

**BUCKINGHAMSHIRE COUNTY COUNCIL
INTERNAL AUDIT AND RISK MANAGEMENT**

FINAL INTERNAL AUDIT REPORT

Core Financial Controls 2017/18

Date Issued: June 2018



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Audit Control:

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|------------------------------|--------------------------------------|
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|-----------------------------|--|--|
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| Report Distribution: | | |
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| Final Report as above plus: | Jason Thelwell Ernst and Young | Chief Fire Officer Chair Bucks and Milton Keynes Fire Authority External Audit |

Management Summary

Introduction

This audit of Core Financial Controls was undertaken as part of the 2017/18 Internal Audit plan, agreed by the Overview and Audit Committee. The audit was undertaken during the fourth quarter of 2017/18.

Audit Objective

Internal Audit's objectives for this audit are to provide an evaluation of, and an opinion on, the adequacy and effectiveness of the system of internal controls that are in place to manage and mitigate financial and non-financial risks of the system. This will serve as a contribution towards the overall opinion on the system of internal control that the Chief Internal Auditor is required to provide annually to the Council. It also provides assurance to the Section 112 Officer that financial affairs are being properly administered.

Scope of work

The audit activity focussed on the following key risk areas identified in the processes relating to Core Financial Controls System:

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

The audit considered the controls in place at the time of the audit only. Where appropriate testing was undertaken, samples of transactions that occurred within the last 12 months were used.

Table 1 Overall Conclusion

| | |
|--|--------------------|
| Overall conclusion on the system of internal control being maintained | Substantial |
|--|--------------------|

| RISK AREAS | AREA CONCLUSION | No of High Priority Management Actions | No of Medium Priority Management Actions |
|------------------------------------|------------------------|---|---|
| Financial Control Framework | Reasonable | 0 | 1 |
| Creditors | Reasonable | 0 | 1 |
| Debtors | Reasonable | 0 | 1 |
| Payroll | Reasonable | 0 | 1 |
| General Ledger | Substantial | 0 | 0 |
| Grant Income | Substantial | 0 | 0 |
| Capital | Substantial | 0 | 0 |
| Banking and Reconciliations | Substantial | 0 | 0 |
| VAT | Substantial | 0 | 0 |
| Treasury Management | Substantial | 0 | 0 |
| | | 0 | 4 |

Appendix 1 provides a definition of the grading for each of the conclusions given.

The Core Financial Control Audit has an overall opinion of Substantial. The audit found that there were no significant weaknesses in the control framework for the areas reviewed. However there are some areas for improvement which are detailed in the risk areas below and in the action plan in Table 2.

As part of the Business and Systems Integration (BaSI) Project the Fire Authority replaced the SAP financial system, which was hosted by Buckinghamshire County Council, in April 2017. This has provided the Authority with more control over the system in terms of access rights, reports produced from the system and approval workflows. The new finance system 'Integra' is provided by Capita. Payroll and HR information is now held and processed through the iTrent HR system; this was also purchased as part of the BaSI project and was introduced in April 2017.

Financial Control Framework

The Fire Authority has up to date and approved Financial Regulations, Financial Instructions and Contract Standing Orders in place which provide the control framework for all financial processes. Budget monitoring is carried out on a monthly basis with reports being provided by the Integra financial system. There is a workflow system in place which ensures that forecasts are updated by Budget Holders and are subject to check and challenge from the Management Accountants.

There is a corporate risk register in place that identifies risks that are ranked as red (high priority); these are reviewed on a quarterly basis by Senior Management. However Audit found that although Financial Risks which are considered as high risk are escalated to the Corporate Risk Register the lower level risks are not subject to a regular formal review, additionally risk owners and target dates for actions are not identified in the risk register.

Virements are used to move budgets from one cost centre to another where errors are identified or if there is a business need. Prior approval is sought, based on the value of the virement, in accordance with Financial Instructions and Regulations. Testing undertaken identified one virement where each side of the virement had been posted to a different budget type which led to the virement appearing not to balance however, this was due to the way that the budgets had been uploaded by the contractor. This had been identified by Finance staff and corrected. Furthermore, Audit identified one virement that had two minor input errors (less than £100), however due to the values this did not have a significant impact on the underlying budget, therefore no further action was deemed necessary.

