

AUDIT AND RISK MANAGEMENT

INTERNAL AUDIT REPORT

BUCKINGHAMSHIRE & MILTON KEYNES FIRE AUTHORITY

Core Financial Controls 2016/17

March 2017





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Audit Control:

Closing meeting:	27 January 2017
Draft report:	9 February 2017
Management responses:	24 February 2017
Final report:	26 June 2017

Auditors:	Maggie Gibb Betty Davidson Grace Woolnough	Chief Internal Auditor Senior Auditor CIPFA Trainee
Report Distribution:		
Draft Report	Mark Hemming David Sutherland Asif Hussain Sharon Elmes Kerry McCafferty	Deputy Director of Finance and Assets Director of Finance and Assets Principal Accountant Employee Services and Payroll Manager Head of Human Resources
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 substantial.
- c) Our assurance on the adequacy of compliance with the existing control framework is reasonable.

1.3 The Director of Finance and Assets has overall responsibility for the finance function at BMKFA. The Deputy Director of Finance and Assets oversees the day-to-day operation of the Finance Team.

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.

BMKFA have recently completed a tender exercise to replace the SAP Financial System including Payroll with two systems more suited to the needs of the Authority. The new systems, provided by Capita (with provision of the HR/Payroll system sub-contracted to Midland HR), will be implemented 1 April 2017. Once the new systems are in place Financial Instructions, Financial Regulations and procedure notes will be revised to reflect any changes to processes required by the systems.



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

- There is a robust system in place for the setting up of new vendors that includes a standard form giving vendor details and the checks that have taken place.
- It was found during the audit that evidence for processing all types of transactions is maintained and is easily accessible.

1.5 Some areas for improvement were identified. One high priority action has been identified as below:

One MMF deposit for £1m made on Monday 23 May 2016 was not approved by the cut off time of 11a.m. however the CHAPS payment went through and the cash not returned to BMKFA's bank account until Friday 27 May 2016. Additionally one investment of £1m was made with Skipton Building Society for a period of six months; the maximum duration approved in the Treasury Management Strategy and advised by Capita for this Building Society is 100 days.



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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 Core Financial Controls processes.

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 budgetary control process results in budget over/under spends.	0	1	1
Creditors	Creditor payments are not authorised, accurate, timely, or are not in respect of goods and services received by BMKFA.	0	0	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	0
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	1
Grant Income	Grant income is not properly planned, identified, allocated or accounted for.	0	0	0



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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.	0	0	0
VAT	<ul style="list-style-type: none">• VAT is not correctly accounted for by the Authority and VAT returns are not submitted in a timely manner.	0	0	1
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.	1	0	1
TOTAL		1	3	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 and the Principal Accountant who have agreed all the findings 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 2016/17. The review was carried out during January 2017.
- 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:	May 2016	
Overall last audit opinion:	Substantial	
Number of recommendations agreed with Management last audit:	High	1
	Medium	5
	Low	4
Follow Up: Number of recommendations implemented by Management since last audit:	High	0
	Medium	4
	Low	3

There are three actions outstanding from the previous audit. One is relating to the reconciliations between the Tranman system and SAP, although there are no longer any cash payments being taken there is still no reconciliation taking place between the invoices issued from Tranman and the payments made on SAP. This action has been rewritten and restated in this audit report.

The other two actions are relating to updating Contract Standing Orders and Financial Instructions. As there will be a new finance system in place from April 2017 the action date for these has been changed to June 2017. Contract Standing orders will be revised to align with Royal Berkshire Fire and Rescue Service to enable joint procurement exercises to be undertaken more effectively.

There are also two actions outstanding from the 2014/15 audit, these relate to updating process notes and guidance for financial systems. The action date for this has been changed to June 2017 to coincide with the implementation of the new finance system.



