

AUDIT AND RISK MANAGEMENT

INTERNAL AUDIT REPORT

**BUCKINGHAMSHIRE & MILTON KEYNES
FIRE AUTHORITY**

Core Financial Controls 2015/16

May 2016





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Audit Control:

Closing meeting:	14 March 2016
Draft report:	7 April 2016 (reissued 3 May 2016)
Management responses:	21 April 2016 (revised responses received 5 May 2016)
Final report:	24 May 2016

Auditors:	Ian Dyson Maggie Gibb Betty Davidson Nafisah Khan	Chief Internal Auditor Audit Manager Senior Auditor CIPFA Trainee
Report Distribution:		
Draft Report	Mark Hemming David Sutherland Kerry McCafferty Sharon Elmes Lynne Swift	Deputy Director of Finance and Assets Director of Finance and Assets Head of Human Resources Employee Services and Payroll Manager Director of People and Organisational Development
Final Report as above plus:	Jason Thelwell Adrian Busby Ernst and Young	Chief Fire Officer Chair, Bucks and Milton Keynes Fire Authority External Audit



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 **reasonable**.
- c) Our assurance on the adequacy of compliance with the existing control framework is **substantial**.

1.3 The Director of Finance and Assets has overall responsibility for the finance function at BMKFA. The Head of Finance oversees the day-to-day operation of the Finance Team currently consisting of two Accountants, two trainee Accountants, a Finance Officer and a Finance Assistant. There is also a Procurement Officer.

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; journals and virements; Treasury Management (including cash flow); banking; reconciliations; payroll bacs payments; accounts payable and receivable; VAT and procurement.

The Director of People and Organisational Development (POD) has overall responsibility for the recruitment and payroll process. The Head of Human Resources oversees the day-to-day operation of the POD Team.

The POD team provide all Human Resource (HR) advisory, transactional and payroll services to the Authority. An online service desk facility has been introduced to deal with HR queries.

BMKFA are currently going through a tender exercise to replace the SAP Financial System with a system more suited to the needs of the Authority. It is planned that the system will be implemented by April 2017.



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- 1.4 In addition to the findings summarised below, we also found the following examples of good practice:
- The Treasury Management process is well run and is returning higher levels of interest than budgeted.
 - The Employee Services and Payroll Manager has introduced electronic checklists to make the payroll payments system more efficient.
- 1.5 Some areas for improvement were identified. The one high priority recommendation is as follows:
- The workshops charge customers for ad hoc work completed, a cash sheet is sent to the Finance team providing details of the income received via card/cash. There is no evidence of a reconciliation between the work recorded and invoiced from the Tranman system and income received and recorded on the cash sheets and SAP.



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1.6 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 systems.

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

Business Area	Risk	Findings		
		High	Medium	Low
Financial Control Framework	<ul style="list-style-type: none"> • 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. 	0	1	2
Creditors	Creditor payments are not authorised, accurate, timely, or are not in respect of goods and services received by BMKFA.	0	1	0
Debtors	<ul style="list-style-type: none"> • 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. 	0	1	0
Payroll	Payments are made which are not bona fide or not at the correct and authorised rate.	0	1	1
General Ledger	<ul style="list-style-type: none"> • Financial transactions are not accurately or completely recorded. • Transactions are not authorised or supported by documentary evidence. 	0	0	0



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Grant Income	Grant income is not properly planned, identified, allocated or accounted for.	0	0	0
Capital	There is no approved capital programme and capital assets are not recorded or accounted for correctly.	0	0	0
Banking and Reconciliations	<ul style="list-style-type: none"> • Banking transactions are not bona fide, accurate or authorised. • Reconciliations are not carried out and signed off on a regular basis. 	1	1	0
VAT	VAT is not correctly accounted for by the Authority and VAT returns are not made in a timely manner.	0	0	0
Treasury Management	<ul style="list-style-type: none"> • Treasury Management Strategy is not approved, or not in accordance 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 out of date. • Lack of reporting and monitoring of Treasury Management activity. 	0	0	1
TOTAL		1	5	4

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



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- 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 2015/16. The review was carried out during January 2016.
- 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 there are robust governance arrangements in place and all financial transactions are accurate and appropriately authorised. The objective of our audit was to evaluate the area with a view to delivering reasonable assurance as to the adequacy of the design of the internal control system and its application in practice. A detailed 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:	March 2015	
Overall last audit opinion:	Substantial	
Number of recommendations agreed with management 2014/15 audit:	High	1
	Medium	4
	Low	3
Follow Up: Number of recommendations implemented by management since last audit:	High	1
	Medium	2
	Low	3

Two of the agreed actions are not yet due for implementation. These are both related to updating policies and procedures used by the Finance Team and will be reviewed and updated when the new finance system is implemented.



