



**BEDFORDSHIRE FIRE AND RESCUE
AUTHORITY**

Key Financial Controls

FINAL

Internal Audit Report: 5.15/16

18 April 2016



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|----------------------------|---------------|----------------------------|---|
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| Draft report issued | 24 March 2016 | | |
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1 EXECUTIVE SUMMARY

1.1 Background

An audit of Key Financial Controls was undertaken as part of the approved internal audit periodic plan for 2015/16. Bedfordshire Fire and Rescue Authority (hereafter referred to as the Authority) uses the Great Plains financial system within the finance department and assets are recorded on an 'Asset Working Papers' spreadsheet.

A Treasury Management Strategy Statement is in place which outlines the Authority's position on which types of investments and loans they are willing to undertake, taking into account regulatory requirements.

The aged debt as at January 2016 exceeding 30 days was £16,423. Fixed assets within the service hold a financial value of £21.144m for Land and Buildings and a further Net Book Value £5.942m for Vehicles, Plant and Equipment.

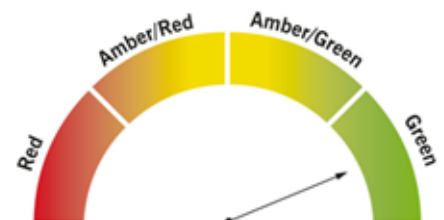
The following areas were reviewed as part of this audit; General Ledger, Cash and Treasury Management, Payroll, Payment and Creditors, Income and Debtors and Asset Management. Sample testing was conducted in each of these areas to confirm compliance with policies and procedures.

1.2 Conclusion

Our findings showed the processes currently in place were adequately designed and consistently complied with as per the policies and procedures. The exceptions we found were classified as being of low risk.

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 area are suitably designed, consistently applied and operating effectively.



1.3 Key findings

The key findings from this review are as follows:

General Ledger

We tested a sample of 20 journals, 10 staff access rights and six new cost centres from 2015/16. Through testing we confirmed that for journals, segregation of duties was maintained and all were appropriately authorised. We also confirmed that the level of access with regards to the ability to post journals to the ledger was appropriate for each member of staff. For our testing of new cost centres, we found that there was no formal evidence of the approval or oversight of cost centres prior to them being set up, which has led to a **low** priority management action being raised.

We also carried out testing on the creditors, debtors and suspense account reconciliations and confirmed that there were no unreconciled figures, segregation of duties was maintained and all were appropriately authorised within a timely period.

Cash and Treasury Management

We obtained the Treasury Management Policy and confirmed that it provides details of the approach to investment and borrowing. A total of seven investments had been within this financial year, through a sample test of three, we noted that investments had been made in line with the requirements set out in the Authority's Treasury Management Policy. We noted no loans have been taken out in the current financial year. We also carried out testing on the bank reconciliations and confirmed that there were no unreconciled figures, a segregation of duties was maintained and all were appropriately authorised.

Payroll

We tested a sample of 20 new starters, 20 leavers and 20 detail changes to staff along with pension contributions and expense claims. From this we confirmed that for any new starter, leaver or changes to employee details, forms had been completed and signed to show appropriate review and further checks carried out to ensure accuracy. In relation to pension contributions and expense claims, we noted that the correct amount had been paid and there had been appropriate approval for the expense claims, from testing a sample of 20.

We also reviewed exception reports and the authorisation of the monthly payroll runs and confirmed they were appropriately authorised.

Creditors and Payments

We reviewed a sample of 20 invoices paid during 2015/16 and obtained the corresponding Purchase Orders (POs) and Goods Received Notes (GRN). From testing we confirmed that the POs had been appropriately authorised whilst maintaining a segregation of duties and that the POs, GRNs and Invoices all accurately matched.

We also carried out sample testing on the 20 new suppliers and 20 amendments of details to existing suppliers. Through this we confirmed that appropriate verification checks had been carried out and detailed on the forms.