Process notes are in place that outline the steps to be followed for all financial processes. However Audit noted the lack of detail on who is responsible for actions in the process notes for some key areas.

Creditors

The Financial Regulations and Instructions provide comprehensive guidance on the ordering, authorising and receipt of goods and services. Access rights have been set up on Integra and checks are in place to ensure there is an adequate separation of duties in the Creditors process including the setting up of vendors, changing vendor records, raising of orders, approving orders and paying invoices.

All purchase card transactions are reviewed by both the Budget Holder and Finance to ensure that they are appropriate and in accordance with purchasing card guidelines. However Audit testing found that there are no rules in place for purchases that would be classified as hospitality.

Debtors

The Financial Regulations and Instructions provide up to date guidance relating to accounts receivable. Documented procedures regarding raising and authorisation of invoices on Integra are available to all responsible staff; these include annotated screenshots of the relevant Integra steps that should be followed. Audit found that access on Integra is restricted to relevant staff and adequate separation of duties exists including the setting up of customers, raising of invoices, approving invoices and posting receipts.

The debt management process is included in the Financial Instructions; this explains the processes for issuing payment reminders, recovering debt and for authorising write-offs. However for a sample of debts tested Audit noted that the debt recovery process as set out in the Financial Instructions had not been followed.

Payroll

The Fire Authority payroll information is held and processed through the iTrent HR system. The Gartan system used for recording on-call staff attendance interfaces with the iTrent system to ensure that the correct hours are paid. The new iTrent system allows expenses and overtime for non-Watch based staff to be claimed electronically and there is a workflow system in place for the line manager to approve these claims. The audit found that roles are allocated on iTrent which ensure that there is an appropriate separation of duties within the payroll process. Additionally checks are carried out at all stages of the payroll process to ensure that amounts paid and deducted are accurate.

From a review of overtime claims, Audit noted for one on-call staff there was an error in the figures claimed and the hours paid. This was investigated and corrected during the audit.

General Ledger

Financial Instructions include all financial processes that the Fire Authority undertakes and have been updated to reflect the new financial system (Integra) and new HR system (iTrent). The Balance Sheet balances on the SAP financial system were input to the new system 'Integra' as part of the set up process by Capita. A reconciliation of the balances from SAP to Integra has been carried out by Finance, as requested by External Audit.

Staff are allocated to a 'role' on iTrent to ensure that there is an adequate separation of duties within the financial processes and that staff cannot access transactions which are not appropriate for their role, for example, setting up new cost centres or cost codes. Audit review confirmed that journals are appropriately approved and backing documentation is held to support each transaction. Suspense accounts are reviewed and cleared as part of the monthly control account reconciliation process, and any unreconciled balances identified are supported by an explanatory note.

Grant Income

The process for receiving and recording grant income was reviewed as part of the audit. For the sample reviewed it was confirmed that all expected grants the correct amounts had been received and on the expected date. The income had been allocated to the appropriate cost centre on Integra and the receipt of this income is reviewed as part of the monthly budget monitoring process. None of the grants have conditions attached or a requirement to complete a return on expenditure made.

Capital

The Financial Regulations and Financial Instructions details the processes to be followed for capital expenditure, responsibilities for the approval of the capital programme and monitoring of capital spend is included. Capital spend and forecasts are monitored as part of monthly budget monitoring. Audit reviewed the approval process for new capital bids for 2017/18; it was found that these had been approved in accordance with Financial Regulations and Instructions.

Assets of land and building are revalued on an annual basis by an external valuer, Bruton Knowles, in accordance with the valuation method detailed in the annual accounts. The Asset Register was reviewed and was found to be up to date with the most recent valuations.

The process for disposals including approval and method is detailed in Contract Standing Orders. Audit reviewed the disposals made in 2017/18 and it was confirmed that the agreed process had been followed.

