

Item 7 (ii)

# STAFFORDSHIRE FIRE & RESCUE SERVICES

## Financial Controls

Internal audit report 5.23/24

FINAL

29 April 2024

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# 1. EXECUTIVE SUMMARY

## Why we completed this audit and background

As part of the approved internal audit plan for 2023/24, we have undertaken a review of Financial Controls at Staffordshire Fire and Rescue Services (the Service). The Service has recently completed a version upgrade of the Integra Centros Finance System.

The audit was focussed on the following three key areas:

- Policies and System;
- General Ledger; and
- Management Reporting.

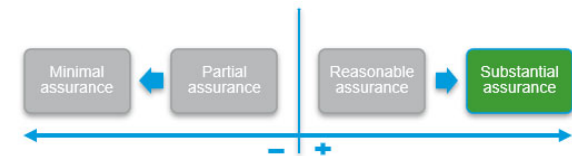
Day-to-day finance operational tasks are completed by the Finance Department which is overseen by the Head of Finance, who reports to the Assistant Director of Finance.

## Conclusion

Overall, there is an appropriate control framework in place for the operational management of the Finance system. Areas of improvement have been noted in relation to finance system backups, month-end tasks completion and control account reconciliations; which has resulted in the agreement of one 'medium' and one 'low' priority management actions.

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



## Key findings

### We identified the following areas of improvement:



#### Finance System Backups

It is important that where a third party is responsible for completing such tasks that assurance is provided on a regular basis to confirm tasks have been completed and their outcome. Furthermore, we were informed that the data back ups are not currently being tested to ensure data can be fully restored. Without regular assurance that backups are being run and data can be successfully restored, there is a risk that the finance system data could be inaccessible, potentially resulting in disruption to the organisation. **(Medium)**



#### Control Account Reconciliations

From a review of a sample of control account reconciliations we noted instances where the reviewer and approver information had not been documented and therefore segregation of duties could not be confirmed. **(Low)**

### The following controls were found to have been well designed and operating effectively:



#### Policies and Procedures

Staffordshire Fire and Rescue Services 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. The Financial Regulations are reviewed and approved periodically every 2 years unless significant changes warrant an earlier revision. The Regulations were last updated in January 2024.



#### Roles and Responsibilities

Roles and responsibilities have been defined for the Finance Department. The Department is overseen by the Head of Finance, who reports to the Assistant Director of Finance.



#### System Access Rights

On a periodic basis, user access to finance systems is reviewed. Amendments to user access are processed in line with updates recorded from the review (where applicable). A sample of 20 users were selected and tested. No exceptions were noted.



#### Finance System Upgrade

A version upgrade was completed in February 2023, with the support of Capita. Review of documentation confirmed the testing phase and go-live were completed successfully in line with set timeframes. A general user guide and document outlining the changes of the new version were disseminated to all relevant staff members.



#### Finance Report Pack

A Finance Report Pack is produced at month-end by the Deputy Chief Finance Officer along with Director of Finance Asset and Resources which includes information regarding, but not limited to, the following: the Revenue Position and Cash Flow Statement. The monthly management accounts are circulated (via email) to budget managers and the senior team.



### **Budget Monitoring**

Budget holders receive monthly reports at the month-end showing actual income and expenditure for the reporting month as well as the year-to-date position. These are automatically sent out to budget holders by the Integra Finance System. Meetings to discuss the reports take place either with the Finance Team or on a 1:1 with the Finance Manager and the Budget Holder depending on the content of the reports.



### **Management information**

Management information reports regarding financial data are produced and presented to the following forums:

- Finance Panel;
- Ethics, Transparency and audit panel;
- Police, Fire and Crime Panel; and
- SGP Commissioner.



### **Journal Postings**

Journal entries are in line with the Authorisation Hierarchy, where the responsible staff members for both entering and approving the journals are documented. Additionally, each transaction includes a date indicating when the entry was made and when it was subsequently approved.

The Service has a General Ledger Journal in place which includes the amount and details of the journal, which also documents the responsible staff members for both entering and the transaction date and code. Additionally, there is an document "CB Journal Authorisers", which includes the details of the journal, authorization details. A sample of 20 journal postings were selected and tested from the current financial year. No exceptions were noted.