Income and Debtors

We tested a sample of 20 invoices and all (13) credit notes raised during 2015/16. Through testing we confirmed that invoices and credit notes were subject to approval prior to them being raised. We have raised one low management action around the timeliness of raising invoices as we identified four which were raised more than a week after the requisition form had been completed. We noted that this was due to the Finance Department receiving the requisition forms late. There is a risk that the Authority may receive payments late or bad debts arising.

Alongside this, we tested a sample of five aged debts and noted that we could not evidence any chasing for one of the debts. We did confirm with the Chief Accountant that chasing conducted, however this was not evidenced resulting in one low management action being raised. We confirmed that no debts have been written off this financial year and therefore we did not carry out any testing.

Asset Management

We conducted testing around verification of assets, maintenance of the asset working papers and any disposals made this financial year. We confirmed that these processes occur at year-end and were last completed in March 2015 as part of the year-end financial reporting process.

We confirm that annual verification of assets had been completed. We obtained the asset working papers and noted that it is updated on an annual basis. For disposals, we obtained the meeting minutes for The Service Delivery Asset Group (SDAG) and confirmed that all disposals are authorised.

Through discussion with the Chief Accountant, we confirmed that the action raised in last year's report (Key Financial Controls 6.14/15) around the development of a centralised asset register has been superseded due to most of the assets held by the Authority being operational, which are checked on a daily basis by Station Managers.

1.4 Additional information to support our conclusion

| Area | Control design* | Compliance with controls* | Priority of Agreed actions | | |
|-------------------------|-----------------|---------------------------|----------------------------|----------|----------|
| | | | Low | Medium | High |
| General Ledger | 1 (4) | 1 (4) | 1 | 0 | 0 |
| Cash, Bank and Treasury | 0 (3) | 0 (3) | 0 | 0 | 0 |
| Payroll | 0 (7) | 0 (7) | 0 | 0 | 0 |
| Creditors and Payments | 0 (3) | 0 (3) | 0 | 0 | 0 |
| Income and Debtors | 0 (4) | 2 (4) | 2 | 0 | 0 |
| Assets | 0 (3) | 0 (3) | 0 | 0 | 0 |
| Total | | | 3 | 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.

1.5 Progress made with previous audit findings

| Date of previous audit | Low | Medium | High |
|--|-----|--------|------|
| Number of actions agreed during previous audit | 3 | 2 | 0 |
| Number of actions implemented/ superseded | 2 | 2 | 0 |
| Actions not yet fully implemented: | 0 | 0 | 0 |
| Action not followed up | 1 | 0 | 0 |

As part of this review the Bedfordshire Fire and Rescue Service has demonstrated good progress in implementing actions agreed to address internal audit recommendations made within the Key Financial controls (6.14/15) report.

Of the two 'medium' and three 'low' priority recommendations followed up, we confirmed that three have been implemented in full and one has been superseded. We cannot comment if the remaining low recommendation has been implemented or superseded as this was not tested.

2 ACTION PLAN

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, with a high degree of certainty, 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 table below sets out the actions agreed by management to address the findings:

| Ref | Findings summary | Priority | Actions for management | Implementation date | Responsible owner |
|-------------------------------------|--|------------|--|---------------------|-------------------|
| Area: General Ledger | | | | | |
| 1.4 | We were unable to obtain any evidence of the approval or oversight of cost centres prior to them being set up. | Low | The Service will create a procedure for the management of cost centres and will ensure that this is complied with. | 1/4/16 | Chief Accountant |
| Area: Creditors and Payments | | | | | |
| 4.1 | From our testing of new suppliers and supplier amendments, we found that in some cases it was unclear who had completed the verification checks. | Suggestion | The supplier addition / amendment forms (also called the Creditor Card Changes form) should be amended in order to take out the completed by box and only require one signature to show that a verification check has been carried out and that the details have been entered onto the system. | 1/5/16 | Chief Accountant |