Banking and Reconciliations

Bank reconciliations are carried out by Finance on a weekly basis; higher value transactions linked to treasury management are reconciled monthly. Access to the bank account via Lloyds Link is restricted to appropriate members of Finance staff. Bank statements are produced from Lloyds Link on a weekly basis and uploaded to Integra, payment and income entries on the bank statement are then matched to creditor and debtor transactions on Integra. Control Accounts including the Bank Control Account are reconciled and this is reviewed and signed off on a monthly basis.

VAT

The process for completing and submitting the VAT return was reviewed as part of the audit. Purchase Ledger and Sales Ledger VAT analysis reports are run from Integra. The total from these reports is compared against that on the relevant ledger spreadsheet and reconciled. This reconciliation is reviewed and signed off by the Principal Accountant who

completes the VAT return and submits to HMRC. A low priority issue was identified in this area regarding the non-completion of a date box which is used to confirm the date the return was submitted to HMRC.

Treasury Management

There is an approved Treasury Management Strategy in place which details the investment and borrowing strategies and the approved list of counterparties. This is backed up by the approved Prudential Code which ensures that that treasury management decisions are taken in accordance with good professional practice. These comply with the CIPFA Code of Practice for Treasury Management in the Public Sector. The Fire Authority has a consultancy service in place with Link Asset Services who provide regular updates on credit worthiness of counterparties. A sample of investments was reviewed; it was found that daily cash flow statements were produced for each day in the sample; these confirm that the amounts invested were available. All investments in the sample had been appropriately authorised, were on the approved counterparty list and within the time limit for investments.

Table 2 Detailed Audit Findings and Action Plan

Management actions have been agreed to address control weakness identified during the closing meeting and agreement of the draft Internal Audit report. All management actions will be entered on the Council's Performance Management Software and progress in implementing these actions will be tracked and reported to the Regulatory & Audit Committee.

We categorise our management actions according to their level of priority:

| | |
|---------------------|---|
| Priority High (H) | Major issue or exposure to a significant risk that requires immediate action or the attention of Senior Management. |
| Priority Medium (M) | Significant issue that requires prompt action and improvement by the local manager. |
| Priority Low (L) | Minor issues requiring action to improve performance or overall system of control. |

| | Audit Finding, risk exposure and potential impact | Priority | Management Action |
|--|---|----------|--|
| Financial Control Framework – Risk Management | | | |
| 1. | <p>The Corporate Risk Management Policy sets out the methodology for identifying and managing risks.</p> <p>The process for managing financial risks was reviewed by Audit, the Deputy Director of Finance and Assets confirmed that there is no formal process in place for updating amber and green risks on the Finance and Assets Risk Register. Additionally risk owners are not identified and actions do not have target dates.</p> <p>If risks are not monitored on a regular basis and risk owners and target dates not identified there is a risk that the issues may not be managed effectively leading to the risk materialising.</p> | M | <p>Action</p> <p>Process for reviewing financial risks will be formalised. Risk owners to be identified and target/review dates to be added to the register.</p> <p>Officer responsible:</p> <p>Deputy Director of Finance and Assets</p> <p>Date to be implemented by:</p> <p>30 June 2018</p> |

| | Audit Finding, risk exposure and potential impact | Priority | Management Action |
|------------------|--|----------|---|
| Creditors | | | |
| 2. | <p>The Purchasing Card Guidelines outline the responsibilities of the cardholders, and acceptable use of the cards.</p> <p>A sample of 20 purchasing card transactions over the period April to December 2017 was reviewed by Audit and testing identified the following purchases that were not explicitly covered with the guidelines</p> <ul style="list-style-type: none"> • Evening meals which included alcohol • Small, regular purchases from coffee shops. <p>Expenditure made on purchasing cards is checked by Finance staff and monies recouped, such as alcohol purchases, where necessary. However, the Purchasing Card Guidelines and the Expenses Policy do not include any rules surrounding spend on hospitality.</p> <p>If staff are unaware of what the guidelines are for expenditure on hospitality and what expenses are allowable there is a risk that inappropriate purchases will be made leading to Finance staff time being spent on recouping the monies.</p> | M | <p>Action</p> <p>Purchasing Card Guidelines and Expenses Procedure to be updated to clarify rules surrounding spend on hospitality.</p> <p>The review of the Expenses Procedure and related guidance has commenced and alignment with and relevant section of the Purchasing card guidelines will be ensured.</p> <p>Officer responsible:</p> <p>Principal Accountant (Purchasing Card Guidelines)</p> <p>HR Services and Development Manager (Expenses Procedure)</p> <p>Date to be implemented by:</p> <p>31 December 2018</p> |

