



Business Assurance and Risk Management

BMKFA Core Financial Controls Audit Report - FINAL (Ref-21/15)

Auditors

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Management Summary

Introduction

The audit of Core Financial Controls was undertaken as part of the 2020/21 Internal Audit plan, agreed by the Overview and Audit Committee. The audit was undertaken during quarter three of 2020/21.

The Core Financial Controls Audit reviewed the Fire Authority's key financial processes including; Creditors, Debtors, Payroll, General Ledger, Grant Income, Banking, VAT and Treasury Management processes. It is vital to the achievement of the Fire Authority's strategic objectives to ensure that there are robust controls in place to enable good financial governance.

Audit Objective

Internal Audit's objectives for this audit were to provide an evaluation of, and an opinion on, the adequacy and effectiveness of the system of internal controls in place to manage and mitigate financial and non-financial risks to the system.

This serves as a contribution towards the overall opinion on the system of internal control that the Chief Internal Auditor is required to provide annually. 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:

- 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 using samples of transactions since the beginning of the current financial year.

Table 1: Overall Conclusion

Overall conclusion on the system of internal control being maintained	Substantial
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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 Framework	Substantial	0	0	0
Creditors	Reasonable	0	0	1
Debtors	Substantial	0	0	0
Payroll	Reasonable	0	2	0
General Ledger	Substantial	0	0	0
Grant Income	Substantial	0	0	0
Capital	Substantial	0	0	0
Banking and Reconciliations	Substantial	0	0	0
VAT	Substantial	0	0	0
Treasury Management	Substantial	0	0	0
		0	2	1

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

Financial Control Framework

The Financial Regulations were updated in September 2019, reflecting changes to the finance system and current procurement limits. The Regulations detail requirements for all Fire Authority financial systems. These have been published, and the latest approved copies are available to staff on the Intranet.

The Financial Instructions were updated and approved in January 2018 and are available to staff on the BMKFA Intranet. They contain instructions for the effective operation of all financial systems within the Authority and have been reviewed and updated to reflect changes to the Finance system.

Contract Standing Orders (CSOs) were reviewed by Internal Audit. These were updated in February 2020 and include a hyperlink to OJEU limits, ensuring these remain up to date. As the UK has now exited the European Union, the OJEU is replaced by a UK equivalent; Find a Tender Service (FTS).

Another change to public procurement involves transferring the EU Commissions supervisory function to UK Cabinet Office. The UK Cabinet Office will now issue future changes to financial thresholds and public procurement procedures. There is no requirement to update the CSO presently with no change to the current financial thresholds and procurement regulations. The Cabinet Office has started reviewing public procurement regulations with a Green Paper expected in early 2021. As such, the CSO will be reviewed following the Green Paper.

For all key financial processes, process notes were reviewed, confirming that they are up to date. A review of system users found that access to Integra (the Finance system), iTrent (the Payroll system) and Lloyds Link (the Banking system) is appropriately controlled. There is adequate separation of duties required for transactions made within the systems.

Creditors

The Financial Instructions contain guidance on ordering, authorising, and receiving goods and services. The Financial Instructions reference the Financial Regulations and include regulations on the separation of duties, procurement, and expenditure.

A list of users with access to Integra detailing the amounts they can authorise and tasks they can perform was obtained from Finance. Examination confirmed that all users have appropriate access according to their job role. Requests to amend approvers/Budget Holders are sent to Finance to action, with controls in place to ensure that adequate separation of duties is maintained.

Also, there are controls in place to ensure that user roles are not left vacant on Integra when employees leave or transfer. There have been no requests to change approval levels during the 2020/21 financial year.

Budget Holder and Requisitioner roles can enter and authorise purchase orders (POs) via workflow. System parameters on Integra force for a separation of duties, meaning Integra does not allow the same user to raise and authorise a PO. When a PO is created, it workflows to the Budget Holder to approve. Depending on the amount, it is authorised by a senior member of the team (i.e. Director of Finance or Head of Service Development) in line with delegated approval limits. Integra does not allow staff to approve higher than their assigned limit.

However, it was noted that one staff member appearing on the list of approvers had left the Authority in June 2020. Management agrees that although the risk of a leaver accessing the system is low due to physical access being restricted, user access should be terminated in a timely manner as all inactive accounts pose a security risk and are susceptible to hacking.