| Ref | Findings summary | Priority | Actions for management | Implementation date | Responsible owner |
|---------------------------------|--|----------|---|---------------------|-------------------|
| Area: Income and Debtors | | | | | |
| 5.1 | From our testing of debtor invoices we found that four invoices had been raised in excess of a week after the service was provided due to the finance department receiving the request forms late. | Low | The Service will reiterate to departments the importance of sending the Sales Order Request forms in a timely manner. | 1/5/16 | Chief Accountant |
| 5.2 | We were unable to obtain evidence of any debt recovery being carried out for one aged debt tested. | Low | The Service will update the aged debt report on a regular basis to ensure that chasing of debts is evidenced. | 1/4/16 | Chief Accountant |

3 DETAILED FINDINGS

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 | Actions for management |
|-------------------------------------|---|----------------------------------|---------------------------------|--|------------|--|
| Area: General Ledger | | | | | | |
| 1.4 | There is no procedure in place to ensure that there is a record of requests and approvals of new cost centres to be set up on the ledger. | No | No | <p>We were unable to obtain a report of new cost centres and amendments to cost centres for the current financial year and there was no folder for us to take a sample of cost centre amendments from. We were therefore unable to test amendments to cost centres for the financial year.</p> <p>We were, however, able to compare a trial balance from March 15 with a trial balance from January 2016 and noted that there were six new cost centres which had been set up during this time period.</p> <p>We were informed by the Principal Finance Officer that five of the six cost centres related to a restructuring relating to pay and one related to grant funding.</p> <p>Whilst there had been emails sent by the Principal Finance Officer to a number of staff members including the Chief Accountant and Head of Finance to notify them of the cost centres being set up, there was no formal evidence of the approval or oversight of cost centres prior to them being set up.</p> <p>There is a risk of cost centres being created or amended without the appropriate level of approval.</p> | Low | The Service will create a procedure for the management of cost centres and will ensure that this is complied with. |
| Area: Creditors and Payments | | | | | | |
| 4.1 | When a new supplier is required to be added onto the system, a Creditor Card Changes form is | Yes | Yes | We obtained a report of all new supplier added for during 2015/16 and selected a sample of 20 for testing purposes. | Suggestion | The supplier addition / amendment forms (also called the Creditor Card |

| Ref | Control | Adequate control design (yes/no) | Controls complied with (yes/no) | Audit findings and implications | Priority | Actions for management |
|-----|--|----------------------------------|---------------------------------|---|----------|---|
| | <p>completed. This is then subject to verification checks carried out by Finance Officers before they can be added onto the system for payment. These checks include:</p> <ul style="list-style-type: none"> • An internet search; and • Contacting via phone / email. | | | <p>Five were set up of an employee in order to make internal payments (for expenses, pensions and salary repayments) and therefore verifications checks were not needed as the details were obtained through payroll.</p> <p>For the remaining 15, we noted:</p> <ul style="list-style-type: none"> • Verifications checks had been carried out and detailed on the form; • Supporting evidence was attached in all cases; • Two forms had not been signed by the verifier within the 'completed by' box. <p>Through discussion with the Chief Accountant, we were advised that the person who completed the verification checks and the person who entered the data onto the system were same and therefore they had signed next to the 'entered by' box.</p> <p>We verified that this was the case. We have raised a suggestion as management may want to review the current form to simplify the current process and to prevent the instances where it appears that a step in the process has been omitted.</p> | | Changes form) should be amended in order to take out the completed by box and only require one signature to show that a verification check has been carried out and that the details have been entered onto the system. |
| 4.2 | <p>When the Authority is notified of any changes to supplier details, a Creditor Card Changes form is completed and sent for processing.</p> <p>The form contains a tick box to show whether the form is for a new supplier or an amendment to supplier details.</p> | Yes | Yes | <p>We obtained a report of all amendments to supplier details for this financial year and selected a sample of 20 for testing purposes. From our testing we noted:</p> <ul style="list-style-type: none"> • 19 forms had evidence of verification checks being carried out and supporting evidence attached; • One form had not been signed by the verifier. <p>Through discussion with the Chief Accountant, we confirmed that the person who completed the verification checks and the person who entered the data onto the system were same and therefore they had signed next to the 'entered by' box.</p> | | Refer to management action in section 4.1 |

