

Item 8(a) Annex C

AUDIT AND RISK MANAGEMENT

INTERNAL AUDIT REPORT

BUCKINGHAMSHIRE & MILTON KEYNES FIRE AUTHORITY

Core Financial Controls 2014/15

March 2015





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Audit Control:

Closing meeting:	5 February 2015
Draft report:	5 March 2015
Management responses:	10 March 2015
Final report:	17 March 2015

Auditors:	Mark Reid	Principal Auditor
	Peter Emmanuel	Principal Auditor
	Maggie Gibb	Risk & Insurance Manager
Report Distribution:		
Draft Report	David Sutherland	Acting Director of Finance & Assets
	Mark Hemming	Acting Head of Finance
	Kerry McCafferty	Head of Human Resources
	Lynne Swift	Director of People and Organisational Development
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 Within the Buckinghamshire & Milton Keynes Fire Authority (BMKFA), the Director of Finance & Assets has overall responsibility for overseeing the finance functions and is supported on a day-to-day basis by the Acting Head of Finance and the Finance Team. The Team currently consists of 10 members of staff (Head of Procurement, Procurement Manager, an Interim Management Accountant, two Accountants, two Finance Officers, two Finance Assistants and a Procurement Officer).

1.4 The main responsibilities of the Finance Team include advising on the strategic direction of finance for the organisation; budget monitoring and medium term financial planning; capital accounting; establishment control, journals and virements; Treasury Management (including cash flow); banking; reconciliations; payroll integration; accounts payable and receivable; and procurement.

1.5 People and Organisational Development (POD) is overseen by the Director of POD and the Human Resources activity is led by the Head of HR. The HR team has 11 staff (Employee Services & Payroll Manager, HR Development Manager, Employee Relations Manager, ES and Payroll Team Leader, HR Officer, HR Assistant, Welfare officer, 2 Senior Administrators and 2 administrators (several of these roles are part-time).

1.6 POD provide all Human Resource (HR) advisory, transactional and payroll services to the Authority. Payroll was completely moved to HR from the Finance department in 2013 yet the payroll auditing still remains in the Core Financial Controls remit. HR has overall responsibility for ensuring an accurate, secure and timely payroll service across all staff groups. In the HR structure, payroll and employee services (transactional HR) work is combined



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and is moving to be provided through a service desk facility. A significant project is currently being undertaken to automate payroll as it is still largely paper based. HR and Finance are jointly working on this.

1.7 In addition to the findings summarised below, we also found the following examples of good practice:

- There are robust controls in place for Payroll, Grant Income and Treasury Management.

1.8 An area for improvement was identified. This high priority recommendation is listed below:

- The June 2014 VAT claim was submitted late which resulted in delayed income of approximately £63k. We were advised this was due to staff leave.

1.9 Recommendations summary:

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

Progress in implementing the management actions will be tracked and reported to the Overview & Audit Committee.

Business Objective	Risk	Findings		
		High	Medium	Low
Financial Control Framework	The Financial Regulations and Financial Instructions are not kept up to date and as a result inconsistent practices are adopted and/or staff do not comply with management requirements.		1	
	General Ledger and Capital, Policies, procedures and guidance do not reflect current working practices / requirements.		1	
	Virement requests are not authorised in line with requirements.		1	
Creditors	The Accounts Payable totals do not agree with the General Ledger, and the Authority's accounts are misstated.			1



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Debtors	The Accounts Receivable totals do not agree with the General Ledger, and the Authority's accounts are misstated.			1
General Ledger	Appropriate supporting information is not retained to justify the reason for journal postings.			1
	Current Financial procedure documents for journals and virements do not include the manual procedures, controls and documentation that are required.		1	
VAT	VAT is not correctly accounted for and the Authority loses potential income and/or incurs penalties / surcharges due to late submission of returns.	1		
TOTAL		1	4	3

The detailed findings are summarised in Section 3 of this report. All findings have been discussed with the Acting Head of Finance who has agreed all the findings and produced an action plan to implement them.