Examination of a sample of 25 supplier invoices received between April and December 2020 found that:

- In all 25 cases, the invoice was authorised in line with delegations. All demonstrated adequate segregation of duties.
- In all 25 cases, the authoriser agreed to the Scheme of Delegation.
- In 21 cases, the PO was raised before the invoice date. For four cases the PO was raised after the invoice date, however from a review of these exceptions it was established that the anomalies were due to invoices being issued against incorrect or spent orders, so the invoice was reissued but retained the earlier date.
- In 24 cases, invoices were paid after a Goods Receipt Note had been input in Integra. The Finance Team confirmed that the System does not allow payment before goods receipting. The only exception was an item payable to a critical supplier which was processed as an urgent payment via CHAPS and authorised by the Director of Finance and Assets.
- In all 25 cases, the details on the invoice agreed with those on Integra.
- In all 25 cases, the invoice was paid within 30 days of the invoice date.
- In all 25 cases, the invoice was posted to the correct cost centre and GL codes.

It was noted that the usual protocol of only paying suppliers close to the due date was not in place for the period 20 March 2020 to 4 September 2020. A decision was taken by Senior Management, in line with Government guidance during the Covid-19 pandemic, to assist suppliers by paying invoices as soon as they were received. This is because many of the suppliers are small commercial organisations and early payment would assist with their cash flow. This was not found to have impacted on the Fire Authority's cash flow.

A sample of five credit notes received between April and December 2020 was selected from the Purchase Ledger Transactions Report.

Examination established that:

- For all five credit notes reviewed, the refunds were allocated to the correct supplier.
- In all five cases, the supplier matched that on the original invoice (where received) and PO.

Process notes for creating and amending suppliers were obtained. They detail roles and responsibilities for making changes and carrying out individual checks. The Finance Officer confirmed that changes are made as a result of an email request. If the change involves a change of bank details, the Finance Officer calls the supplier to confirm the changes to bank details.

An email to confirm that the change has been made is then sent to a second Finance Officer for final independent approval, with emails saved on Integra's supplier records.

Examination of a sample of two new vendors and four changes to existing records for the April to November 2020 period found that:

- In both cases where a new vendor was set-up, the reason for the new supplier was not recorded. Discussion with the Principal Accountant and Procurement Manager established that this is due to the vendor set-up process being completed through an e-form. Once the supplier e-form is approved, the supplier is live, and no other information is recorded. However, if the reasoning was not adequate, the Procurement team would reject the request. We confirmed that Procurement check credit histories, and whether there is a possible supplier of similar goods already set up.
- The four changes tested involved deleting unused suppliers, which was carried out late due to Covid-related tasks' prioritisation. Three suppliers were deleted from the system 22 months after deactivation. The remaining supplier was deleted 15 months after deactivation.

Examination of a sample of five weekly BACS runs for the April to December 2020 period confirmed that:

- The total amount and the number of payments on the BACS submission matched those on the payment projection report in all cases.
- BACS control sheets were completed and signed off to indicate that the checker reviewed and completed all checks on all five BACS payments.
- The checker reviewed the payment projection report for duplicate payments and invoices. No duplicate payments were found.
- Payments over £10,000 were checked for accuracy and signed by Principal Accountant. No BACS processing date errors were noted in any of the five cases.

Examination of control account reconciliations completed from April 2020 to October 2020 confirmed that control accounts are reconciled monthly and were subject to review and approval from an independent officer.

The Financial Instructions include guidelines for the appropriate use of purchasing cards. Also, a Purchasing Card User Guide is in place, outlining the Purchasing Card Holder's responsibilities regarding how to use the purchasing card, reconciling the monthly statements and general usage guidelines.

A list of cardholders, along with their agreed monthly spending limit, was obtained. This list shows that 62 staff hold Purchasing Cards, 45 of whom used them between April and December 2020.

A log of Purchasing Card transactions is maintained on Integra. This includes a description of the purchases made, a record of review and authorisation by the card holder's line manager and attached receipts. Examination of a sample of 20 Purchasing Card transactions posted on Integra between April and December 2020 found that, in all cases, spending limits were in place.

However, instances arose where insufficient documentation was in place to reclaim VAT on valid purchases. However, the Principal Accountant established that the Fire Authority accepts that these are infrequent and insignificant amounts. Where limits had been breached, appropriate authorisation was viewed. There were no transactions that would indicate purchases for invalid items.

Intern Audit found that one purchasing cardholder had left the authority. Although the card had been cancelled within Integra, it had not been cancelled with the bank. This is noted in the findings concerning data maintenance. However, it was confirmed that physical access to both the card and the system had been denied when the staff member left and that no further spend had taken place.

Debtors

Financial Instructions include guidance for the Accounts Receivable functions. Documented procedures for Debtors processes, and how these are actioned on Integra, were obtained from the Principal Accountant and Finance Officer. They were found to be up to date and available to staff on the shared area. Audit confirmed that that access to set up customers is restricted to Finance Officers.

