

ANNEX A

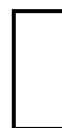
# AUDIT AND RISK MANAGEMENT

## INTERNAL AUDIT REPORT

# BUCKINGHAMSHIRE & MILTON KEYNES FIRE AUTHORITY

## Core Financial Controls

April 2014





## Contents

Section	Page
1. Executive Summary .....	3
2. Background.....	6
3. Recommendations and Action Plan .....	7
Appendix A.....	14
4. Specific Audit Scope.....	14
5. Audit Methodology and Opinions .....	16

### Audit Control:

<b>Closing meeting:</b>	19 March 2014
<b>Draft report:</b>	20 March 2014
<b>Management responses:</b>	27 March 2014
<b>SMB Sign Off:</b>	25 April 2014
<b>Final report:</b>	25 April 2014

<b>Auditors:</b>	Rebekah Ibberson Maggie Gibb	Principal Auditor Risk & Insurance Manager
<b>Report Distribution:</b>		
Draft Report	Mark Hemming Jacqui May David Skinner	Technical Accountant Head of Finance Director of Finance and Assets
Final Report as above plus:		Chief Fire Officer Chair, Bucks and Milton Keynes Fire Authority Ernst & Young



## 1. Executive Summary

### 1.1 Overall Audit Opinion

In our opinion **Substantial** assurance can be provided that relevant risks are effectively identified, managed and controlled.

### 1.2 The overall audit assurance is made up of three supporting judgements:

- a) Our assurance on the adequacy of the risk management techniques employed within the auditable area is **substantial**. This relates to the extent to which relevant risks have been identified, monitored and managed.
- b) Our assurance on the adequacy of the existing control framework to reduce identified risks to an acceptable level is **substantial**.
- c) Our assurance on the adequacy of compliance with the existing control framework is **reasonable**.

### 1.3 The Finance team has undergone a restructure during the financial year with many finance staff new to the organisation. Despite recent changes, the Finance team have maintained the existing control framework and have integrated system and physical controls to ensure segregation of duties and strengthen the control environment further.

### 1.4 In addition to the findings summarised below, we also found the following example of good practice:

- A comprehensive Income Bank user guide, Bank reconciliation process notes and VAT reconciliation process notes have been developed

### 1.5 Some areas for improvement were identified. One High priority recommendation is listed below:

- All purchase orders should be raised on the SAP system at the time of commitment in accordance with the Financial Instructions.

### 1.6 Recommendations summary:

In order to provide assurance on the extent to which the risks identified are managed, our review focussed on the main business objectives within the Core Financial System.

Progress in implementing these recommendations will be tracked and reported to the Overview & Audit Committee.



## Buckinghamshire and Milton Keynes Fire Authority Core Financial Controls – Internal Audit Report

Area	Risk	Recommendations		
		High	Medium	Low
Financial Control Framework	The Financial Regulations and Financial Instructions do not reflect the closure and removal of Imprest accounts.		1	
Budget Monitoring	Virement requests are not authorised in line with requirements.		1	
Creditors	The raising of retrospective purchase orders is occurring committing spend prior to authorisation.	1		
	Validation checks are not completed on all new vendor set ups.			1
Debtors	The final version of the debt management policy is not available on the intranet.			1
	The timeframes as stated in the Financial Instructions for chasing outstanding debts are not followed.			1
Payroll	Where FB22's are not received records of overtime and sickness may be incomplete and inaccurate.			1
General Ledger	Current Finance procedure documents for journals and virements do not include the manual procedures, controls and documentation that are required.		1	
<b>TOTAL</b>		1	3	4

The detailed findings are summarised in Section 3 of this report. All findings have been discussed with the Technical Accountant and Head of Finance, where relevant, who have agreed the recommendations and produced an action plan to implement them.



- 1.7 There were no aspects of this audit which were considered to have value for money implications for the Authority or which indicated instances of over control. Any relevant findings will have been included in the findings and recommendations section of this report.