- 1.10 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 2014/15. The review was carried out during January 2015.
- 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 audit in this area can be summarised as:

Date of last audit:	April 2014	
Overall last audit opinion:	Substantial	
Number of recommendations agreed with Management last audit (this includes Treasury Management which was reported separately for 2013/14):	High	1
	Medium	5
	Low	5
Follow Up: Number of recommendations implemented by Management since last audit:	High	1
	Medium	3
	Low	5

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 Issues and 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	Issues & Consequences	Recommendation	Priority H/M/L	Management Action Plan	Task owner and target date for implementation
Key Risk Area		VAT				
1	A VAT return is submitted online on a monthly basis.	<p>Sample testing of two months over the period April 2014 to November 2014 was undertaken to confirm that whilst no issues were identified from the sample testing, it was noted that the June and July 2014 VAT returns were both completed at the same time. This was due to the Finance Officer being on annual leave. This resulted in the June 2014 VAT return being submitted late by 19 days.</p> <p>Missed or late VAT submissions could result in delayed or loss of potential income (in the Authority's case) or the payment</p>	VAT returns should be submitted online on a monthly and timely basis. In a situation where the Officer performing this task is absent, cover should also be established.	High	Since July 2014, an additional officer is now able to complete the VAT return. A further additional officer will be trained to complete the return in early 2015/16 to add further resilience.	<p>Who to be actioned by:</p> <p>Acting Head of Finance</p> <p>When to be actioned by:</p> <p>June 2015</p>



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	Control description	Issues & Consequences	Recommendation	Priority H/M/L	Management Action Plan	Task owner and target date for implementation
		of surcharges or penalties.				
	Key Risk Area	Financial Control Framework				
2	Financial Regulations, Financial Instructions and Contract Standing Orders are: <ul style="list-style-type: none"> • reviewed on a regular basis; • approved; • comprehensive and cover all financial systems; and • available to all staff. 	Internal Audit confirmed that the latest Financial Regulations, Financial Instructions and Contract Standing Orders (June 2014): <ul style="list-style-type: none"> • contain requirements for all financial systems within the Authority; • were approved by the Fire Authority on the 24th June 2014; • were published and the latest approved copies are available to staff; and • staff have been made aware of changes. However, the documents have not been reviewed and updated with necessary changes. 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.	The Financial Regulations and Financial Instructions should be updated with all necessary changes.	Medium	The Financial Regulations were approved in June 2014 and will be reviewed during 2015/16 to determine if any further updates are required. The update to the Financial Instructions was delayed to accommodate changes required as a result of the Gartan Payroll automation project.	Who to be actioned by: Acting Director of Finance & Assets When to be actioned by: December 2015 (Financial Regulations) April 2015 (Financial Instructions)



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	Control description	Issues & Consequences	Recommendation	Priority H/M/L	Management Action Plan	Task owner and target date for implementation
3	Policies, procedures and guidance documents provide adequate detail concerning the accounting practices to be followed.	<p>General Ledger and Capital guidance had not been reviewed or updated in the last two years (August 2005 & April 2012 respectively).</p> <p>Where the General Ledger and Capital guidance is not reviewed or updated on a regular basis, there is a risk that inconsistent and/or inefficient practices are followed and staff fail to act in accordance with management requirements.</p>	The General Ledger and Capital policies, procedures and guidance should be reviewed and updated on a regular basis.	Medium	<p>The General Ledger and Capital guidance will be reviewed.</p> <p>It is likely that a number of procedures will need to be revised during 2015/16 if a replacement finance system is implemented.</p>	<p>Who to be actioned by:</p> <p>Acting Head of Finance</p> <p>When to be actioned by:</p> <p>March 2016</p>
4	An appropriate system exists for monitoring of costs against budget and to report exceptions that have been identified to senior management for action.	<p>Re-stated</p> <p>As noted in last year's audit, authorisation for virements between £50,000 to £150,000 requires SMT approval and had not been sought for two out of three items within this approval threshold. In each case, authorisation was by the Director of Finance and Assets.</p> <p>There is a risk that virements may be actioned without proper authority.</p>	<p>Re-stated management action:</p> <p>Management should review section 30 of the Financial Instructions to confirm suitability and then ensure that virement requests are authorised in line with requirements.</p>	Medium	<p>The update to the Financial Instructions was delayed to accommodate changes required as a result of the Gartan Payroll automation project (see also Recommendation 1).</p> <p>Virements are authorised in line with the current Instructions. Any changes required will be made as part of the update.</p>	<p>Who to be actioned by:</p> <p>Acting Director of Finance & Assets</p> <p>When to be actioned by:</p> <p>April 2015 (as per Recommendation 1)</p>