It was noted that the Authority receives income from a number of sources other than funding. An example of this is from workshops services that include MOTs, vehicle repairs, and the sale of used vehicles. The total value of invoices raised under this General Ledger code between April and December 2020 was £5,363. Finance raises invoices for workshops following receipt of an invoice request and proof of sale receipt from the workshop.

Another source of income for The Authority's is from Seconded Officers. A total of £66,390 worth of invoices was raised between April and December 2020. Finance raises Seconded Officer's invoices following receipt of a purchase order from the customer.

Examination of a sample of 18 debtor invoices raised on Integra between April and December 2020 found:

- In all 18 cases, the invoice had been booked to an appropriate budget and GL code.
- Where POs would be expected, these were viewed, and details agreed to the corresponding invoice.
- In all 18 cases, invoices were confirmed as having been input by Finance staff with adequate separation of duties.
- In eight cases, the invoice was paid within 14 days. In nine cases the invoice had not been paid within 14 days, although four had evidence of chasing.
- For the remaining five invoices not paid within 14 days, in one case we found that a payment was made 205 days after the invoice date. We confirmed that Finance chased the payment. Evidence was received from the customer to show that they were in severe financial difficulty, prompting an agreement that the customer would pay when they could. Two invoices had a discrepancy with the dates and no evidence of chasing. Two invoices had payments made 20 and 24 days after the invoice.

Discussions with the Principal Accountant established that the Authority decided to assist private customers with cash flow by not chasing for payment and showing leniency with credit control in line with Government guidance during the Covid-19 pandemic. All debts have now been confirmed as having been paid in full.

A report of Credit Notes was run from Integra listing four credit notes raised between April and December 2020. We selected a sample of two and found that:

- In both cases, the credit note was raised against the correct customer account and budget code.

- One credit note was raised in error, and a matching invoice was raised to cancel it three days later.
- In the remaining case, the credit note was raised four months after the invoice; as the Finance Team the company had gone into administration and no services had been rendered, therefore the credit note cancelled the invoice.

The Debt Management Control Data file includes a summary of outstanding debts, invoice amounts; and provides measurements against Debtors KPIs. The reconciliation and recording of control data are completed monthly. As of October 2020, there was a total of £17,292 outstanding debt owed to the Authority, of which £14,822 was over 60 days old. By November this was £75,778 with the total over 60 days at £12,372. The Principal Accountant confirmed that the increased debt is mainly down to the invoicing profile. It was confirmed that there were no write-offs for 2020/21.

Individual debts that were either shown as paid late or outstanding as of 20 November 2020 were investigated. From a sample review of 10 debts, three had not been chased following the policy, but this was with Senior Management agreement as the customers were in financial difficulty due to Covid-19. Seven were paid more than 30 days late, and of these, three were over 90 days late.

Payroll

Payroll information is processed through the iTrent system. The Fire Service Rota (FSR) planning and scheduling system was fully implemented in April 2020 and is used to record all Watch-based inputs formerly recorded on FB22 forms.

Examination of a sample of 10 starters for the April to November 2020 period confirmed that:

- In all cases, the payroll details were correctly entered on iTrent with a separation of duties. The appropriate authorisations were obtained.
- In one case, where a senior management member returned from retirement, a Succession Planning report was reviewed at a full Fire Authority meeting. A re-engagement letter was sent from the Chief Fire Officer. While this was outside of the normal process, adequate approvals were obtained, which was found to be appropriate for the case.

A sample of 10 permanent changes made between April and November 2020 found that an authorised Change Control Form or an email trail with the appropriate approvals was held on file in nine cases. In one case, authorisation was not held on file for the change. This case involved the addition of CPD payments for an employee. The Payroll and Benefits Manager confirmed that CPD is an allowance requested by the employee and immediate line manager at the annual appraisal. The request is based on evidence of attention to continuous professional development. As well as via the Change Control Form and emails from line managers, a request to pay CPD can also come from HR & OD via email. Discussion established that in these cases, evidence of line manager approval is often not held on file.

Examination of a sample of ten deductions made between April and November 2020 found the following:

- In eight cases, the employee authorised the deduction either through a signed form, email or within the signed employment contract. In two cases, there was no evidence on file that the employee authorised the deduction. Both cases were Prize Draw deductions for which a finding was raised in the 2019/20 Core Financials audit. The Payroll and Benefits Manager established that a review of Prize Draw deductions was planned for March 2021, to re-obtain approval for the Prize Draw deduction.

- In six cases the payslip deduction amount matched the agreed deduction amount. In two cases, the payslip and agreed deduction did not match. Both cases were Prize Draw deductions for which the amount was uplifted since the employees originally signed the forms. Also consistent with Finding 3 from the 2019/20 Core Financial Controls audit.