## **2. Background**

- 2.1 The audit review of Core Financial Controls formed part of the agreed audit programme for 2013/14. The review was carried out during quarter 4.
- 2.2 The Core Financial Controls area was categorised as high risk as part of the audit needs assessment exercise based on its relative importance to the achievement of the Authority's corporate objectives. The Authority's objective for the area is to ensure that key controls are in place to ensure financial governance. The objective of our audit was to evaluate the area with a view to delivering assurance as to the adequacy of the design of the internal control system and its application in practice. A summary of the scope of this review can be seen in Appendix A.
- 2.3 The outcome of the previous Core Financial Controls audit can be summarised as:

Date of last audit:	March 2013		
Overall last audit opinion:	Reasonable		
Number of recommendations agreed with Management last audit:	High	1	
	Medium	7	
	Low	5	
Follow Up at March 2014: Number of recommendations implemented by Management since last audit:	High	1	
	Medium	5	
	Low	4	

The outstanding recommendations have been restated in this report.



### 3. Recommendations and Action Plan

The control description column details the actual controls that should be established to mitigate identified risk. The Findings & Consequences column details the results of analysis and tests carried out.

The priority of the findings and recommendations are as follows:

**High** immediate action is required to ensure that the objectives for the area under review are met.

**Medium** action is required within six months to avoid exposure to significant risks in achieving the objectives for the area under review.

**Low** action advised within 9 months to enhance control or improve operational efficiency.

	Control description	Findings & Consequences	Recommendation	Priority	Management Response and Action Plan
<b>Key Risk Area</b>		<b>Financial Control Framework</b>			
1	Financial Regulations, Financial Instructions and Contract Standing Orders are: <ul style="list-style-type: none"> <li>• reviewed on a regular basis</li> <li>• approved</li> <li>• comprehensive and cover all financial systems</li> <li>• available to all staff</li> </ul>	The Financial Regulations were updated and approved in June 2013, however page 14 refers to Imprest accounts which are now all closed, and requires updating.  The Financial Instructions were updated and reviewed September 2013. Audit was provided with a draft and not a final version. Audit noted that the page numbers do not correspond to the table of contents from the Insurance section onwards. As stated above, the Imprest accounts are detailed in the Financial Instructions and require update.	The Financial Regulations and Financial Instructions will be updated to reflect the closure and removal of Imprest accounts.	Medium	<b>Recommendation Agreed:</b> Y  <b>Response:</b> The Financial Regulations have been updated to accommodate the changes and were presented to overview and audit committee on 12 March 2014 for forwarding on to the next scheduled CFA meeting in June 2014. The Financial Instructions will be reorganised into a more user-friendly format and once authorised by the CFO and DoF&A, will be published on the I-Drive. This is a large area of work we intend to do



**Buckinghamshire and Milton Keynes Fire Authority  
Core Financial Controls – Internal Audit Report**

	<b>Control description</b>	<b>Findings &amp; Consequences</b>	<b>Recommendation</b>	<b>Priority</b>	<b>Management Response and Action Plan</b>
		Where the financial regulations and instructions are not reviewed and updated on a regular basis there is a risk that they may be out-of-date which may result in inconsistent practices and non-compliance.			as part of our streamlining processes and each chapter will be dealt with separately over the coming months.  <b>Who to be actioned by:</b> Head of Finance  <b>When to be actioned by:</b> September 2014
	<b>Key Risk Area</b>	<b>Budget Monitoring</b>			
2	An appropriate system exists for monitoring of costs against budget and to report exceptions that have been identified to senior management for action.	<b>Re-stated</b> As noted in last year's audit, authorisation for virements between £50,000 to £150,000 require SMT approval and had not been sought for 2/3 within this approval threshold. In each case authorisation was by the Director of Finance and Assets.  There is a risk that virements may be actioned without proper authority.	<b>Re-stated management action:</b>  Management should review section 30 of the Financial Instructions to confirm suitability and then ensure that virement requests are authorised in line with requirements.	Medium	<b>Recommendation Agreed:</b> Y  <b>Response:</b> We have found that the current financial instructions on virement authorisations limit the ability to expedite reorganisation changes and other hierarchy updates once the original budget has been uploaded onto the financial system. Many of the changes required have been previously authorised by Members or delegated authority given but as they have not been authorised in specific monetary terms, do not "fit" with the wording in the instructions. The