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	Issues & Consequences	Priority H/M/L	Management Action Plan	Task owner and target date for implementation
Key Area		Banking and Reconciliations			
1	All income received is recorded accurately and banked promptly.	<p>A sample of bank statements received, one for each month from April 2015 to December 2015, was tested. It was found that:</p> <ol style="list-style-type: none"> The workshops charge customers for ad hoc work completed, a cash sheet is sent to the Finance team providing details of the income received via card/cash. Although a receipt is issued from the Tranman system for cash payments there is no evidence that a reconciliation takes place between work recorded and invoiced on the Tranman system and income recorded on SAP. The cash sheets reviewed state a fee of £49.95 was charged but a value of £50 was banked. Although in this case it is a very 	High	<ol style="list-style-type: none"> A reconciliation will be carried out between the work invoiced on the Tranman system and the income recorded on SAP. A reconciliation between income cash sheets and the cash received will be carried out on a regular basis to mitigate the risk of fraud and error. Any reason for the amounts not agreeing will be recorded on the cash sheet. Cheque receipts will be recorded and cheques will 	<p>Who to be actioned by: Principal Accountant</p> <p>When to be actioned by: June 2016</p>



	Control description	Issues & Consequences	Priority H/M/L	Management Action Plan	Task owner and target date for implementation
		<p>small amount, if cash sheets are not reconciled against the actual cash received there is a risk of fraud and error.</p> <p>3. Two cheques were banked one month after the date of the cheque, there is no evidence of when the cheques were received by the Fire Authority; if cheques are not banked within a week this is not compliant with Financial Instructions.</p>		<p>be banked within one week of receipt in accordance with Financial Instructions.</p>	
Key Area		Financial Control Framework			
2	<p>Virements are appropriate and authorised.</p>	<p>A sample of five virements was tested by Audit. It was found that two out of the virements were processed before being authorised at the agreed level.</p> <p>One virement, although it had been approved by the budget holder, was processed before approval by the Executive Committee.</p> <p>One virement which had been approved and processed in the previous financial year was reprocessed as a temporary virement in 2015/16. This should either be approved on an annual basis or should be processed as a permanent virement if it is likely to happen in following years.</p> <p>This is not in accordance with the agreed approval limits in the Financial Instructions.</p>	Medium	<p>The process for approving virements will be reviewed as part of the next review of Financial Instructions and implementation of the new finance system.</p>	<p>Who to be actioned by: Deputy Director of Finance and Assets (Head of Finance at time of audit)</p> <p>When to be actioned by: February 2017</p>



	Control description	Issues & Consequences	Priority H/M/L	Management Action Plan	Task owner and target date for implementation
Key Area		Debtors			
3	Aged debt reports are reviewed by Finance on a regular basis and debts chased promptly.	<p>A sample of five aged debts was reviewed by Audit. It was found that:</p> <ol style="list-style-type: none"> 1. One debt, £866.83, had been outstanding since 2013, 12 reminders had been sent to the individual up to June 2014. The Finance Officer confirmed that this was not likely to be paid. 2. One debt from July 2015 of £480 has been chased regularly with no response from the customer and no further action has been taken by Finance. 3. One debt from November 2015 of £180 had not been chased due to lack of resource to chase the debts. This has now been paid. <p>This is not compliant with the Debt Management Policy which states that three reminders should be sent to customers for debts over 30 days after the due date, after which legal action should be considered. Where appropriate action to chase outstanding debts is not taken there is a risk that the outstanding debts will not be recovered. For debts that are not likely to be recovered BMKFA should consider legal action or writing off the debt.</p>	Medium	Debts should be chased in accordance with the Debt Management Policy. For debts that are not likely to be recovered BMKFA should consider legal action or writing off the debt.	<p>Who to be actioned by: Principal Accountant</p> <p>When to be actioned by: June 2016</p>



	Control description	Issues & Consequences	Priority H/M/L	Management Action Plan	Task owner and target date for implementation
Key Area		Creditors			
4	Supplier checks are undertaken for all new vendor set ups and changes to vendor details.	<p>A sample of five vendor set ups and five amendments to vendor records was tested. It was found that for one of the vendor set ups there was no evidence that the details had been checked by Finance.</p> <p>If vendor details for set ups and amendments on SAP are not checked appropriately before input or reviewed there is a risk that vendor details are incorrect resulting in an increased risk of fraudulent or incorrect payments.</p>	Medium	Vendor details on SAP should be checked by a second member of the Finance Team to reduce the risk of errors not being identified and corrected.	<p>Who to be actioned by: Principal Accountant</p> <p>When to be actioned by: June 2016</p>



	Control description	Issues & Consequences	Priority H/M/L	Management Action Plan	Task owner and target date for implementation
Key Area		Payroll			
5	Starters and leavers details are input to SAP by HR and details on SAP are checked by a second officer.	<p>A sample of five starters and five leavers was tested. It was found that:</p> <ol style="list-style-type: none"> 1. For one new starter there is no evidence that the information was checked against SAP by a second officer as the secondary employment form had not been signed off. 2. For one leaver there is no evidence that the details were checked on SAP by a second officer. <p>If starter and leaver details on SAP are not checked by a second officer there is a risk that incorrect details are not corrected and payments may be made in error.</p>	Medium	All items processed within Payroll are subject to a review and checking process. In these instances the items had been reviewed but the documentation had not been correctly signed off by the Employee Services and Payroll Manager who was for a period undertaking all of the reviews. The importance of signing all documentation is noted and stronger processes are now in place.	<p>Who to be actioned by: Employee Services and Payroll Manager</p> <p>When to be actioned by: Immediately</p>