The Payroll & Benefits Assistant found that whilst up to date Expenses procedures were obtained. They were in the process of being updated at the time of the audit. Examination of a sample of 20 expenses and mileage payments made to staff between April and November 2020 found no exceptions.

All Watch-based overtime is processed into FSR by a Supervisory Manager and noted as a time claim (TOIL) or a pay claim. All items marked as a pay claim are turned out for payment via the running of a monthly pay extract within FSR. The FSR pay process is managed by a series of checks documented on the FSR Payroll Process Checklist. The processes are separated for action between the Payroll Team members. All actions are subject to a secondary peer review before the data is uploaded into iTrent.

Examination of a sample of ten On-Call and Overtime payments made to staff between April and November 2020 found:

- In four cases, an online ESS claim form was completed by the employee on iTrent in line with those employees' process.
- In four cases, the Supervisory Manager processed an FSR claim on behalf of a Watch-based firefighter.
- In one case, an on-call event pay sheet was submitted to Payroll by the employee following attendance of a Safe to Ride course.
- In one case, a request was submitted via email. This was due to a discrepancy with a role, and Terms and Conditions change for the employee. Contractual changes were not communicated effectively to all of the relevant managers. This resulted in an overpayment of £127. We confirmed that corrective action was taken by the employee's line manager and Payroll and that the overpayment was recovered over a period of 90 days through deductions from the employee's pay.
- In all ten cases, the overtime claim was authorised by the employee's line manager.
- In seven cases, the overtime amount on the payslip matched the claim approved by the line manager.
- In all ten cases, the overtime payment was paid in the month of the claim.
- In eight cases, the overtime claimed for was in line with the employment contract. In one case, it was a temporary input approved by the line manager. In one case, the overtime was claimed incorrectly due to a change of role that was incorrectly communicated

A walkthrough of FSR data processing as part of the monthly pay run was undertaken with the Payroll and Benefits Manager. The processing files were obtained for September and October 2020. FSR processing checklists were also obtained for these two months, confirming that they have been completed and that a second officer has checked the inputs.

Examination of a sample of 10 leavers between April and November 2020 found four instances in which a leaver notification was received after the leave date. Three of these were received after the payroll cut off for that month. In one case this led to the creation of an overpayment.

Discussion with the Payroll and Benefits Manager established that the Leaver process changed during 2019-20. Line managers no longer advised Payroll directly of Leavers. The amended process involves line managers advising HR and HR passing Leaver information on to Payroll. Following iTrent permission changes, Payroll can no longer process Leavers if HR does not have the capacity to or in the event of late leavers after the Payroll cut-off.

The result of these process changes is that information reaches Payroll last, sometimes after the employee has already left the organisation, reducing Payroll's ability to address the risk of overpayments. To mitigate overpayments, Payroll manually adjusts pay within the record whilst it is still live. This means that Payroll is more reliant on manual intervention and affects their timeliness in reporting to HMRC. These process changes were flagged by Payroll as giving rise to additional risk.

General Ledger

Staff are allocated to a 'role' on Integra to ensure adequate separation of duties within the financial processes. Staff cannot access transactions that are not appropriate for their role, for example, setting up new cost centres or cost codes.

Examination of a sample of 14 journals raised over the April to December 2020 period found that:

- In all 14 cases, journals were raised with adequate segregation of duties.
- All journals were found to agree to back documentation.

Review of the two Suspense Accounts (one for payroll errors and a general-purpose account) confirmed that they are reviewed monthly as part of the Control Account reconciliation process. The difference of £704.13 on the payroll suspense was promptly resolved, prior to being signed off by the Principal Accountant. Requests to amend or add cost centres were confirmed as being carried out in line with a documented process, with a clear audit trail and appropriate authorisation.

Grant Income

We reviewed schedules of expected grant income for 2020/21 provided to the Fire Authority by the authorities and Government departments awarding them. We obtained a letter from the Director of Finance of Assets to the Buckinghamshire Council Service Director of Finance agreeing on the total Fire Authority precept as £14,901,742.82, including 2019/20 surplus.

The letter also states that the precept must be paid to the Fire Authority in twelve equal instalments following the schedule agreed. However, review of email communication between the two authorities established that the Council provided no schedule. Also, payments were due to be made in line with the MHCLG schedule, but these were not. Not having a schedule meant that the Fire Authority had to estimate when they would receive the funding based on the previous year's schedule, reducing the accuracy of cash flow forecasts.

Expected grants for 2020/21 were Fire Revenue New Dimension, Fire Revenue Fire link, BRRS (Business Rates Relief Reimbursement), RSG (Revenue Support Grant), Fire Pensions Grant, Building Risk Review Grant and the agreed 2020/21 Council Tax Precept from both Buckinghamshire Council and Milton Keynes Council.