## 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: Finance System Backups   |  |   |                                |                            |
|--------------------------------|--|---|--------------------------------|----------------------------|
| <b>Control</b>                 | A third party is responsible for completing the back-up of the finance system.<br>The finance system is backed up daily (overnight). Additionally, there is an annual backup which takes place once a year.  | <b>Assessment:</b>  |                                |                            |
|                                |  | <b>Design</b>   | ✓                              |                            |
|                                |  | <b>Compliance</b>   | ×                              |                            |
| <b>Findings / Implications</b> | <p>A Capita Integrated Business Solutions Integra Hosted Service Back-Up and Recovery Overview document is in place which provides an overview of the backup and recovery policy.</p> <p><u>Daily back up</u> - We were informed by the Assistant Director of Finance that daily system backups are carried out overnight. We were furthermore informed that the Service is not notified when the backup has taken place or if any issues have been identified.</p> <p><u>Annual back up</u> - Review of Azure Site Disaster Recovery Test Drills, for Tenant _037, we confirmed that the back up was completed on 26 April 2023 and the details are recorded.</p> <p>The Disaster Recovery (DR) tests are carried out in the UK South region using a working tenant environment as default. In this failover test scenario, virtual machines are tested, and the different networking environments create a replicated environment. The replication process relies on the components of the replicated environment rather than recovery items from backups.</p> <p>It is important that where a third party is responsible for completing such tasks that assurance is provided to the service on a regular basis to confirm backups have been completed and their outcome.</p> |   |                                |                            |
| <b>Management Action 1</b>     | Confirmation will be sought from the backup provider to confirm backups are being completed timely and successfully and that data can be fully restored.   | <b>Responsible Owner:</b><br>Corrina Bradley, Assistant Director of Finance | <b>Date:</b><br>31 August 2024 | <b>Priority:</b><br>Medium |

**Area: Control Account Reconciliations**

|                |   |                    |   |
|----------------|---|--------------------|---|
| <b>Control</b> | <p>There is a control account reconciliation schedule which logs all completed control account reconciliations. In line with the month-end timetable, control account reconciliations are completed on a monthly basis for various control accounts (reconciliations include Purchase Ledger, Sales Ledger, Cash Book, Bank Account(s) and Suspense Account(s)).</p> <p>The reconciliation schedule is prepared, signed and dated by the Transactional Finance Manager with supporting documentation, including system generated reports. The reconciliations are reviewed and dated by the Head of Finance. All discrepancies are investigated and rectified during the reconciliation process and evidence is retained.</p> | <b>Assessment:</b> |   |
|                |   | <b>Design</b>      | ✓ |
|                |   | <b>Compliance</b>  | × |

|                                |   |  |  |  |
|--------------------------------|---|--|--|--|
| <b>Findings / Implications</b> | <p>From the control account summary, we selected the following nine key control accounts ranging from April 2023 - January 2024:</p> <ul style="list-style-type: none"> <li>• Debtors;</li> <li>• Creditors;</li> <li>• Bank - Lloyds;</li> <li>• Bank - Unpresented;</li> <li>• RSG - NNDR;</li> <li>• Precepts;</li> <li>• Investments - General;</li> <li>• Investments - Aberdeen; and</li> <li>• Credit Card Analysis;</li> </ul> <p>Testing identified the following exceptions:</p> <p>In 17/20 cases, we confirmed that there were evidenced segregation of duties in relation to the preparer and authoriser. However, for the three remaining cases the following exceptions were noted:</p> <ul style="list-style-type: none"> <li>• In one case, it was unclear as to whether there was a segregation of duties as we noted that although a reconciliation had been completed, there was no evidence of who had prepared or authorised the check and when the check took place.</li> <li>• In two cases, neither the authoriser of the check, nor the date it was carried out was documented.</li> <li>• In two cases, the reconciliation had been prepared at the beginning of October 2023, but were then authorised on 2 November 2023. We were informed by the Head of Finance that this was due to the busy budget setting period that takes place in October which led to a slight delay in the authorisation. This is considered to be an isolated incident and no further action is noted.</li> </ul> <p>Without control account reconciliations being evidenced to record the preparing and reviewing officers there is a risk that segregation of duties cannot be demonstrated and that a robust preparation and review process has taken place.</p> |  |  |  |
|--------------------------------|---|--|--|--|

|                            |   |   |                             |                         |
|----------------------------|---|---|-----------------------------|-------------------------|
| <b>Management Action 2</b> | Control account reconciliations will be annotated to record the preparing and reviewing officers. The reminder will be incorporated as part of the month end checklist. | <b>Responsible Owner:</b><br>Corrina Bradley, Assistant Director of Finance | <b>Date:</b><br>31 May 2024 | <b>Priority:</b><br>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     |
| Key Finance Controls | 0                             | 2                             | 1              | 1        | 0        |
| <b>Total</b>         |                               |                               | <b>1</b>       | <b>1</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 objective:

#### Objective of the risk under review

To ensure the Service has an effective framework in place for the governing of finance controls.

#### When planning the audit, the following areas for consideration and limitations were agreed. The audit will consider the following;

- There are financial regulations, policies and procedures in place for all key financial areas.
- Access to the finance system is adequately controlled; this includes amendments to approval limits.
- The finance system is periodically backed up and assurances are received confirming its completion.
- Controls are in place to ensure accurate financial reporting is made to all levels of the organisation (strategic and operational information).
- Journal creation and posting is controlled and includes a segregation of duties.
- There is a month end timetable in place which sets out the key deadlines.
- 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)).
- Budget monitoring reports are produced and disseminated to budget holders.
- Regular management information reports are produced and presented to Management, Committees, and the Board.

#### Limitations to the scope of the audit assignment:

- 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 have not reconciled data from the management accounts to the financial systems and financial statements;
- All testing will be compliance-based sample testing only; and
- Our work does not provide assurance that material error, loss or fraud do not exist.



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