	Control description	Issues & Consequences	Priority H/M/L	Management Action Plan	Task owner and target date for implementation
Key Area		Banking and Reconciliations			
6	Bank control account reconciliations are carried out on a regular basis.	<p>A sample of two month's bank reconciliations was reviewed by Audit .It was found the reconciliations did balance to the bank statement; however, it was evident that transactions were posted to the periods after the reconciliations had been completed and signed off. The Finance officer advised this was due to the period not being locked on SAP and the incorrect posting date was entered on the batch upload leading to October transactions being posted to September in error.</p> <p>Where the period is not locked in a timely manner there is a risk that transactions could be posted to the incorrect period in error and reconciliations incorrect.</p>	Medium	<p>The Principal Accountant will request that the BCC SAP Team inform Finance when the period on SAP has been locked to ensure that transactions relating to the following period are not posted to the previous period.</p> <p>Bank reconciliations will be completed after the period is locked to ensure the reconciliations are accurate.</p>	<p>Who to be actioned by: Principal Accountant</p> <p>When to be actioned by: June 2016</p>



	Control description	Issues & Consequences	Priority H/M/L	Management Action Plan	Task owner and target date for implementation
Key Area		Financial Control Framework			
7	Contract Standing Orders are reviewed and updated on a regular basis and approved.	<p>Contract Standing Orders were reviewed by Audit. The European Public Contracts Directive thresholds have not been updated to reflect the changes made in January 2014. The thresholds were also changed again from January 2016.</p> <p>If Contract Standing Orders are not amended to show changes in procurement thresholds there is a risk that staff are unaware of the changes and are following incorrect guidelines for tendering, potentially acting unlawfully.</p>	Low	Contract Standing Orders will be updated to show current EU procurement thresholds.	<p>Who to be actioned by: Deputy Director of Finance and Assets (Head of Finance at time of audit)</p> <p>When to be actioned by: February 2017</p>
8	Access to critical transactions on SAP are restricted to appropriate staff.	<p>Access to SAP critical transactions was reviewed by Audit. It was found that access had not been locked for some members of staff who no longer worked for the Authority.</p> <p>There is a risk that staff process transactions that have not been approved at the appropriate level and an increased risk of fraud.</p>	Low	Access to all transactions will be locked when staff leave BMKFA.	<p>Who to be actioned by: Principal Accountant</p> <p>When to be actioned by: June 2016</p>



	Control description	Issues & Consequences	Priority H/M/L	Management Action Plan	Task owner and target date for implementation
Key Area		Payroll			
9	Adequate separation of duties exists within the payroll system.	<p>Access to SAP transaction PA40 (Changes to HR Master Data) was checked and found to be active for one user who no longer works for the Fire Authority. As this member of staff was the only person in Finance to have access to this transaction it is likely that the access was inappropriate and should not have been given.</p> <p>If staff are given access to inappropriate transactions such as Changes to HR Master Data, there is a risk that changes could be made to staff details on SAP which are not authorised, and increases the risk of fraudulent payments.</p>	Low	<p>Access to SAP will be locked for the member of staff. Access to HR transactions both for starters and for new requests will be reviewed to ensure that only the staff that have authorisation to make changes can do so.</p> <p>With immediate effect only HR/Payroll users will have PA40 (input) access going forward, any other users should only be granted PA20 (enquiry access).</p>	<p>Who to be actioned by: Deputy Director of Finance and Assets (Head of Finance at time of audit) and Employee Services and Payroll Manager</p> <p>When to be actioned by: Immediately</p>
Key Area		Treasury Management			
10	Access to the bank account to make investments is restricted to Finance staff.	<p>Access to the ICD (Treasury Management) Portal to make Money Market Fund purchase/redemption is restricted to Finance staff however one member of staff who no longer works for BMKFA is still on the authorisation list as a trader.</p> <p>There is a low risk that the system could be accessed.</p>	Low	The list of Traders and Approvers will be reviewed and updated to reflect current staff members.	<p>Who to be actioned by: Principal Accountant</p> <p>When to be actioned by: June 2016</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 are 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 which are not bona fide or not at the correct and authorised rate.

General Ledger

- Financial transactions are not accurately or completely recorded.
- 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 and Reconciliations

- Banking transactions are not bona fide, accurate or authorised.
- Reconciliations are not carried out and signed off 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 not in accordance 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 out of date.
- 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:

- | |
|---|
| <ul style="list-style-type: none">• The Pension process was not tested as it has been audited separately in 2015/16 |
|---|

5. Staff Interviewed

- Mark Hemming, Head of Finance
- Sharon Elmes, Employee Services and Payroll Manager
- Asif Hussain, Accountant
- Mark Stevens, Accountant
- Marcus Hussey, Trainee Accountant
- Linda Blunt, Finance Officer
- Carly Humphrey, Employee Services and Payroll Team Manager
- Jessica Bunce, Finance Assistant
- Judith Grimes, Senior Administrator, POD
- Lynda Donohoe, Workshops Receptionist/Administrator



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:

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.