Examination of a sample of five expected grant payments found the following:

- In four cases, the income expected was received on the expected date. For a BC Council Tax Precept payment, the MHCLG schedule indicated that the payment should be received on 17 September 2020. However, the payment was received on 11 September 2020.
- In four cases, the amount received as shown on the bank statement and Integra agrees with the schedule. In one case, the amount received was £204,138 but the grant amount for the quarter (based on a total payment of £816,565.87 for the year) was calculated as being £204,141. Further discussion and review of cash flow forecasts for 2020-21, found that this was due to be balanced with a larger payment of £204,142.87 expected in Quarter 4.
- In all five cases, there were no conditions listed in the Grant Determination Letter/agreement that applied to BMKFA.
- The grant income was allocated to the correct cost centre/GL account on Integra in all five cases.

Review of Covid Grant Allocations (tranches 1 to 4) confirmed that Fire Authorities' payments were received for the first two tranches. Both payments were received in the bank account on the expected date and as per the expected amount. They were also coded correctly in Integra.

Capital

The Capital Programme for 2019/20 to 2022/23 was approved as part of the MTFP at the Executive Committee meeting on 5 February 2020.

The Principal Accountant confirmed that there were four capital growth bids submitted for 2021-22 budgets onwards. Three of these bids were submitted for a continuation of previous capital bids. Members had provisionally approved these three capital bids as of the audit. However, discussion established that their inclusion in the 2021-22 budget depends on the Fire Authority's funding position in February 2021.

The remaining bid was a new bid and was presented at second officer challenge on 17 December 2020. It is to be updated and to be presented at the second Member challenge in January 2021.

Assets are valued annually by Bruton Knowles. A copy of the valuation report produced in March 2020 was obtained. Five land and building assets were selected from the valuation report and searched for in the asset register. Of these five sites, the up to date valuation was included in the Asset Register in all five cases.

Disposals for 2019/20 totalled £528,063, as per the Asset Register. This included £286,829 of Red Fleet disposals, £134,463 of White Fleet disposals and £106,771 of plant and equipment disposals. There was no recorded land or building disposals for 2019/20. Testing of disposals approved for April to November 2020 was carried out as part of the Asset Management Systems Audit which was undertaken in quarter three.

Banking and Reconciliations

Bank reconciliations are undertaken monthly, and a report is run from Integra which lists any discrepancies. Review of the Control Accounts Reconciliation spreadsheet confirmed that the Bank Control Account Reconciliations are reviewed and signed off by the Principal Accountant monthly.

Access to the bank account via Lloyds Link is restricted to the Director of Finance and Assets, Principal Accountants, and key finance staff members. Levels of access differ depending on staff members' roles, with users requesting a system's role. The Principal Accountant authorises requests. Bank statements are produced from Lloyds Link and entries are matched to creditor and debtor transactions on Integra.

The Finance Officer confirmed that transactions are manually matched as part of the reconciliation process. Bank statements are exported and uploaded into Integra and receipts, and payments are lodged weekly.

We selected a sample of five payments on Lloyds Link bank statements for April, August, June, October, and September 2020. In all five cases, we found that the creditor and payment amount matched that listed on Integra.

Also, we selected a sample of five income transactions recorded on Lloyds Link bank statements. We found that the bank statement was exported and uploaded correctly into Integra; receipts were lodged against the appropriate debtor on both the bank statement and Integra; receipts on the bank statement match those on Integra; and receipts have posted against the bank control account.

VAT

The process for completing the VAT return is now fully automated following the implementation of a new process in September 2019, with process notes updated to reflect this. Following the start of the 2020/21 tax year, the reconciliation is now completed and authorised within Integra and then fed into the HMRC system for submission.

Three VAT returns were reviewed and were seen to agree to back documentation and authorised, reviewed and submitted by the Principal Accountant.

Treasury Management

The Treasury Management Strategy for 2020/21 was approved at the Fire Authority meeting on 12 February 2020. The Strategy refers to CIPFA best practice and guidance on prudential investments and MHCLG guidance. The minimum acceptable credit quality of counterparties for inclusion on the lending list is defined as per CIPFA guidelines for Police and Fire Authorities.

There are Treasury Management Practices as defined in the CIPFA Treasury Management Code of Practice. These were approved at Overview and Audit (O&A) Committee 14 November 2018 and detail the Treasury Management governance within the Fire Authority. Treasury Management reports are produced

quarterly and presented to the O&A Committee. For 2020/21 Quarter 2, the report shows that the accrued interest earned for the first half of 2020/21 was £111k, which is £36k higher than the budget for the period.

