</p>			
<b>Management Action 3</b>	Following the revision of bank details in the Oracle Finance System, another member of staff will independently review the details for accuracy.	<b>Responsible Owner:</b> Purchasing Manager	<b>Date:</b> 31 January 2022	<b>Priority:</b> Low
	This review will be documented and retained.			

## Area: Payments and creditors

Control	The payment of invoices in accordance with prompt payment targets is monitored and invoices are paid in a timely manner.	Assessment:		
		Design		✓
		Compliance		x
Findings / Implications	<p>We selected a sample of 20 paid purchase invoices from the 2021/22 financial year and tested to confirm whether each invoice was paid in line with the set due date. Testing identified the following exceptions:</p> <ul style="list-style-type: none"><li>In 10/20 cases, the invoice was not paid by the due date.</li></ul> <p>If invoices are not paid on time, then the credit terms issued to the Force could be reduced and suppliers could refuse to work with the Force. Ultimately this leads to damaging the Forces reputation.</p> <p>We were informed in the debrief meeting by the Deputy Chief Finance Officer that the Force are aware of the current issues regarding payment of invoices on time. The Chief Accountant currently runs weekly aged creditor reports to identify invoices that are due soon, however, these are only based on invoices on Oracle and the majority of delays come from invoices that are not on the system, where the responsible officer has to be chased individually.</p> <p>The Deputy Chief Finance Officer and Chief Accountant are currently trying other methods to improve the prompt payments position.</p> <p>As the Force are aware of the issue and are taking actions to address it, we have not agreed a management action.</p>			
Management Action 4	The Force will investigate and implement a method of tracking invoices that are within one week of the payment date to ensure creditors are paid on time.	Responsible Owner: Deputy Chief Finance Officer	Date: 30 June 2022	Priority: 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.

Area	Control design not effective*		Non-Compliance with controls*		Agreed actions		
					Low	Medium	High
Policies and procedural framework	0	(7)	0	(7)	0	0	0
General ledger	0	(4)	1	(4)	1	0	0
Payments and Creditors	1	(6)	3	(6)	3	0	0
Income and debtors	0	(3)	0	(3)	0	0	0
Cash and treasury management	0	(2)	0	(2)	0	0	0
<b>Total</b>					<b>4</b>	<b>0</b>	<b>0</b>

\* 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

The scope below is a copy of the original document issued.

### 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:

- 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 have not confirmed that the rules applied by the Local Authority have been applied given no new loans in 21/22);
- 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 (no new loans made in 21/22 so we have not confirmed 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 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;
- 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.

**Debrief held** 11 January 2022  
**Draft report issued** 26 January 2022  
**Responses received** 2 February 2022

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