

Appendix A

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

**FINAL INTERNAL AUDIT REPORT**

**Core Financial Controls Audit Report**

**Date Issued: April 2019**



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### Audit Control:

<b>Closing meeting:</b>	11 February 2019
<b>Draft report:</b>	28 February 2019
<b>Management responses:</b>	21 March 2019
<b>Final report:</b>	02 April 2019
<b>Audit Ref:</b>	19/45

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Final Report as above plus:	Lynne Swift Jason Thelwell Ernst and Young	Director of People and Organisational Development Chief Fire Officer External Audit

## Appendix A Management Summary

### Introduction

This audit of Core Financial Controls was undertaken as part of the 2018/19 Internal Audit plan, agreed by the Overview and Audit Committee. The audit was undertaken during quarter four of 2018/19.

### 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 Fire Authority, and also as an 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:

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

The audit also included a follow-up of prior year management actions. The audit considered the controls in place at the time of the audit only. Where appropriate, testing was undertaken using samples of transactions since the beginning of the current financial year.

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**TABLE 1: OVERALL CONCLUSION**

<b>Overall conclusion on the system of internal control being maintained</b>	<b>Substantial</b>
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RISK AREAS	AREA CONCLUSION	No of High Priority Management Actions	No of Medium Priority Management Actions	No of Low Priority Management Actions
Financial Control	Substantial	0	0	1
Creditors	Reasonable	0	2	1
Debtors	Substantial	0	0	0
Payroll	Substantial	0	0	0
General Ledger	Substantial	0	0	0
Grant Income	Substantial	0	0	0
Capital	Substantial	0	0	0
VAT	Substantial	0	0	0
Treasury Management	Substantial	0	0	0
		0	2	2

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

## Appendix A **Financial Control**

The Fire Authority has approved Financial Regulations, Financial Instructions and Contract Standing Orders in place which provide the control framework for all financial processes. However Audit noted that in the Contract Standing Orders were not up to date as the OJEU limits for the tendering of contracts were from 1 January 2016.

From a follow up of the previous year's Core Financial Controls Audit, it was noted that the Financial Instructions have not yet been updated to state that the Chief Financial Officer may refer debts to Legal rather than automatic referral to Legal after 30 days.

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.

Financial Risks are held on the Finance and Assets Risk Register. These risks are reviewed and updated on a regular basis by Finance and Assets Senior Managers, those considered as high risk are escalated to the Corporate Risk Register which is reviewed regularly by the Strategic Management Board.

Process notes are in place that outline the steps to be followed for all financial processes that are carried out on Integra and the Treasury Management and banking systems. These had been reviewed and updated following the 2017/18 Core Financial Controls Audit to include greater detail regarding delegation of responsibilities within processes.

### **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.

A sample of purchase orders and credit notes was tested to ensure that the correct processes had been followed. It was found that one of the purchase orders had been raised retrospectively; this was for quarterly internet access which would have been known about in advance and should have been raised before the order was placed. Additionally, from a sample review of credit notes, it was found that two credit notes had taken 51 days to clear, one of these was for the reimbursement

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of mileage costs on a lease car and one was for rental credit for three months email and cloud protection. One of the credit notes in the sample related to an invoice which had been paid twice in error.

A sample of changes to vendor records was tested by Audit to confirm that appropriate checks had been carried out, for two of the changes to bank account details there was no evidence that the change had been confirmed with the vendor to mitigate the risk of fraud.

A sample of purchasing card transactions was tested by Audit, the testing confirmed that they were reviewed by both the Budget Holder and Finance to ensure that the spend was appropriate and in accordance with purchasing card guidelines. Following last year's Audit new guidance on expenses has been agreed to clarify the rules for spend on hospitality.

### **Debtors**

The Financial Regulations and Instructions provide up to date guidance relating to accounts receivable. Documented procedures regarding the 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. An agreed action in the 2017/18 Core Financial Controls Audit report was that the Financial Instructions and Debt Management Policy should 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. The agreed implementation date was 30 November 2018. From a review of Financial Instructions this has not yet been actioned.

### **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 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. There is now a workflow system in place for approving vacancies and new posts on iTrent. Audit found that roles are allocated on iTrent which ensure that there is an appropriate separation of

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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.

### **General Ledger**

Staff are allocated to a 'role' on Integra 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.

The Audit review confirmed that journals are appropriately approved and backing documentation is held to support each transaction. However it was noted by Audit that some of the journals raised include a range of costs to be journalled that are not related to each other, for example one of the journals tested included payroll costs, miscoding of electricity costs, year-end accruals, BA Chamber costs, maintenance costs and other costs on the same journal. This leads to the journal having a large number of lines and amount with a variety of backing documentation making it more difficult and time consuming for the figures to be adequately checked for accuracy and appropriateness by the approver. 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 for all expected grants the correct amounts had been received and on the expected dates. 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 detail 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 confirmed that no new capital bids had been made for the financial year 2018/19.

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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 valuations were found to be up to date for a sample of assets.

The process for disposals including approval and method is detailed in Contract Standing Orders. Audit reviewed the two disposals of vehicles made in 2018/19 and it was confirmed that the agreed process had been followed.

### **Banking and Reconciliations**

The bank reconciliations process was reviewed as part of the audit, reconciliations are carried out by Finance on a monthly basis. Access to the bank account via Lloyds Link is restricted to appropriate members of Finance staff. Bank statements are produced from Lloyds Link and entries are matched to creditor and debtor transactions on Integra. Control Accounts including the Bank Control Account are reconciled, 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.