A report was obtained of deals executed between April and November 2020 from 'Treasury Live'. It shows all investment deals made, matured investment deals and moving in money market funds from 1 April to 20 November 2020. Over this period there were 23 fixed deals, 13 MMF deals and 11 Call deals. A sample of five investments was reviewed and found that daily cash flow statements were produced for each day in the sample. We also confirmed that all the sample investments had been authorised. They were on the approved counterparty list and within the time limit for investments.

Table 2: Detailed Audit Findings and Management Action Plan

Finding 1: Payroll – Authorisation of CPD payments	Risk Rating	Agreed Management Actions
<p>CPD is an allowance requested for payment at the annual appraisal process by the employee and immediate Line Manager based on evidence of attention to continuous professional development. As with all permanent changes made to payroll, authorisation should be held on file.</p> <p>Examination of a sample of 10 permanent changes made to Payroll between April and November 2020 found that in one case, authorisation from a line manager or Director was not held on file. This case involved the addition of CPD payments for an employee following an email from the Training, Learning & Development Assistant.</p> <p>The Payroll and Benefits Manager established that a review of CPD is ongoing. It was agreed through discussion with the Payroll and Benefits Manager that the Line Manager or Budget Holder should be copied in on CPD requests received from OD. Any CPD input should be confirmed with them at the point of processing.</p> <p>If additional recurring payments are actioned on the Payroll system without authorisation from the Line Manager or Budget holder, there is a risk that the employee is not entitled to the payment, leading to unexpected additional expenditure for the Department in which they work and increasing the risk that an overpayment is made to the employee, resulting in a financial loss to the Fire Authority.</p>	<p>M</p>	<p>Action:</p> <p>Following the discussion of findings during the audit, Station Commanders are now copied in at the point of processing for the addition of CPD payments.</p> <p>Officer responsible: Payroll and Benefits Manager</p> <p>Date to be implemented by: Immediately</p>

Finding 2: Payroll – Flow of information from HR to Payroll during Leaver and Change of Role processes	Risk Rating	Agreed Management Actions
<p>Following a leaver's notification receipt, HR enter leaver data on iTrent, with a Leaver notification email then sent to the Payroll mailbox. This process should be completed swiftly and before the Payroll cut-off date to ensure that recurring payments to the leaver are promptly removed.</p> <p>Examination of a sample of 10 employees who left the Fire Authority's employment between April and November 2020 found that four leaver notifications were received by Payroll after the leave date. Three of these were received after the payroll cut off for that month. In one case this led to the creation of an overpayment.</p> <p>Discussion with the Payroll and Benefits Manager established that the Leaver process changed during 2019-20. Line managers no longer advised Payroll directly of Leavers. The amended process involves line managers advising HR and HR passing Leaver information on to Payroll. Following iTrent permission changes, Payroll can no longer process Leavers if HR does not have the capacity to or in the event of late leavers after the Payroll cut-off.</p> <p>The result of these process changes is that information reaches Payroll last, sometimes after the employee has already left the organisation, reducing Payroll's ability to address the risk of overpayments. To mitigate overpayments, Payroll manually adjusts pay within the record whilst it is still live. Payroll is more reliant on manual intervention and affects their timeliness in reporting to HMRC.</p> <p>Examination of a sample of ten On-Call and Overtime payments made to staff between April and November 2020 found one case where a request was submitted via email. This was due to a discrepancy with a change in role and a change in Terms and Conditions for the employee.</p> <p>Not all of the necessary managers were involved in this process, and contractual changes were not communicated effectively. This resulted in an overpayment. Corrective action was taken by the employee's line manager and Payroll.</p> <p>If Payroll is not provided with complete and timely information to process Leavers and role changes, there is a risk that Leavers and pay implications of role changes are not actioned on iTrent before Payroll being run, leading to the creation of an overpayment and financial loss to the Fire Authority.</p>	<p>M</p>	<p>Action:</p> <p>End to end process mapping will be undertaken across HR, Payroll and the Resource Management Team in order to identify areas where processes can be streamlined, and all control weaknesses can be addressed.</p> <p>Officer responsible: Payroll and Benefits Manager Head of Human Resources</p> <p>Date to be implemented by: December 2021</p>
Finding 3: Creditors - Timely removal of Finance system access	Risk	Agreed Management Actions