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	Control description	Issues & Consequences	Recommendation	Priority H/M/L	Management Action Plan	Task owner and target date for implementation
	Key Risk Area	General Ledger				
5	Guidance relating to accounting in policies and procedures is fit for purpose and up to date.	Re-stated The 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. There is a risk that guidance relating to accounting in policies and procedures is not fit for purpose and not up to date.	Re-stated 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.	Medium	These requirements are being added to new and revised procedures as and when written. It is likely that a number of procedures will need to be revised during 2015/16 if a replacement finance system is implemented.	Who to be actioned by: Acting Head of Finance When to be actioned by: March 2016
6	Adequate documentation of the nature and justification for journals is maintained.	For a random sample of 25 journals raised over the period April 2014 to January 2015, we identified that two journals did not have backing documents attached. There is risk incorrect and/or inappropriate journal postings are processed.	Backing documentation to justify journals should be retained.	Low	Although the reasons for the journals were largely self-explanatory to Finance staff, additional explanation will be maintained to ensure clarity for audit purposes.	Who to be actioned by: Acting Head of Finance When to be actioned by: April 2015



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	Control description	Issues & Consequences	Recommendation	Priority H/M/L	Management Action Plan	Task owner and target date for implementation
Key Risk Area		Creditors				
7	The creditors control account is reconciled on a regular basis and authorised by an appropriate officer.	Currently, creditors control account reconciliations are undertaken on an annual basis (for year-end accounts purposes). There is a risk that inconsistencies between the control account and the ledger are not identified in a timely manner and additional resource is spent in investigating the differences.	The creditors control accounts should be prepared and reconciled by a member of the Finance Team on a quarterly basis and authorised by an appropriate officer.	Low	The creditors control accounts reconciliation will be undertaken and authorised on a quarterly basis. The first quarter of 2015/16 (April – June) will be completed in July 2015.	Who to be actioned by: Acting Head of Finance When to be actioned by: July 2015
Key Risk Area		Debtors				
8	The debtors control account is reconciled on a regular basis and authorised by an appropriate officer.	Currently, debtors control account reconciliations are undertaken on an annual basis (for year-end purposes). There is a risk that inconsistencies between the control account and the ledger are not identified in a timely manner and additional resource is spent in investigating the differences.	The debtors control account should be prepared and reconciled by a member of the Finance Team on a quarterly basis and authorised by an appropriate officer.	Low	The debtors control accounts reconciliation will be undertaken and authorised on a quarterly basis. The first quarter of 2015/16 (April – June) will be completed in July 2015.	Who to be actioned by: Acting Head of Finance When to be actioned by: July 2015



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 BMKFA.

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



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recorded or accounted for correctly.

Banking and Reconciliations

- Banking transactions are not bona fide, accurate or authorised.
- Reconciliations are not carried out and signed off out on a regular basis.

VAT

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

Treasury Management

- Treasury Management strategy is not approved, or may not be in line with recommended practices and legislation.
- Transactions are not appropriately authorised.
- The integrity and reliability of the treasury management system is compromised due to inadequate access controls.
- Information received by Treasury Management to enable effective cash flow forecasting to take place is insufficient, inaccurate or not prompt.
- Lack of reporting and monitoring of Treasury Management activity.

4.2 Following preliminary risk assessments, the following processes were not included within the scope of this review and will be considered for inclusion within future audits of the area:

- Budget Setting and Monitoring (to be included in 15/16 Audit Plan)
- Asset Management (to be included in 15/16 Audit Plan)
- Pensions (audited at BCC)

5. Staff Interviewed

- Mark Hemming, Acting Head of Finance
- Jayshree Takodara, Interim Management Accountant
- Asif Hussain, Accountant
- Mark Stevens, Accountant
- Laura Taylor, Finance Assistant
- Linda Blunt, Finance Officer
- Richard Cook, Finance Officer
- Marcus Hussey, Finance Assistant
- Kerry McCafferty, Head of Human Resources
- Carol Culling, Employee Services & Payroll Manager
- Carly Humphrey, Employee Services & Payroll Manager Team Leader



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6. 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:

ASSURANCE	SUBSTANTIAL	REASONABLE	LIMITED
Adequacy of risk management techniques employed within the area.	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.
Adequacy of the existing control framework to reduce identified risks to an acceptable level.	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.
Adequacy of compliance with the existing control framework.	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.