**Buckinghamshire and Milton Keynes Fire Authority  
Core Financial Controls – Internal Audit Report**

	<b>Control description</b>	<b>Findings &amp; Consequences</b>	<b>Recommendation</b>	<b>Priority</b>	<b>Management Response and Action Plan</b>
					<p>instructions will be updated to accommodate these changes.</p> <p><b>Who to be actioned by:</b> Head of Finance</p> <p><b>When to be actioned by:</b> September 2014</p>
	<b>Key Risk Area</b>	<b>Creditors</b>			
3	Creditor invoices are authorised prior to payment.	<p>A sample of 25 invoices was reviewed for the period April to December 2013.</p> <p>Fifteen of the invoices were purchase order driven (10 were payroll payments to HMRC, LGPS etc.) but six of these purchase orders had been raised retrospectively one of which was for a framework order</p> <p>Where purchase orders are not raised at the time of the commitment there is a risk that the budget holder is not in a position to agree or decline the requisition before the authority is committed to expenditure.</p> <p>Where commitments are raised retrospectively there is a risk that ordering is actioned without</p>	All purchase orders should be raised on the SAP system at the time of commitment in accordance with the Financial Instructions.	High	<p><b>Recommendation Agreed:</b> Y</p> <p><b>Response:</b> The potential for orders being placed without proper authority is one of the risks already identified by the new Procurement team. The two key actions to address this are:</p> <p>(i) Procurement are to roll out training across the Authority, reinforcing the requirements of Financial Regulations, Instructions and Contract Standing Orders</p> <p>(ii) Finance are to monitor retrospective requisitions on a monthly basis and address the issue directly with the users involved</p>



**Buckinghamshire and Milton Keynes Fire Authority  
Core Financial Controls – Internal Audit Report**

	<b>Control description</b>	<b>Findings &amp; Consequences</b>	<b>Recommendation</b>	<b>Priority</b>	<b>Management Response and Action Plan</b>
		proper authority and/or budget in place.			<p><b>Who to be actioned by:</b> Technical Accountant (in conjunction with the Head of Procurement)</p> <p><b>When to be actioned by:</b> Training – roll-out has already commenced and will continue throughout the year Monitoring and corrective actions – May 2014</p>
4	Supplier checks are made before setting up on SAP	<p>From a sample of five new vendor set ups we noted one with no evidence that the procurement validation checks had been completed.</p> <p>Where validation checks are not completed there is a risk that the vendor may not be bona fide which may increase the risk to the authority to fraud and or money laundering activity.</p>	Validation checks will be completed on all new vendor set ups.	Low	<p><b>Recommendation Agreed:</b> Y</p> <p><b>Response:</b> Additional checks will be carried out by the Procurement team before new vendors are created. These will ensure all compliance checks are carried out, as well as helping to rationalise the number of vendors held on our system.</p> <p><b>Who to be actioned by:</b> Technical Accountant (in conjunction with the Head of Procurement)</p> <p><b>When to be actioned by:</b></p>



