



BEDFORDSHIRE FIRE & RESCUE AUTHORITY

Key Financial Controls

FINAL

Internal audit report: 3.18/19

22 January 2019

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Debrief held 23 November 2018
Draft report issued 21 December 2018
Responses received 18 January 2019

Final report issued 22 January 2019

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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 Finance 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.

The Authority outsource their payroll processing to Midlands HR and the organisation utilises the iTrent integrated HR and Payroll system.

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
- Payroll

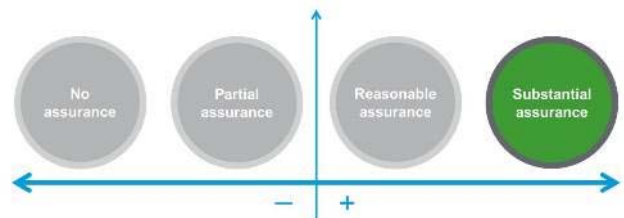
Financial Regulations and Financial Control Standards govern the daily operations of Bedfordshire Fire and Rescue Service.

1.2 Conclusion

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 board can take substantial assurance that the controls upon which the organisation relies to manage the identified area(s) 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 maintained by the authority, which specifies the financial limits at which invoices can be authorised, and the level of authorisation for employee related expenses. This is regularly reviewed to ensure its accuracy. We noted that the list had been last reviewed in November 2018.

- 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 purchasing goods and services. We confirmed that the documents had been last updated in March 2017 and August 2017 respectively. We confirmed that through review of meeting minutes that the Financial Regulations were reviewed by the Audit and Standards Committee in March 2017.
- Journals are processed using a segregation of duties, between the requester, authorisation and inputting. We confirmed this process was appropriately followed for a sample of ten journals processed in year.
- For a sample of five active Great Plains users, we confirmed that the user was a current employee, and the class of access was consistent with the user job role. We also confirmed for the two leavers in 2018/19 with Great Plains access, that their account had been deactivated timely.
- 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. We confirmed through review of month end timetables for July, August and September 2018 that tasks were being shaded as completed throughout the month.
- Monthly, reconciliations are undertaken of the control accounts within Great Plains to ensure the integrity of information held. Reconciliations are signed off by the Chief Accountant, supported by backing documentation and signed off in a timely manner. The process was confirmed through testing a sample of three control accounts over July, August and September 2018.
- Back-ups are conducted daily to servers hosted by Cambridgeshire Fire and Rescue Service. Review of back up logs confirmed that backups were being produced on a daily, weekly and monthly basis. We confirmed this through monthly backups for May, June, July 2018, the 9 November weekly back up and daily backups from 10 – 15 November.
- Finance reports are presented to the Corporate Management Team (CMT) meetings monthly and Corporate Services Policy and Challenge Group quarterly. We confirmed this through our review of the CMT meeting minutes for May, July and October and the Corporate Services Policy and Challenge Group meeting minutes for September and November 2018, where it was noted that the Head of Finance presented the Revenue Budget and Capital Programme reports, which were then discussed by those present in both meetings.

Payments and Creditors

- A robust process is in place for the addition of new suppliers. We tested a sample of 10 new suppliers confirming that forms were completed and evidenced to demonstrate checks undertaken to confirm the new supplier prior to being set up. We also confirmed for a sample of 10 supplier amendments that supporting documentation and evidence of checks undertaken was retained. We confirmed that the amendment form specifically stated that 'Telephone numbers or e-mail addresses depicted upon the supplier's letter/email/notification must not be used' and that existing information must be used, with the requirement to document the telephone number used, the source of The organisation was following the quotation rules in place below the tender level of £50,000, this was confirmed through sample testing of five invoices paid.
- The organisation was following the quotation rules in place below the tender level of £50,000, this was confirmed through sample testing of five invoices paid.
- An effective process is in place for ordering, authorisation of orders, receipting and payment for goods. We confirmed through a review of 10 orders that this process was followed appropriately.
- Payment runs are conducted once a week, being signed off by the Chief Accountant / Head of Finance prior to payment being made. We confirmed this through review of payment runs for 13 June, 26 June, 18 July, 25 July and 22 August.

- The organisation reports quarterly on finance key performance indicators to the Corporate Services Policy and Challenge Group. Performance against the percentage of uncontested invoices paid on time is reported. A target has been set for 96% of invoices to be paid within 30 days. We confirmed for Q1 and Q2 that the 96% target was met in our review of the reports and corresponding minutes for September and November 2018. It was noted in the meetings that all key performance indicators were rated green (met or surpassed target).