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		Treasury Management			
1	All Treasury Management transactions are approved. Investments are made in accordance with the approved Treasury Management Strategy.	A sample of five Money Market Fund (MMF) deposits, five MMF redemptions, five other investments and two loans were tested. It was found that: <ul style="list-style-type: none">One MMF deposit for £1m made on Monday 23 May 2016 was not approved by the cut off time of 11a.m. however the CHAPS payment went through and the cash returned to BMKFA's bank account on Friday 27 May 2016.One investment for £1m was made with Skipton Building Society for a period of 6 months, the maximum duration approved in the Treasury Management Strategy for Skipton BS is 100 days and the CAPITA credit rating is green – maximum	H	<ul style="list-style-type: none">The process for making CHAPS payments will be reviewed to ensure that MMF deposits cannot be made before they are approved via the trading portal.The maximum deposit time will be checked by the approver before an investment is made to ensure that the investment period does not exceed the approved period.	Who to be actioned by: Deputy Director of Finance and Assets When to be actioned by: February 2017



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	Control description	Issues & Consequences	Priority H/M/L	Management Action Plan	Task owner and target date for implementation
		<p>duration 100 days.</p> <p>There is a risk that inappropriate transactions are processed, additionally cash flow is affected and interest loss.</p>			
Key Area		Financial Control			
2	Access to SAP critical transactions is restricted to appropriate staff.	<p>Access to SAP critical transactions was tested, this included transactions relating to the Debtors, Creditors and General Ledger systems.</p> <p>From other SAP access testing it was found that one officer has access to a range of transactions tested relating to the Debtors, Creditors and General Ledger systems.</p> <p>The access to process transactions relating to the creditors and debtors process was reviewed and it found that a number of users that have access to these transactions are not part of the finance team. In two cases the user is also an approver in SAP.</p> <p>The access to PA40 which allows a user to change HR master data was reviewed. It was found that for one member of the HR team who left the Fire Authority in August 2016 the access was not locked on SAP.</p> <p>This does not allow for an adequate separation of duties and inappropriate access leading to an increased risk of error or fraud.</p>	M	<ul style="list-style-type: none"> A full review of access to transactions on the new financial systems will be undertaken before go-live to ensure that users only have access where it is necessary for their role. It will also be ensured within this review that there is an adequate separation of duties within all financial processes. Access to SAP will be locked for staff who no longer work at the Fire Authority. 	<p>Who to be actioned by: Principal Accountant</p> <p>When to be actioned by: April 2017</p>



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	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 produced and reviewed by Finance on a regular basis and debts chased promptly.	<p>The process for raising invoices for private work done in the Workshops for external customers was reviewed. A job card and invoice are first raised in Tranman to the customer and a payment is raised in SAP to the 'Workshops Ad Hoc Work' customer after the work is complete.</p> <p>It was found that not all customers pay when the work is completed, invoices are only marked as paid on the paper copy of the Tranman invoice and not within Tranman so no reports are run on outstanding debts.</p> <p>No reconciliation is being carried out between Tranman and SAP to ensure that all customers have paid and that all payments have been recorded.</p> <p>There is a risk that all income due to the Workshops is not collected</p>	M	The process for invoicing customers for ad hoc work completed in the Workshops will be reviewed and revised to ensure that all invoices are paid on completion of the work. Additionally reconciliations will be undertaken between the finance system and Tranman to identify any payments either not made or not recorded on the finance system.	<p>Who to be actioned by: Principal Accountant</p> <p>When to be actioned by: July 2017</p>



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	Control description	Issues & Consequences	Priority H/M/L	Management Action Plan	Task owner and target date for implementation
Key Area		Payroll			
4	Request to recruit form is approved by Finance and HR.	<p>A sample of five starters from April 2016 to date was checked. The following issues were found:</p> <ul style="list-style-type: none"> For one of the sample the request to recruit form could not be found. The form had been signed by Finance and HR and then left on the recruiting manager's desk. There is an email trail confirming what happened to the form. <p>There is a risk that confidential information is accessible.</p>	M	<ul style="list-style-type: none"> The process for the approval of forms should be reviewed and amended to reduce the risk of forms being lost. <p>POD received approximately 35 request to recruit forms in the last year. POD have tighter controls on post coming into the department and many forms are now submitted via email. The introduction of the new HR system will enable a workflow to be built as part of the phase 2 E-Recruitment work which will eradicate paper forms and remove the risk identified. (Note the request to recruit form contains no confidential data)</p>	<p>Who to be actioned by: HR Services and Development Manager</p> <p>When to be actioned by: 30 September 2017</p>