**Buckinghamshire and Milton Keynes Fire Authority  
Core Financial Controls – Internal Audit Report**

	<b>Control description</b>	<b>Findings &amp; Consequences</b>	<b>Recommendation</b>	<b>Priority</b>	<b>Management Response and Action Plan</b>
					June 2014
<b>Key Risk Area</b>		<b>Debtors</b>			
5	There is an up to date Debt Management Policy in place.	<p>The Debt Management policy was updated and approved in September 2013. The policy itself is in draft and has not been updated to a finalised version.</p> <p>Where a final version of the Debt Management policy is not available there is a risk that the most recent version may not be utilised which may result in inconsistent practices and non-compliance.</p>	To ensure that a final version of the Debt Management policy is available on the intranet.	Low	<p><b>Recommendation Agreed:</b> Y</p> <p><b>Response:</b> The draft protected watermark will be removed and the I-Drive updated with the latest approved version.</p> <p><b>Who to be actioned by:</b> Technical Accountant</p> <p><b>When to be actioned by:</b> April 2014</p>
6	Aged Debt reports are reviewed by Finance on a regular basis and debts chased promptly.	<p>For a sample of five outstanding debts, we noted that two had not been chased in line with the timeframes as stated in the Financial Instructions.</p> <p>There is a risk that amounts due may not be collected and bad debts increase.</p>	The timeframes as stated in the Financial Instructions for chasing outstanding debts should be followed.	Low	<p><b>Recommendation Agreed:</b> Y</p> <p><b>Response:</b> This was due to the volume of historic debt being chased at the time. During the year efforts have successfully focused on significantly reducing the value of debts that are more than 60 days overdue. As part of the overall review of financial transactions, the team will be looking to</p>



**Buckinghamshire and Milton Keynes Fire Authority  
Core Financial Controls – Internal Audit Report**

	<b>Control description</b>	<b>Findings &amp; Consequences</b>	<b>Recommendation</b>	<b>Priority</b>	<b>Management Response and Action Plan</b>
					<p>automate the chasing process as far as possible to ensure debts are followed up within the timeframes stated.</p> <p><b>Who to be actioned by:</b> Technical Accountant</p> <p><b>When to be actioned by:</b> June 2014</p>
	<b>Key Risk Area</b>	<b>Payroll</b>			
7	Overtime and absences submitted monthly on a form FB22 by each station / department.	<p><b>Re-stated</b> The FB22's and the checklist completed by HR were reviewed for June and September 2013. We noted for June three gaps in submissions from BHQ, and for September one gap from Beaconsfield (Support) and six gaps in BHQ.</p> <p>There is a risk that records of overtime and sickness are incomplete and inaccurate leading to incorrect recording of leave or salary payments.</p>	<p>If FB22s are not received HR should chase up the missing ones and remind departments as to the importance of submitting them on time. Management should be informed if departments continue to submit the FB22s after the payroll cut off date. (Repeat of previous 2011/12 and 2012/13 recommendations)</p>	Low	<p><b>Recommendation Agreed:</b> Y</p> <p><b>Response:</b> A review of the processes and authorisation levels is currently being undertaken between Ops, Finance and HR. Once agreed and implemented, the changes will be updated in the Financial Instructions as part of review work mentioned at item 1 above.</p> <p><b>Who to be actioned by:</b> Head of Finance</p> <p><b>When to be actioned by:</b> September 2014</p>



**Buckinghamshire and Milton Keynes Fire Authority  
Core Financial Controls – Internal Audit Report**

	<b>Control description</b>	<b>Findings &amp; Consequences</b>	<b>Recommendation</b>	<b>Priority</b>	<b>Management Response and Action Plan</b>
	<b>Key Risk Area</b>	<b>General Ledger</b>			
8	Guidance relating to accounting in policies and procedures is fit for purpose and up to date.	<p><b>Re-stated</b> Finance team have a library of procedure guidance which includes 'how to' guidance on executing a variety of SAP transactions including journals and virements. Overall process guidance including such matters as completion of documentation, supporting documentation required, documents to be filed, etc. are not included.</p> <p>There is a risk that guidance relating to accounting in policies and procedures is not fit for purpose and up to date.</p>	<p><b>Re-stated</b> Current Finance procedure documents should be extended to include the manual procedures, controls and documentation that are required in addition to the SAP system actions to be taken.</p>	Medium	<p><b>Recommendation Agreed:</b> Y</p> <p><b>Response:</b> this will also form part of the work identified at item 1 above</p> <p><b>Who to be actioned by:</b> Head of Finance</p> <p><b>When to be actioned by:</b> September 2014.</p>