| Ref | Control | Adequate control design (yes/no) | Controls complied with (yes/no) | Audit findings and implications | Priority | Actions for management |
|-----|---------|----------------------------------|---------------------------------|---------------------------------|----------|------------------------|
|-----|---------|----------------------------------|---------------------------------|---------------------------------|----------|------------------------|

From this, verification checks are carried out before the details are changed on the system. These verification checks are carried out by contacting the supplier using details of known contact or obtained from an internet search to ensure that the amendments are genuine.

Details of the checks carried out are recorded on the form

Area: Income and Debtors

| | | | | | | |
|-----|--|-----|----|--|-----|---|
| 5.1 | <p>In order for an invoice to be raised, a Sales invoice requisition form is completed.</p> <p>This must be authorised by an appropriate member of staff. Once it has been authorised, a sales invoice can be issued.</p> <p>In some cases a sales order requisition form is not needed. This is because some organisations will incur regular charges from the Authority and therefore the same invoice would be raised on a periodic basis. These are monitored within a yearly costs spreadsheet.</p> | Yes | No | <p>We obtained report of all invoices raised this financial year and selected a sample of 20 for testing purposes.</p> <p>From this, we noted that seven did not require a sales requisition form or authorisation as they were regular charges which are outlined within the yearly costs spreadsheet.</p> <p>For the remaining 13 invoices, we noted:</p> <ul style="list-style-type: none"> • All had been appropriately requested and authorised; • Four invoices were raised more than a week after the requisition form with the longest difference being 23 days. One form was not dated and therefore we could not confirm if the invoice was produced in a timely manner. <p>Through discussion with the Chief Accountant we confirmed that this delay was due to the finance department receiving the Sales Order Request forms late.</p> <p>If invoices are not produced in a timely manner, there is a risk that the Authority may receive payments late or bad debts arising.</p> | Low | The Service will reiterate to departments the importance of sending the Sales Order Request forms in a timely manner. |
|-----|--|-----|----|--|-----|---|

| Ref | Control | Adequate control design (yes/no) | Controls complied with (yes/no) | Audit findings and implications | Priority | Actions for management |
|-----|---|----------------------------------|---------------------------------|--|----------|---|
| 5.2 | <p>An outstanding aged debt report is produced on a monthly basis.</p> <p>Any debts which are over 30 days old are subject to chasing on a monthly basis.</p> <p>If an invoice has not been paid:</p> <ul style="list-style-type: none"> • After 30 days of issue, a first reminder letter is sent; • 30 days since the issue of the first reminder letter, a second reminder letter is issued; • 30 days since the issue of the second reminder letter, a third reminder letter is sent; • 14 days after the issue of the third reminder letter, legal action is taken through a small claims court. | Yes | No | <p>We obtained the aged debt report for January and selected a sample of five for testing purposes. From this we noted:</p> <ul style="list-style-type: none"> • Two had been appropriately chased with one having led to legal action being taken; • One was under an on-going dispute and therefore no reminder letter was sent • One did not have any reminder letters sent as the invoice was under dispute. The issue has now been resolved and a credit note was issued. • One payment which was between 31 and 60 days old had no evidence of being followed up for payment. Through discussion with the Chief Accountant, we were advised that there was some form of chasing however this could not be evidenced. <p>If aged debts are not appropriately chased, there is a risk that the Authority is less likely to obtain the debt, resulting in financial loss.</p> | Low | The Service will update the aged debt report on a regular basis to ensure that chasing of debts is evidenced. |

APPENDIX A: SCOPE

Scope of the review

To evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. The scope was planned to provide assurance on the controls and mitigations in place relating to the following areas:

Objective of the area under review

Ensure financial controls are robust to minimise financial risk

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

Areas for consideration:

General Ledger

- Review over access controls to the ledger,
- Sample review of journals posted to determine whether these have been subject to appropriate levels of review and authorisation.
- Creation, amendment and approval of cost centre/ codes
- Monthly closedown and reconciliation processes undertaken.