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Key Area		Financial Control			
5	Changes to budgets are approved in accordance with Financial Instructions.	<p>A sample of 10 virements processed from 1 April 2016 to 31 December 2016 was tested.</p> <p>The following issues were found:</p> <p>One virement in the sample had an incorrect figure vired of £14,790; the correct amount was £17,490. This was reported to the Principal Accountant at the time of the audit.</p> <p>From a review of the virements in the sample it was evident that amounts are not always rounded consistently, ranging from £10 to £100. In one case the virement totalled £12,300 however with roundings was processed as £12,000.</p> <p>There is a risk that the amount vired is not as agreed leading to incorrect budgets.</p>	L	<ul style="list-style-type: none"> The incorrect figure will be investigated and amended to reflect the correct figure. The use of roundings will be reviewed and a standard approach will be agreed. 	<p>Who to be actioned by: Principal Accountant</p> <p>When to be actioned by: April 2017</p>



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	Control description	Issues & Consequences	Priority H/M/L	Management Action Plan	Task owner and target date for implementation
Key Area		General Ledger			
6	Journals are authorised by cost centre manager/budget holder and input by Finance.	<p>A sample of 10 journals raised since April 2016 was tested.</p> <p>Nine of the journals had been appropriately authorised however one had been input twice (by 2 different people) in error and had later been reversed, the second journal form had not been approved, it is likely that this led to it being input twice.</p> <p>There is a risk that a journal transaction is processed that is not agreed by the budget holder.</p>	L	All journals will be input and authorised via electronic workflow by a Principal Accountant (or higher) in the new finance system.	<p>Who to be actioned by: Principal Accountant</p> <p>When to be actioned by: April 2017</p>



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	Control description	Issues & Consequences	Priority H/M/L	Management Action Plan	Task owner and target date for implementation
Key Area		VAT			
7		<p>All VAT returns were reviewed from April to November 2016 to ensure that they were input on time and the VAT reclaimed had been received.</p> <p>The VAT returns for May and November were selected for further testing to ensure that the input and output VAT agreed to backing paperwork, it was found that:</p> <p>The VAT received did not match the VAT spreadsheet for the October income and this error had carried forward to the November spreadsheet. The Principal Accountant explained that this had been caused by a vendor mixing standard rated and exempt supplies on the same invoice leading to 16.5% VAT being charged totalling £110. This amount is being carried forward until the query is resolved</p> <p>There is a risk that the £110 VAT will not be recovered by the Fire Authority.</p>	L	This issue will be investigated and the VAT reclaimed.	<p>Who to be actioned by: Principal Accountant</p> <p>When to be actioned by: July 2017</p>
Key Area		Treasury Management			
8	Up to date guidance is available to Finance staff.	<p>Treasury Management procedure notes in place were reviewed. It was found that reference is made to staff who are no longer employed by BMKFA i.e. Richard Cook, Finance Officer, David Skinner, Head of Finance and Jacqui May, Deputy Head of Finance .</p> <p>There is a risk of delay to the process.</p>	L	Treasury Management process notes will be updated to reflect current responsibilities.	<p>Who to be actioned by: Principal Accountant</p> <p>When to be actioned by: March 2017</p>



Appendix A

AUDIT SCOPE AND FRAMEWORK

4. Specific Audit Scope

4.1 We have evaluated the area against the following identified key risk areas which we agreed with management:

- Financial Control
- Creditors
- Debtors
- Payroll
- General Ledger
- Grant Income
- Capital
- Banking and Reconciliations
- VAT
- Treasury Management

4.2 Following preliminary risk assessments Pensions were not included within the scope of this review as this was audited separately in 2015/16. Additionally a review was completed in June 2016 of the transfer to the new pension administrator.

5. Staff Interviewed

- Mark Hemming, Deputy Director of Finance and Assets
- Asif Hussain, Principal Accountant
- Mark Stevens, Principal Accountant
- Marcus Hussey, Trainee Accountant
- Linda Blunt, Finance Officer
- Jessica Bunce, Finance Assistant
- Sharon Elmes, Employee Services and Payroll Manager
- Fran Hale, Senior Administrator, POD
- Lynda Donohoe, Receptionist/Administrator



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.