	Rating	
<p>When a member of staff leaves the Fire Authority’s employment, or moves to a role that does not require access to a purchasing card (P-Card) or access to the Finance system, access to the card or system should be removed in a timely manner by Finance as part of the leaver/ transfer process.</p> <p>A staff member was listed as an active Integra user in November 2020 despite having retired from the organisation in June 2020. Although the role was not linked to a cost centre and the former employee would have had no physical access to Integra due to the system only being accessible via the Fire Authority’s internal servers, it is good practice to update all data sets for staff changes, as inactive accounts pose a security risk and are a potential target for hackers.</p> <p>From testing we found that one former employee was listed as a P-Card user registered with Lloyds bank and was still listed as a user on Integra. It was confirmed that there was no continuing access to the card, and it had been deactivated on Integra. Therefore if there was any spend on the purchasing card, this would have been flagged as part of the process of uploading the purchasing card statement from Lloyds into Integra.</p> <p>If P-Card and Integra user access is not removed in a timely manner following the leave date, there is a risk that unauthorised spending is incurred and that card fees are paid for unused cards, leading to financial loss to the Fire Authority.</p>	<p>L</p>	<p>Action:</p> <p>Six monthly finance system maintenance reviews will be undertaken, which will include a review of system users, their roles and permissions, purchasing card users, supplier and customer maintenance.</p> <p>There were no further purchases using the p-card and this has now been deactivated.</p> <p>Officer responsible: Principal Accountant (Technical)</p> <p>Date to be implemented by: April 2021</p>

Table 3: Detailed Follow-Up of 2019/20 Findings and Management Action Plan

Report Ref No. 1	Title: Creditors – Purchase Orders	Priority of finding: L	Status: Partially Implemented
Original Audit Finding		Management Comments & Action Plan	
<p>Purchasing should be carried out in accordance with Financial Instructions and Financial Regulations.</p> <p>A list of purchase invoices was obtained from a Purchase Ledger Transaction Report. A sample of 25 invoices was tested. Audit noted one instance where a retrospective Purchase Order for £60,000 had been raised inappropriately. This was for a Professional Partner Subscription payment, and as this would have been known about before the payment was made, a purchase order should have been raised beforehand. The Finance Officer monitors and flags instances of invoices without a purchase order. However, there is a small number of recurring retrospective purchase orders which should be escalated.</p>		<p>A reminder will be sent to all suppliers regarding our policy of no purchase order, no payment and a training refresh will be carried out for all relevant BFRS employees to remind all requisitioners/budget holders that a PO needs to be raised prior to an order being placed.</p>	
Follow Up Evaluation		Management Comments & Action Plan	
<p>There is a control in place within the Finance system that requires a PO to be in place to pay an invoice.</p> <p>Examination of a sample of 25 invoices received between April to December 2020 found that four POs were raised retrospectively, following receipt of the invoices to which they related.</p> <p>Reasons include instances where suppliers reference POs that have been fully utilised, leading to new POs being raised with the invoice retaining the original date. Also, instances where documents need amendment and instances where invoices are sent to individuals rather than the dedicated creditors' email.</p> <p>If purchase orders are raised retrospectively, there is a risk that inappropriate purchases may be made. Financial commitments could be made outside of the Integra system.</p>		<p>Management will resend an email to all suppliers enforcing the No PO No Pay policy, directing suppliers to send all invoices directly to creditors@bucksfire.gov.uk. An email update will be provided to all Integra users enforcing their responsibilities and the authority's processes.</p> <p>Officer responsible: Principal Accountant (Technical)</p>	

Report Ref No. 2	Title: Debtors – Reason for raising Credit Notes	Priority of finding: L	Status: Implemented
Original Audit Finding		Management Comments & Action Plan	
<p>Credit notes are raised against the customer account and with the same details included on the original invoice. A valid reason should be given for raising the credit note.</p> <p>Examination of a sample of five credit notes raised between April 2019 and December 2019 found that in one case the reason for raising the credit note was not clear. The reason was recorded on Integra as 'credit for invoice' which did not sufficiently explain why a credit note was raised against the invoice payment. Whilst the value of credit notes is reviewed by the Principal Accountant as part of the Debt Management Control reconciliation, there was no evidence of independent monitoring.</p>		<p>The Principal Accountant will review the credit note explanations as part of the debt management control reconciliations and if these are inadequate, the inputter will be notified to update the system accordingly.</p>	
Follow Up Evaluation		Management Comments & Action Plan	
<p>A review of a credit notes report found that there were four credit notes raised between April and December 2020.</p> <p>Examination of a sample of two credit notes found that the reason for raising the credit notes was clear and appeared valid in both cases. Discussion established that the Principal Accountant would pick up inadequate or unclear reasons for raising a credit note as part of the debt management control reconciliations.</p>		N/A	
Report Ref No. 3	Title: Payroll – Voluntary deductions	Priority of finding: L	Status: Partially Implemented
Original Audit Finding		Management Comments & Action Plan	
<p>Employees can opt into voluntary payroll deductions for a range of schemes offered by the Fire Authority. The employee should authorise deductions before being actioned on the Payroll system. Examination of a sample of 20 employees paid in December 2019 found the following exceptions:</p> <ul style="list-style-type: none"> • In three cases where a deduction was recorded on the employee's payslip for the Fire Authority's prize draw, there was no prize draw deduction form held on file. • In one case where a charity deduction was recorded on the employee's payslip, there was no charity deduction form held on file. 		<p><u>Prize Draw Deductions:</u> All employees currently participating in the prize draw will be sent a prize draw deduction form to re-confirm their entrance into the prize draw to ensure a record is kept of all participants.</p> <p><u>Charity Deductions:</u> From 1st April 2020 we have launched a new Tax Free Payroll Giving scheme via an external benefits provider, therefore all prior charitable deductions were ceased from 31.03.2020 with a request to join the new scheme.</p>	