Cash, Bank and Treasury

- Review of the Treasury Management Strategy;
- Review of a sample of loan and investments to ensure they are managed in line with the Strategy.
- Review of bank reconciliations.

Payroll

- Review of a sample of new employee 'starters' that have been added to the payroll to check the accuracy of data input and appropriate authorisation.
- Review of a sample of employee 'leavers' to ensure they have been removed from the payroll in a timely manner and any over payments have been identified and recovered.
- Review over a sample of changes to payroll standing data, including increases to pay, hours contract details etc.
- Review over a sample of employees to confirm that pensions contribution rates deducted are at the correct level.
- Review over a sample of expenses paid to employees to verify that appropriate authorisation checks have been made.
- Authorisation of monthly payroll payments and exception report review.

Creditors and Payments

- Process for set and up and approval of new suppliers/ changes to supplier details
- Process for amending supplier details including independent verification.
- Sample testing to verify payments to suppliers are authorised, including checking over the following processes; invoicing, goods receipting, orders and requisitions for compliance with financial thresholds.

Income and Debtors

- Review of a sample of debtors' invoices raised to check for authorisation and timely production.
- Approval of credit notes.
- Review of a sample of outstanding debts to check these have been appropriately pursued.
- Review of debts written off to confirm all efforts were made to recover the values and that they have been authorised appropriately.

Assets

- Inventories/ Internal verification of assets
- Review over the maintenance of the asset register to determine that this is subject to appropriate review and update to reflect purchases and disposals.
- Review over a sample of asset disposals to confirm appropriate authorisation.

In addition, we will follow up outstanding recommendations from our previous audit report.

Limitations to the scope of the audit assignment:

- We have not examined the back up and disaster recovery controls in place.
- Payroll testing was limited to Starters, Leavers, Expenses and Amendment processes; no testing has been undertaken on Pension payment arrangements only the contribution rates for employees.
- We have not provided assurance that payroll payments have been made into the correct employee's bank accounts.
- We have not provided assurance over the accuracy of payments made to other bodies e.g. inland revenue, pensions agency etc.
- We have not verified that the Fire Service have recovered all monies owed to them, only that sufficient processes are in place to identify and pursue monies due.
- We have not commented on the Service choice of suppliers only that sufficient approval has been sought to process payments made.
- We have not verified that all of the items on the asset register are held.
- We have not given an opinion over the appropriateness of investments made, only that they have complied with the agreed Strategy/Policies in place.
- Our work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.
- 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:

- Jeremy Harrison, Chief Accountant
- Jackie Hammer, Principal Finance Officer
- Helen Lincoln, Principal Finance Officer
- Melia Taylor, Finance Officer
- Harsha Bechoo, Finance Officer

Documentation reviewed during the audit:

- Standing Financial Instructions, March 2015
- Control account reconciliations
- Treasury Management Strategy Statement, 15/16
- Payroll BACS runs and exception reports
- January aged debt report

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 |
|--|-----------------------|----------------------|
| Green (substantial assurance) | 100% | ✓ |
| Amber (reasonable / partial assurance) | 0% | |
| Red (no assurance) | 0% | |

| Management actions | Average number in similar audits | Number in this audit |
|--------------------|----------------------------------|----------------------|
| | 3.5 | 3 |

This shows the organisation is on a par against other organisations in the sector.

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