### **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 and 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.



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### 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
1.	<p><b><u>Creditors – Credit Notes</u></b></p> <p>Credit notes received should be processed in a timely manner to ensure that money owed to the Fire Authority is not outstanding.</p> <p>A sample of seven credit notes received between April and December 2018 was selected from the Purchase Ledger Transactions Report. Audit found the following:</p> <ul style="list-style-type: none"> <li>- Two of the credit notes had taken 51 days to clear. One was for the reimbursement of lease car mileage at the end of the contract period. The other was for rental credit for three months email and cloud protection</li> <li>- One credit note related to an invoice for £4,856 which had been paid twice in error. The original invoice to which it relates was raised in February 2018 and the error was spotted at the beginning of May 2018, the original invoice was input with the account number rather than the invoice number on Integra leading to the invoice being paid twice.</li> </ul> <p>If credit notes are not cleared in a timely manner there is a risk that vendor account balances are incorrect leading to a delay in recouping monies owed to the Fire Authority and possible further overpayments.</p>	M	<p><b><u>Action</u></b></p> <p>Credit notes received will be processed in a timely manner to ensure that money owed to the Fire Authority is not outstanding.</p> <p><b>Officer responsible:</b> Principal Accountant</p> <p><b>Date to be implemented by:</b> 30 April 2019</p>

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	Audit Finding, risk exposure and potential impact	Priority	Management Action
2.	<p><b><u>Creditors – Changes to Vendor Records</u></b></p> <p>Changes to vendor records should only be made if this is advised by the vendor. Where bank account changes are made this should be verified with the vendor by telephone and further confirmed via email.</p> <p>Audit selected a sample of six changes to vendor records: Four of the changes were for bank account details it was found that for two of the changes there was no evidence that the details had been verified with the vendor.</p> <p>If changes to vendor bank account details are not verified with the vendor there is an increased risk of a fraudulent attempt to change details succeeding leading to the loss of monies to the Fire Authority.</p>	M	<p><b><u>Action</u></b></p> <p>We will ensure that changes to vendor details can be clearly evidenced and a full record kept confirming the contact details of the vendor (employee) who has confirmed the changes requested, along with the date this was verified.</p> <p><b>Officer responsible:</b> Principal Accountant</p> <p><b>Date to be implemented by:</b> 30 April 2019</p>

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	Audit Finding, risk exposure and potential impact	Priority	Management Action
3.	<p><b><u>Financial Control – Contract Standing Orders</u></b></p> <p>Contract Standing Orders should be reviewed on a regular basis, should be comprehensive and kept up to date to reflect current regulations.</p> <p>Contract Standing Orders were reviewed by Audit. It was found that these are dated October 2017 and were approved at O&amp;A Committee on 27 July 2017. The OJEU limits stated are for the year commencing 1 Jan 2016; these limits have since been changed, however this has not been updated within the Fire Authority’s Contract Standing Orders.</p> <p>If the limits OJEU are not up to date there is a risk that an incorrect process is used for the tendering of contracts.</p>	L	<p><b><u>Action</u></b></p> <p>Contract Standing Orders will be reviewed on a regular basis. The OJEU limits will be included within the Standing orders as a hyperlink to ensure they are always up to date.</p> <p><b>Officer responsible:</b> Procurement Manager</p> <p><b>Date to be implemented by:</b> 31 March 2020</p>
4.	<p><b><u>Creditors – Purchase Orders</u></b></p> <p>Purchasing should be carried out in accordance with Financial Instructions and Financial Regulations.</p> <p>A list of purchase invoices and purchase credit notes from a Purchase Ledger Transaction Report was obtained. A sample of 25 invoices and seven (10%) credit notes were tested.</p> <p>Audit noted one instance where a retrospective Purchase Order for £29,794 had been raised inappropriately. This was for quarterly internet access, and as this would have been known before the order was placed a purchase order should have been raised beforehand.</p> <p>If purchase orders are raised retrospectively there is a risk that inappropriate purchases may be made and financial commitments are made outside of the Integra system which may lead to budget monitoring being inaccurate.</p>	L	<p><b><u>Action</u></b></p> <p>Purchase Orders (POs) need to be raised prior to an order being placed.</p> <p>The Fire Authority has a ‘No PO’ ‘No Pay’ policy in place which we will continue to enforce.</p> <p><b>Officer responsible:</b> Principal Accountant</p> <p><b>Date to be implemented by:</b> 30 April 2019</p>

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**Appendix 1 Definition of Conclusions**

Grading:	Substantial	Reasonable	Limited
<b>Overall conclusion on the system of internal control being maintained</b>	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.

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### Appendix 2 Officers Interviewed

The following staff contributed to the outcome of the audit:

**Name:**

Mark Hemming  
Asif Hussain  
Anne Stunell  
Sharon Elmes  
Marcus Hussey  
Laura Taylor  
Linda Blunt  
Jess Bunce  
Fran Hale

**Title:**

Director of Finance and Assets  
Principal Accountant  
Head of Human Resources  
Employee Services and Payroll Manager  
Trainee Accountant  
Trainee Accountant  
Finance Officer  
Finance Assistant  
Senior Administrator Employee Services and Payroll

The Exit Meeting was attended by:

**Name:**

Mark Hemming  
Asif Hussain

**Title:**

Director of Finance and Assets  
Principal Accountant

The auditors are grateful for the cooperation 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.

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### **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.

### **Contact Persons**

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