Follow Up Evaluation	Management Comments & Action Plan
<p>Examination of a sample of ten deductions made from Payroll between April 2020 and November 2020 found the following exceptions:</p> <ul style="list-style-type: none">• In two cases, there was no evidence on file that the employee authorised the deduction. Both cases were Prize Draw deductions.• Of the eight cases where there was a record of the employee’s authorisation held on file, the payslip and agreed deduction did not match in two cases. Both cases were Prize Draw deductions for which the amount was uplifted since the employees originally signed the forms. <p>Discussion with the Payroll and Benefits Manager established that a review of Prize Draw deductions was planned for March 2021, to re-obtain approval for the Prize Draw deduction.</p> <p>If authorisation to make a deduction from an employee’s payslip is not retained on file, there is a risk that a deduction to pay is made without the employee’s consent.</p>	<p>A review of Prize Draw deductions is due to be undertaken in March 2021 to re-obtain approval for the Prize Draw deduction and to relaunch the deduction for the 2021/22 financial year.</p> <p>Officer responsible: Payroll and Benefits Manager</p> <p>Date to be implemented by: 1 April 2021</p>

Appendix 1: Definition of Conclusions

Key for the Overall Conclusion:

Below are the definitions for the overall conclusion on the system of internal control being maintained.

	Definition	Rating Reason
Substantial	There is a sound system of internal control designed to achieve objectives and minimise risk.	<p>The controls tested are being consistently applied and risks are being effectively managed.</p> <p>Actions are of an advisory nature in context of the systems, operating controls and management of risks. Some medium priority matters may also be present.</p>
Reasonable	There is a good system of internal control in place which should ensure objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed.</p> <p>Majority of actions are of medium priority but some high priority actions may be present.</p>
Partial	The system of internal control designed to achieve objectives is inadequate. There are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.	<p>There is an inadequate level of internal control in place and/or controls are not being operated effectively and consistently.</p> <p>Actions may include high and medium priority matters to be addressed.</p>
Limited	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>The internal control is generally weak/does not exist. Significant non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Actions will include high priority matters to be actions. Some medium priority matters may also be present.</p>

Management actions have been agreed to address control weakness identified during the exit meeting and agreement of the draft Internal Audit report. All management actions will be entered onto the Pentana Performance Management System and progress in implementing these actions will be tracked and reported to the Strategic Management Board and the Overview & Audit Committee.

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

Action Priority	Definition
High (H)	Action is considered essential to ensure that the organisation is not exposed to an unacceptable level of risk.
Medium (M)	Action is considered necessary to avoid exposing the organisation to significant risk.
Low (L)	Action is advised to enhance the system of control and avoid any minor risk exposure to the organisation.

Appendix 2: Officers Interviewed

The following staff contributed to the outcome of the audit:

Name:

Asif Hussain
Marcus Hussey
Sharon Elmes
Raheel Iqbal
Jessica Bunce
Laura Taylor
Ronda Smith

Title:

Deputy Director of Finance and Assets
Principal Accountant (Technical Accounting)
Payroll & Benefits Manager
Finance Officer
Trainee Accountant
Principal Accountant (Management Accounting)
Procurement Manager

The Exit Meeting was attended by:

Name:

Asif Hussain
Marcus Hussey
Sharon Elmes

Title:

Deputy Director of Finance and Assets
Principal Accountant
Payroll and Benefits Manager

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.

Appendix 3: Distribution List

Draft Report:

Mark Hemming
Asif Hussain
Marcus Hussey

Director of Finance and Assets
Deputy Director of Finance and Assets
Principal Accountant

Final Report as above plus:

Jason Thelwell
Ernst and Young

Chief Fire Officer
External Audit

Audit Control:

Closing Meeting
Draft Report
Management Responses
Final Report
Audit File Ref

8 January 2021
2 February 2021
11 February 2021
XXXX
21-15

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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