



# BEDFORDSHIRE FIRE & RESCUE AUTHORITY

## Key Financial Controls

**FINAL**

**Internal audit report: 3.17/18**

**23 January 2018**

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# 1 EXECUTIVE SUMMARY

## 1.1 Background

The Bedfordshire Fire and Rescue Service Finance Team is headed by the Head of Finance with the support of the Chief Accountant, two Principal Officers and a team of Finance staff.

Financial transactions are recorded through the Great Plains finance system which has the capability of covering all area of finance within the organisation.

Our review focussed on the key financial controls within the following areas:

- General Ledger;
- Payments and Creditors (Accounts Payable);
- Income and Debtors (Accounts Receivable);
- Cash and Treasury Management;
- Assets.

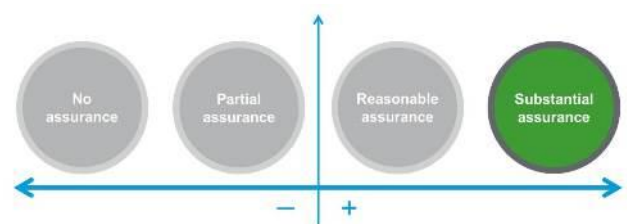
Financial Regulations and Financial Control Standards govern the daily operations of Bedfordshire Fire and Rescue Service.

## 1.2 Conclusion

Overall our review identified that there was a robust and effective control framework in place at Bedfordshire Fire and Rescue Service in relation to the areas noted above.

### 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 areas are suitably designed, consistently applied and operating effectively.



## 1.3 Key findings

The key findings from this review are as follows:

### General Ledger

- An authorised signatory list is in place, specifying financial limits. Testing of a sample of five amendments and five established individuals within the service confirmed that limits were set appropriately in line with roles within the organisation. The Service uses Great Plains for their Finance system and testing of ten members of staff found that access to the ledger is sufficiently restricted.
- Journals are processed using a segregation of duties, between the requester, authorisation and inputting. We confirmed this for a sample of ten journals.

- Back-ups are conducted daily to servers hosted by Cambridgeshire Fire and Rescue Service, and testing for a sample of 26 separate days from December 2016 to October 2017 confirmed that the process was operating effectively.
- To maintain an efficient process, the Finance Team use a month-end timetable, primarily as a guide to the tasks to be completed prior to closing the ledger. Monthly, reconciliations are undertaken of the control accounts with Great Plains to ensure the integrity of information held, and the process was confirmed through testing a sample of 10 control accounts over June, July and August 2017
- We selected a sample of 10 Great Plains users and confirmed that each user had been set up appropriately, and the access given was appropriate to their role.

### Payments and Creditors

- A robust process is in place for the addition of new suppliers, with testing of a sample of 10 new suppliers confirming that forms are completed and evidence documented to demonstrate checks undertaken to confirm the new supplier prior to being set up.
- The organisation was following the quotation rules in place below the tender level of £50,000, this was confirmed through sample testing of 10 invoices paid.
- We found that payment runs are conducted once a week, being signed off by the Chief Accountant / Head of Finance prior to payment being made and any invoices over £50,000 will be accompanied by a copy of the invoice as supporting documentation. We selected a sample of three separate weeks, covering the period from August to October 2017 and confirmed that each payment run sampled had an appropriate segregation of duties and were accurately processed. We also confirmed that for two of the three weeks sampled, payments were made over £50,000 and we confirmed that a copy of the relevant invoices were provided to support the reasons for payment and had been authorised.
- An effective segregation of duties was found to be in place between the ordering, receipting and payment for goods and services and the authorisation of weekly payment runs. We confirmed through a review of 10 orders through to invoices.
- Furthermore, we confirmed through our testing of 10 invoices that the authority is paying invoices within 30 days of receipt.

### Income and Debtors

- We confirmed that effective monitoring was undertaken of debtors within the Finance team. At the time of audit, the total level of debtors stood at £37,411, with the majority of debtors being made up of three invoices for one debtor, the Home Office Shared Service Centre, which we were informed was for required reimbursements.
- From a sample of eight aged debts, we confirmed they were being chased in line with the debt management process outlined within the Financial Regulations. For the current financial year, no debts have been write off.

### Cash and Treasury Management

- Cash flow forecasts are prepared daily, using data received from income and payment accounts. Bank statements are used to input this information. The cashflow forecasts are reconciled by the Finance Officer, checked and agreed by another member of the Finance Office and approved by the Chief Accountant.
- Our testing of three investments confirmed that robust controls exist to ensure a segregation of duties and consideration for economic factors to ensure that the investments are feasible and we confirmed that they were in line with policy as each of the investments had investment forms documenting the reasons for the investment approved by the Head of Finance, and we confirmed that the investments were made through approved lenders.

- We confirmed that the Authority has not taken any loans since 2012, with the total outstanding balance brought forward from 2016/17 into 2017/18 totalling £9,987,700 across two loans, due to be repaid in 2056 and 2058 respectively. We understand there are no covenants associated with these loans.

