



Business Assurance and Risk Management

Core Financial Controls Audit Report - FINAL (Ref-22/26)

Auditors

Maggie Gibb, Head of Business Assurance (and Chief Internal Auditor)

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Management Summary

Introduction

The audit of Core Financial Controls was undertaken as part of the 2021/22 Internal Audit plan, agreed by the Overview and Audit Committee. The audit was undertaken during quarter three of 2021/22.

The Core Financial Controls Audit reviewed the Fire Authority's key financial processes, including Creditors, Debtors, 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 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 internal control system 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
- 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. It involved conducting walkthroughs of the Core Financial Controls identified, as no medium or high priority findings were identified by Internal Audit in these areas since 2019, negating the need for full substantive testing. However, where walkthroughs identified exceptions, substantive testing was performed to quantify the level of error or inconsistent performance of key controls.

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	Reasonable	0	0	1
Creditors	Substantial	0	0	0
Debtors	Reasonable	0	0	1
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	0	2

Appendix 1 defines the grading for each of the conclusions given.

Financial Control Framework

The Financial Regulations were updated in September 2019, reflecting current procurement limits, and were up to date. 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. They have been reviewed and updated to reflect changes to the Finance system.

We also reviewed the contract Standing Orders (CSOs). These were updated in February 2020 and include a hyperlink to procurement limits, ensuring these remain up to date.

Process notes were reviewed for all key financial processes, 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.

Finance maintains training records for each employee who receives training on Integra, with users receiving training on the relevant transactions required for their role when added as users. Training is provided to new Integra users before they are granted access. Whilst the process for delivering and recording training was identified as an example of best practice, we observed one training record where the initial user training was not fully documented. Budget manager training was recorded, but transactional training was not recorded as being completed. Further review of training records found no additional cases where training was not registered. **(Finding 1)**

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 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 for action, with controls in place to ensure that adequate separation of duties is maintained.

Testing as part of the December 2020 audit found that one former employee was still listed as an Integra user. We confirmed that this user was removed and that periodic system access reviews have been undertaken, including monthly reviews of purchasing cards and Integra users. An assessment of the process for reviewing access confirmed that it was adequate. Also, a review of leavers for 2021/22 confirmed that no staff who left the Fire Service were still listed as Integra users.

A walkthrough was conducted with the Finance Assistant for a Home Office invoice of £36,020.65 dated 15 October 2021 which was selected at random from the Purchase Ledger Transaction report. Examination of the supplier invoice and key screens from Integra showing authorisations, matching to the purchase order, GRN, payment and coding found:

- A purchase order was in place for the invoice, and the invoice was correctly matched to the purchase order. The purchase order was noted on the system as 'Partly Invoiced/Partly received' as its total value was £365,000.
- The purchase order and invoice were authorised in line with delegations by the Budget holder and a senior member of the team, depending on the amount in question.
- The purchase order was raised before the invoice date.
- The invoice was paid after a Goods Receipt Note (GRN) had been input in Integra. The Finance team confirmed that Integra wouldn't allow payment before goods receipting. If there is a purchase order and GRN, the invoice passes for payment.
- The details on the invoice agreed with those on Integra.
- The VAT amount held on Integra matched the invoice and was checked on Integra. Finance confirmed that it is validated on matching invoice to purchase order before payment.
- The cost centre and General Ledger code were correct.
- The invoice was paid within the time agreed.

A review of a report of credit notes raised between April and December 2021 found that a total of 99 credit notes were raised during the period. A credit note to the value of £40,000 raised against a Buckinghamshire Council Business Rates bill was selected. Examination of the credit note established that:

- The credit was allocated to the correct supplier. This was confirmed by reviewing the transaction screen and comparing the account name with the credit note.
- The supplier matched with the original bill.
- The credit note was cleared within 30 days.

A review of a report of vendor creations found that 27 new suppliers were set up on Integra between April and November 2021. A walkthrough of the set-up of Mary Foster Consulting Ltd found:

- The new supplier was set up correctly with adequate separation of duties following receipt of evidence.
- The necessary checks were carried out by Procurement and recorded on Integra.
- The Principal Accountant carried out an input check.

A review of vendor changes found that 451 changes to vendor records were made between April and November 2021. An amendment was selected at random from this report. A walkthrough of the deactivation of Colin Knapp found:

- After reviewing system suppliers, the Finance Assistant updated the Vendor Maintenance spreadsheet, identifying suppliers to be deactivated and details to be removed.
- The Principal Accountant approved this, and a check was carried out once the supplier was deactivated to ensure the supplier and bank details were removed.