| | Audit Finding, risk exposure and potential impact | Priority | Management Action |
|----------------|--|----------|---|
| Debtors | | | |
| 3. | <p>The Financial Instructions outline the debt recovery process that is to be followed to collect all outstanding monies due to the Fire Authority.</p> <p>A sample of 25 invoices raised between April and December 2017 and a sample of five current debts was reviewed to confirm that supporting documentation was held for each invoice raised, invoices were paid on time and that any outstanding debts are chased seven days after the due date in accordance with Financial Instructions. However the following exceptions were noted from the testing undertaken:</p> <ul style="list-style-type: none"> Four current debts were subject to the standard debt recovery process, for two of these debts the chasing letter was sent out to debtors more than seven days after the due date (14 days and 11 days respectively). For one of these debts no first reminder was held on Integra. Two of the five debts tested were older than 30 days. These were both being chased by way of email reminders from Finance and had not been referred to Legal Services as required by the Financial Instructions. <p>If debts to the Fire Authority are not managed and actively pursued in line with the Financial Instructions, there is a risk that money owed to the Fire Authority may not be recovered.</p> | M | <p>Action</p> <p>Financial Instructions and Debt Management Policy to be updated to clarify that the Chief Finance Officer may choose to refer debts to legal, rather than implying that they are automatically referred after 30 days.</p> <p>Officer responsible:</p> <p>Deputy Director of Finance and Assets</p> <p>Date to be implemented by:</p> <p>30 November 2018</p> |

| | Audit Finding, risk exposure and potential impact | Priority | Management Action |
|----------------|--|----------|--|
| Payroll | | | |
| 4. | <p>FB22s are completed by each watch on a weekly basis and are used to record monthly attendance and overtime for on-call firefighters.</p> <p>A sample of 25 employees paid in the November 2017 Payroll was tested by Audit to confirm that all payments and deductions agreed to supporting paperwork.</p> <p>It was found six of the 25 had claimed for watch overtime. Of these six, although the FB22 had been checked twice by HR, comparison of the examination of the FB22 to the iTrent payslip found that; for one of the six, the number of hours on the payslip did not match those on the FB22. A total of 4.5 hours were listed on the payslip whilst the FB22 recorded 5.5 hours.</p> <p>If the details on iTrent are incorrect there is a risk that the error will not be identified leading to a delay in correcting variations.</p> | M | <p>Action</p> <p>The FB22s are being phased out through automation from April 2018, commencing with support services staff. For operational staff the phase out date links with the go live date for the new Resource Management System.</p> <p>Officer responsible:</p> <p>Employee Services and Payroll Manager</p> <p>Date to be implemented by:</p> <p>30 April 2018 (Support Staff)</p> <p>31 March 2019 (Operational Staff)</p> |

Table 3 Low Priority Issues

Minor issues to be noted or requiring action to improve performance or overall system of control, which do not present a material risk to the system of control.