## Assets

- There is an 'Assets Working Papers' spreadsheet which provides a summary of the Authority's assets like property and plant and equipment. This includes their Net Book Value and is updated on an annual basis.
- Access to the asset register is password protected and limited to the Chief Accountant, the Head of Finance and the two Principal Finance Officers. As there have been no changes since this was last reviewed by External Audit, we have not tested further in this area.
- The service uses straight line depreciation for assets, and on an annual basis, reconcile the ledger to the asset register.
- The asset verification process is decentralised to workshops and technical teams and assurance is provided based on sample testing by external audit. The assets which would need to be verified via this process are spread across a number of sites and areas. The majority of assets are critical to the day to day running of a station / department and if they were missing it would soon come to light. The assets in question go through a verification process each year end via external audit and therefore it is the Chief Accountants view that because of these two reasons it is not necessary to carry out further check. Any vehicles or high value items that are disposed of or replaced are done so with agreement by way of agreement delegated by the Fire authority to the Chief Fire Officer.

However, in addition to the above well designed and consistently applied controls, we have identified issues which have resulted in the agreement of three **low** category actions which are detailed below.

## 1.4 Additional information to support our conclusion

The following table highlights the number and categories of management actions made. The detailed findings section lists the specific actions agreed with management to implement.

Area	Control design not effective*		Non Compliance with controls*		Agreed actions		
	0	(3)	1	(3)	Low	Medium	High
General	0	(3)	1	(3)	1	0	0
General Ledger	0	(4)	0	(4)	0	0	0
Payments and Creditors (Accounts Payable, AP)	0	(6)	1	(6)	1	0	0
Income and Debtors (Accounts Receivable, AR)	0	(3)	1	(3)	1	0	0
Cash and Treasury Management	0	(3)	0	(3)	0	0	0
Assets	0	(6)	0	(6)	0	0	0
<b>Total</b>					<b>3</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.

## 1.5 Progress made with previous audit findings

Date of previous audit	Low	Medium	High
Number of actions agreed during previous audit	3	1	0
Number of actions implemented/ superseded	3	1	0
Actions not yet fully implemented:	0	0	0

As part of this review the Bedfordshire Fire & Rescue Authority has demonstrated 'good' progress in implementing agreed actions made within the Key Financial Controls 2016/17 audit report. Of the 1 "medium" and 3 "low" priority agreed management actions followed up, we confirmed that four have been implemented in full.

## 2 DETAILED 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 regulatory scrutiny/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, regulatory scrutiny, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

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.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
<b>Area: General</b>								
1	The organisation has a set of Financial Regulations, which are available to all stakeholders including the public and staff via the public facing website.  Complementing the Financial Regulations is the Procurement Policy, which outlines the tendering procedures and values for which quotes should be obtained prior to	Yes	No	We obtained the 2017 Financial Regulations and procurement policy and confirmed that it is up to date. This is supported by the Audit and Standards Committee minutes review, stating the latest review of the Financial Regulations had taken place in March 2017.  Through discussions with the Head of Procurement, we were informed that the most up-to-date Financial Regulations and procurement policy were readily available to staff on the internet website. This was confirmed by the date stamp, dated 2017, within both the procurement and financial policy documents. The most recent procurement policy included an outline of the	Low	Management will ensure that the most recent Financial Regulations and procurement policy are readily available to stakeholders viewing the public website.	31 <sup>st</sup> January 2018	Chief Accountant

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
	purchasing goods and services.			<p>tendering procedures and values for which quotes should be obtained prior to purchasing goods and services.</p> <p>However, we have noted that on the Bedfordshire Fire and Rescue Service public website the most recent regulations were:</p> <ul style="list-style-type: none"> <li>• The 2015 Financial Regulations; and</li> <li>• The 2016 Procurement Policies.</li> </ul> <p>There is a risk of a lack of transparency if stakeholders including staff are unable to access the most recent regulations and policies.</p> <p>Whilst we appreciate there are only minor differences between the two documents, stakeholders may be unaware of the current policies and procedures if out of date documents are held on the website.</p>				