## Appendix A

### AUDIT SCOPE AND FRAMEWORK

#### 4. Specific Audit Scope

- 4.1 We have evaluated the area against the following identified risks which we agreed with management:

##### Financial Control Framework

- Financial Regulations/Instructions are not comprehensive, up to date or approved
- Financial risks are not identified or managed in accordance with the corporate risk management policy.
- Staff are unaware of roles and responsibilities.
- Access controls and segregation of duties are inadequate.
- Inadequate, or lack of, budgetary control results in budget over/under spends.

##### Creditors

- Creditor payments are not authorised, accurate, timely or not in respect of goods and services received by the CFA

##### Debtors

- All income due to the organisation is not properly identified, allocated or accounted for. .
- Income due has not been invoiced, received or action taken to recover the debt

##### Payroll

- Payments are made to people who are not bona fide and payments are not at the correct and authorised rate.

##### General Ledger

- Financial transactions are not accurately or completely recorded in the General Ledger
- Transactions are not authorised or supported by documentary evidence

##### Grant income

- Grant income is not properly planned, identified, allocated or accounted for.

##### Capital

- There is no approved Capital programme and capital assets are not recorded or accounted for correctly.

##### Banking

- Banking transactions are not bona fide, accurate or authorised.

##### VAT

- VAT is not correctly accounted for by the Authority and VAT returns are not made in a timely manner.



## Buckinghamshire and Milton Keynes Fire Authority Core Financial Controls – Internal Audit Report

---

4.2 Following preliminary risk assessments, the following processes were not included within the scope of this review and will be reviewed as a separate audit.

- Treasury Management



**5. Audit Methodology and Opinions**

- a. The audit was undertaken using a risk-based methodology in a manner compliant with the CIPFA Code of Practice. The audit approach was developed with reference to the Internal Audit Manual and by an assessment of risks and management controls operating within each area of the scope. Where we consider that a risk is not being adequately managed, we have made recommendations that, when implemented, should help to ensure that the system objective is achieved in future and risks are reduced to an acceptable level.
- b. The matters raised in this report are only those, which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the risks that exist or all improvements that might be made.
- c. Each audit will result in an overall ‘audit assurance’. A detailed summary will be provided to the Overview and Audit Committee for all ‘limited’ assurance opinion reports. The range of audit opinions is outlined below:

<b>ASSURANCE</b>	<b>SUBSTANTIAL</b>	<b>REASONABLE</b>	<b>LIMITED</b>
<b>Adequacy of risk management techniques employed within the area.</b>	Thorough processes have been used to identify risks. Action being taken will result in risks being mitigated to acceptable levels. No more monitoring is necessary than is currently undertaken.	The action being taken will result key risks being mitigated to acceptable levels. Some additional monitoring is required.	No action is being taken, OR insufficient action is being taken to mitigate risks. Major improvements are required to the monitoring of risks and controls.
<b>Adequacy of the existing control framework to reduce identified risks to an acceptable level.</b>	Controls are in place to give assurance that the system’s risks will be mitigated.	Most controls are in place to give assurance that the system’s key risks will be managed but there are some weaknesses.	The control framework does not mitigate risk effectively. Key risks are not identified or addressed.
<b>Adequacy of compliance with the existing control framework.</b>	The control framework is generally complied with. Emerging risks are identified and addressed in a timely manner.	Compliance with the control framework mitigates risk to acceptable levels, except for the risks noted.	Compliance is poor so risks are not being mitigated to acceptable levels and it is probable that some objectives will not be, OR are not being achieved.

- d. The responsibility for a sound system of internal control rests with management. Internal audit procedures are designed to focus on areas identified by management as being of greatest risk and significance. Effective implementation of our recommendations by management is important for the maintenance of a reliable internal control system.