| | Audit Finding, risk exposure and potential impact | Management Action |
|---|---|--|
| 1 | <p>The process notes for carrying out financial processes were reviewed by Audit. It was found that in some cases, for example creating and changing suppliers on Integra, the notes do not include who is responsible for completing the tasks or using phrases such as “someone else” rather than naming the role. It is acknowledged by Audit that current Finance staff would be aware of who the person responsible was.</p> <p>If responsibilities for tasks are not identified in process notes there is a risk that staff who are new or unfamiliar with the process will not follow the correct procedure leading to possible delays in processing the transaction.</p> | <p>Action</p> <p>Process notes to be updated to clarify persons responsible</p> <p>Officer responsible:</p> <p>Principal Accountant</p> <p>Date to be implemented by:</p> <p>30 September 2018</p> |
| 2 | <p>Virements are used to move budgets between cost centres where there is an error or a business need and require approval prior to being processed on the financial system.</p> <p>A sample of five virements out of a total of 21 processed this financial year was reviewed to ensure that the correct process had been followed and the virement had been approved at the agreed level. Testing confirmed that all five virements had been approved at the agreed level. However the following was noted:</p> <ul style="list-style-type: none"> • One virement did not balance by £560, Audit brought this to the attention of the Assistant Management Accountant who investigated further, the £560 was credited to an incorrect ‘Budget Type’ D, the rest of the virement was coded correctly to ‘Budget Type A’ This had been identified and corrected by a further virement. • For one of the virements two of the figures input were incorrect one by £30, one by £100, this was brought to the attention of the Management Accountant by Audit, on further discussion with the Principal Accountant it was decided not to correct this virement as it was of small value. | <p>Action</p> <p>Electronic workflow for virements to be implemented within Integra.</p> <p>The budget type functionality within Integra is just for reporting purposes, to provide additional information if required reports are now setup to report all budget types so there is no issue with the system. The virement went against budget type D because it replicated where the original budget upload for that cost centre went against. This was uploaded by the contractor and presumably he used a different method to the one now used. We have uploaded budgets ourselves for 2018/19</p> |

| | | |
|---|--|---|
| | <p>If virement amounts are posted to an incorrect budget type or an incorrect amount is posted there is a risk that budgets on Integra do not balance leading to the virement not correcting the issue originally identified.</p> | <p>so it won't be an issue going forwards. Officer responsible: Principal Accountant Date to be implemented by: 31 March 2019</p> |
| 3 | <p>The process for completing, approving and submitting VAT returns was reviewed by Audit. Information is entered into the VAT Returns spreadsheet before being authorised and copied into the HMRC form by the Principal Accountant.</p> <p>It was found that the date the VAT returns are submitted to HMRC had not been recorded in the relevant cell in the VAT Returns spreadsheet for any of the VAT returns between April and November 2017.</p> <p>If the submission date is not recorded, there is a risk that staff will be unaware of whether the return has been submitted or not.</p> | <p>Action Submission date to be recorded for all future returns Officer responsible: Principal Accountant Date to be implemented by: 30 April 2018</p> |

Appendix 1 Definition of Conclusions

| Grading: | Substantial | Reasonable | Limited |
|--|--|---|---|
| Overall conclusion on the system of internal control being maintained | There is a strong system of internal control in place and risks are being effectively managed. Some minor action may be required to improve controls. | There is generally a good system of internal control in place and the majority of risks are being effectively managed. However some action is required to improve controls. | The system of internal control is weak and risks are not being effectively managed. The system is open to the risk of significant error or abuse. Significant action is required to improve controls. |

Appendix 2 Officers Interviewed

The following staff contributed to the outcome of the audit:

- Mark Hemming, Deputy Director of Finance and Assets
- Asif Hussain, Principal Accountant
- Sharon Elmes, Employee Services and Payroll Manager
- Marcus Hussey, Assistant Management Accountant
- Linda Blunt, Finance Officer
- Jessica Bunce, Finance Assistant
- Jackie Vere-White, Senior Administrator, POD
- Victoria Peck, POD Apprentice

The Closing Meeting was attended by:

- Mark Hemming, Deputy Director of Finance and Assets
- Asif Hussain, Principal Accountant

The auditors are grateful for the co-operation and assistance provided from all the management and staff who were involved in the audit. We would like to take this opportunity to thank them for their participation.

Disclaimer

Any matters arising as a result of the audit are only those, which have been identified during the course of the work undertaken and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that could be made.

It is emphasised that the responsibility for the maintenance of a sound system of management control rests with management and that the work performed by Internal Audit Services on the internal control system should not be relied upon to identify all system weaknesses that may exist. However, audit procedures are designed so that any material weaknesses in management control have a reasonable chance of discovery. Effective implementation of management actions is important for the maintenance of a reliable management control system.

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