**Area: Payments and Creditors (Accounts Payable, AP)**

2	<p>Amendments to suppliers are undertaken using Creditor Cards Changes forms.</p> <p>The forms will be completed and sent to Finance, who will action the amendment following the verification checks undertaken to ensure correct changes are being</p>	Yes	No	<p>From a sample of 10 supplier amendments, for eight of the ten we found:</p> <ul style="list-style-type: none"> <li>• A form was completed for each sample requested;</li> <li>• Clear segregation of duties was demonstrated;</li> <li>• Supporting documentation was provided to confirm the request for amendment;</li> </ul>	Low	<p>Management will ensure independent checks are embedded in all supplier amendments to achieve consistency across all changes.</p>	31 <sup>st</sup> January 2018	Chief Accountant
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Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
	<p>made. Validation checks will include:</p> <ul style="list-style-type: none"> <li>• Contacting the supplier using existing details on Great Plains.</li> <li>• Use of the internet.</li> </ul>			<ul style="list-style-type: none"> <li>• Sufficient independent checks had been carried out to confirm the legitimacy of the amendments; and</li> <li>• Justifications were provided if independent checks were not carried out.</li> </ul> <p>However, in the remaining two instances:</p> <ul style="list-style-type: none"> <li>• One amendment had not been subject to independent checks or justified as to why the independent checks hadn't taken place after being raised by the Property Assistant; and</li> <li>• One amendment had not been subject to independent checks or justified as to why the independent checks hadn't taken place due to a remittance address change.</li> </ul> <p>We have also noted that independent checks vary depending on the type of amendment taking place. This lack of consistency presents a potentially heightened risk of fraudulent activity taking place which may lead to financial losses over time.</p>				
<b>Area: Income and Debtors (Accounts Receivable, AR)</b>								
3	<p>For invoices to be raised, a sales invoice requisition must be completed and authorised prior to an invoice being raised.</p> <p>For some sales, the use of requisition is not required</p>	Yes	No	<p>We reviewed a sample of 10 invoices raised within the current financial year and found the following:</p> <ul style="list-style-type: none"> <li>• All invoices were undertaken in a timely manner demonstrating clear segregation of duties;</li> </ul>	Low	<p>Management will ensure all sales requisition raised dates are fully completed and authorised by the requesting manger.</p>	31 <sup>st</sup> March 2018	Chief Accountant

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
	where organisations incur regular charges from the Authority and a schedule is used as a result, and monitored through the yearly costs spreadsheet.			<ul style="list-style-type: none"> <li>All invoices contained supporting information for additional confirmation as to why the invoices were raised; and</li> <li>All invoices were accompanied by a sales requisition form.</li> </ul> <p>We noted that for two out of the 10 debtors invoices sampled:</p> <ul style="list-style-type: none"> <li>One sales requisition form was missing a raised date; and</li> <li>One invoice had not been authorised as it is a recurring occurrence which has been ongoing for the past 10 years relating to the rental of rooms.</li> </ul> <p>Without the sales requisition dates placed in the invoice requisitions, there is a risk of inaccuracy when storing then referring back to invoices at a later date. Consequently, funds owed to the Authority may be missed when debt chasing activities take place.</p>				

# APPENDIX A: 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 areas:

### Objectives of the area under review

Processes in place are robust and include appropriate segregation of duties to ensure that transactions are processed and recorded accurately and are consistent with individual access and transaction limits.

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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 Leger, Cash Book, Bank Account(s) and Suspense Account(s)).

#### Payments and Creditors (Accounts Payable, AP)

- 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 (Accounts Receivable, AR)**

- 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.

### **Assets**

- Access to the asset register is restricted to only those staff that require access;
- Processes are in place to identify and accurately record all capital purchases made during the financial year;
- Processes are in place to identify and accurately record all disposals made during the financial year;
- Material and high risk assets are appropriately controlled and tagged;
- Asset verification processes are undertaken to ensure the accuracy of the asset register;
- Depreciation is accurately calculated in line with the agreed methodology and reflected on the asset ledger and general ledger; and
- The asset register is reconciled with the general ledger on a regular basis.

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

- We will not confirm that the financial regulations, policies and procedures are complete;
- 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 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 the validity of quotations and tenders received;
- We will not confirm that prompt payment targets will be achieved;
- We will not confirm that all income due has been identified and invoiced for in a timely manner;
- We will not confirm the appropriateness or sufficiency of the sales prices agreed;
- We will not confirm the status of bad and doubtful debtors;
- We will not confirm that all actions have been taken to collect income due to the organisation;
- We will not confirm that all income and expenses have been identified;
- We will not confirm that investments are appropriate and safe;
- We will not confirm that loan creditors are secure and will not recall the funds;
- We will not confirm that value for money is achieved through the investments made and loans taken;
- We will not confirm that loan covenants have been and will continue to be achieved;
- We will not confirm that asset register includes all capital assets held;
- We will not confirm that all capital assets are still controlled by the organisation;
- We will not confirm that the most appropriate depreciation calculation methodology has been used;
- While we tested to ensure compliance with controls in place, we did not provide assurance that all information reported through the organisation is accurate, but did provide assurance that the controls in place to produce the information were robust.
- All testing will be compliance based sample testing only; and
- Our work will not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

## APPENDIX B: FURTHER INFORMATION

### Persons interviewed during the audit:

Jeremy Harrison – Chief Accountant

Gavin Chambers – Head of Finance and Treasurer

Helen Lincoln – Principal Finance Officer

Harsha Bechoo – Finance Officer

### Benchmarking

We have included some comparative data to benchmark the number of management actions agreed, as shown in the table below. In the past year, we have undertaken a number of audits of a similar nature in the sector.

Level of assurance	Percentage of reviews	Results of the audit
Substantial assurance	62%	✓
Reasonable assurance	30%	
Partial assurance	6%	
No assurance	2%	
Management actions	Average number in similar audits	Number in this audit
	4	3

## FOR FURTHER INFORMATION CONTACT

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