Income and debtors

- For a sample of ten sales invoices for the current financial year, we confirmed that invoices had the appropriate backing documentation and had been raised within a timely period of request.
- For a sample of five aged debts (120 days+), we confirmed there was evidence of consistent debt chasing within the credit control spreadsheet. We noted that each of the five had been escalated for legal action. For the current financial year, no debts have been written 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. We confirmed for ten values from the cash flow forecast that they could be traced to the organisation's bank accounts. The cash flow forecast is reconciled to the organisations bank accounts on a daily basis. These 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 out of the seven investments entered into within the current financial year found that robust controls exist to ensure authorisation of investments is in line with policy. 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 and the loans in place are with the Public Loans Work Board. 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 non-current assets like property and plant and equipment. This includes their Net Book Value and is updated on an annual basis. We confirmed that the spreadsheet was up to date for the current financial year.
- 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, reconciles the ledger to the asset register. Our testing of a sample of five assets confirmed that the depreciation recorded within the Assets Working Papers was calculated correctly.
- Disposals are undertaken following discussion at the Service Development Asset Group. We confirmed this process was followed for the two disposals undertaken this financial year.

- 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 Accountant's view that because of these two reasons it is not necessary to carry out further check.

Payroll

- Where a user requires access to iTrent system, the 'Request for access to Human Resources System' form is completed and signed by the employee's line manager. We confirmed for the one new payroll user for the current financial year that the supporting form was held and had been authorised appropriately.
- For new starters to the authority, vetting is carried out and new starters' forms containing payment information will be completed by the employee and HR and input into iTrent. Authorisation is received at the recruitment stage via the 'authorisation to recruit' form. Once HR have input the HR details from the starter form into iTrent, the system will send a workflow notification to Payroll, who will enter bank details to ensure a segregation of duties. The starter will be input into the payroll system in line with Payroll deadlines. We confirmed compliance with this process for ten new starters for the current financial year.
- For leavers, a termination form is completed by the line manager and processed in line with the payroll timetable to ensure no overpayments are made. We confirmed for a sample of ten leavers for the current financial year that the leavers form had been completed, the user was no longer active on the system, and no overpayments had been made, indicating timely processing of the form.
- For amendments to payroll data, the line manager will complete an amendment form. This is checked by the HR Manager, input by the HR Administrator and then a final check is completed by the HR officer. We confirmed compliance with this process for ten amendments made within the current financial year.
- On an annual basis, pay awards are input into iTrent, to reflect changes and agreed global uplifts. We confirmed for a sample of ten salary rates from the National Joint Council for Local Government Services 1819 pay uplift publication that each rate had been accurately uploaded to iTrent.
- Overtime payments are recorded within Authority departments on standardised forms which are completed and forwarded to Payroll. Forms are authorised by the appropriate budget manager. Information from these overtime forms is manually entered into a spreadsheet by the Payroll team and saved as a CSV (comma separated value) file for upload to iTrent. We confirmed for a sample of five overtime and five additional payments that appropriately authorised supporting documentation was available for the payments, and that this was accurate on the iTrent system.
- The Authority has a Payroll processing timetable which sets out the dates key information should be received in order to be processed by payday. We confirmed that this timetable is complete, useful and is available on the organisation's intranet.
- BACS runs detail the total value of the payroll for the month and are provided by Midlands HR. We confirmed that for the three most recently available consecutive months of August, September and October 2018 that a final BACS report was held that was signed by two members of the MHR Payroll team and subsequently by a member of the Finance team to confirm review and authorisation.
- We obtained net pay variance reports (Element and Gross to Net) for August, September and October 2018, confirming in all cases that a report had been run and was stored within the shared file system. Through review, we further confirmed that each variance over 30% had a narrative provided within the report.

We have also agreed one 'low' priority management action, detailed further within section two of this report.

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	(8)	0	(8)	Low	Medium	High
General Ledger	0	(8)	0	(8)	0	0	0
Payments and Creditors (Accounts Payable, AP)	0	(6)	0	(6)	0	0	0
Income and Debtors (Accounts Receivable, AR)	0	(3)	0	(3)	0	0	0
Cash and Treasury Management	1	(3)	0	(3)	1	0	0
Assets	0	(6)	0	(6)	0	0	0
Payroll	0	(9)	0	(9)	0	0	0
Total					1	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.

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
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Cash and Treasury Management

1	The cash flow forecast is not reviewed against the actual cash position to determine the accuracy of forecasting.	Yes	Yes	<p>We noted that the cash flow forecast is not regularly reviewed against the actual cash position to review the accuracy of forecasting and make any required changes.</p> <p>There is a risk of the forecasting process not being effective if the effectiveness of the process is not routinely reviewed to incorporate any new information.</p>	Low	The cash flow forecast will be reviewed against the actual cash position on an ongoing basis to review the accuracy of forecasting.	March 2019	Chief Accountant
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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

Yearly coverage of key financial controls systems to ensure systems are adequately designed and are being complied with.

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

Areas for consideration:

• **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).

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 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;
- 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;
- We will not confirm that overtime or additional payments claimed has been worked;
- 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.

APPENDIX B: FURTHER INFORMATION

Persons interviewed during the audit:

- Gavin Chambers – Head of Finance
- Jeremy Harrison - Chief Accountant
- Jackie Hammer – Principal Finance Officer
- Helen Lincoln – Principal 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	67%	X
Reasonable assurance	33%	
Partial assurance	-	
No assurance	-	

Management actions	Average number in similar audits	Number in this audit
	5	1

FOR FURTHER INFORMATION CONTACT

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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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