A BACS run is completed every week, on a Thursday. A walkthrough was carried out on 9 December 2021 with the Finance Assistant of the BACS submission for that date and the relevant preparation for the BACS run. This covered preparation of the BACS submission by the Finance Assistant and checks carried out by the Principal Accountant before the BACS file was submitted. The walkthrough established:

- The Principal Accountant checked the BACS run, this is shown by having the checker's initials on BACS control sheets to indicate that the checker has reviewed and carried out all checks on BACS payments.
- The total amount and the number of payments on BACS submission matched the payment projection report.
- Checks were carried out for journals and manual payments, and credit notes valued over £10,000.
- The BACS control sheet links to the payment projection report. The checker has reviewed the payment projection report for one-time vendor payments. There were no one-time vendor payments.
- The checker has reviewed the payment projection report for duplicate payments/invoices. There were no duplicate payments shown on the BACS Control sheets. As there were no duplicates, no Duplicate Payment report was emailed for checking and authorisation.
- The payment projection report was reviewed by the checker. Payments over £10k have been checked for accuracy and signed by the Principal Accountant.

Examination of control account reconciliations completed from April to October 2021 confirmed that control accounts are reconciled monthly and subject to an independent officer's review and approval.

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

A report of purchasing card transactions posted to the General Ledger between April and October 2021 was run from Integra. A walkthrough was conducted for a purchasing card purchase of £208.48. We confirmed that:

- The transaction agreed to third party documentation.
- The card user's line manager authorised the transaction as per the system Scheme of Delegation.
- The total spend was within spending limits.
- The cardholder was confirmed as being on the company organisation chart in October and when the spending took place.
- The expenditure (subsistence) appeared to align with the organisations' appropriate spending policy.

Debtors

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

A report of invoices raised from April to November 2021 was obtained from the Principal Accountant. There were 233 invoices raised over the period.

A walkthrough was completed for an invoice raised on 14 October 2021 for £1,143.19 for a meter recharge cost incurred by MBNL and found:

- The budget code showed the department requesting the invoice. The Finance Assistant raised the invoice on behalf of Facilities, in line with the documented process.

- No purchase order was referenced due to the nature of the charge. However, an email from the Facilities Officer and a photo showing the meter reading was provided and attached to Integra.
- The invoice displayed the period, the meter reading, and the amount due calculation.
- Information on Integra matched the Invoice details.
- The payment was received on 26 October 2021, within the 14-day payment terms.

A review of a report of credit notes was run from Integra, listing six credit notes raised between April and November 2021. This amount is similar to that of previous years. Walkthrough of a credit note raised for the cost of a report to Woodgate and Clark after realising that the fire was not attended by BFRS found:

- The credit note was raised against the original customer.
- Credits match the customer and GL code when matched to the original invoice.
- The reason for raising the CRNs appeared valid.
- The credit note was timely raised on 11 June 2021, with the original invoice submitted on 7 June 2021.

The Debt Management Control Data file for 2021-22 periods one to eight was reviewed. This includes a summary of outstanding debts invoice amounts and measurements against debtors KPIs. The reconciliation and recording of control data is completed monthly. Total debt owed to the Fire Authority as of 31 October 2021 was £55,880, of which £7,569 was over 60 days old. It was confirmed that all outstanding debts fall under the debt recovery process and there were no write-offs for 2020-21.

A walkthrough of the debt recovery process was carried out with the Finance Assistant for a debt of £2,161.37 owed by Encompass Select Ltd, of which £1,330.25 was outstanding. We confirmed that the debt followed the debt recovery process and a payment plan was subsequently agreed upon. Whilst emails were found chasing payment against a payment plan, there was no record that the payment plan was agreed by the debtor. The Finance Assistant indicated that emails are deleted after a year due to data storage capacity limitations, meaning the original email agreeing the payment plan could not be found. Review of the Aged Debt report and Aged Analysis report found no other debts that were being repaid by way of a payment plan. **(Finding 2)**

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 position, for example, setting up new cost centres or cost codes.

A walkthrough of the process for raising and authorising a journal was carried out with the Principal Accountant (Technical Accounting) and Principal Accountant (Management Accounting) for a journal raised between April to November 2021. We confirmed that:

- The journal was input by a Finance staff member and authorised by a more senior Finance staff, with segregation of duties achieved and evidenced on Integra.
- Appropriate backing documentation was retained.
- The journal agreed to the backing documentation amount.

The suspense accounts were reviewed. There are seven active suspense accounts, but two of these are not used, and we confirmed they were empty. The error suspense account and year-end suspense account were also reviewed. We confirmed that the year-end suspense account opening balance matches the 2020/21 underspend. This will be cleared once the Fire Authority's external auditors have completed the audit on the Statement of Accounts.

Grant Income

We reviewed schedules of expected grant income for 2021-22 provided to the Fire Authority by the authorities and Government departments awarding them. As with 2020-21, a payment schedule was not provided by Buckinghamshire Council, and Business Rates payment amounts were not in line with those calculated by the Fire Authority, and were also found to be incorrect, reducing the accuracy of cash flow forecasts. These issues were raised formally with the Council by the Fire Authority and raised internally within the Council by Internal Audit.

Expected grants for 2021-22 are:

- Fire Revenue New Dimension
- Fire Revenue Firelink
- Business Rates Relief Reimbursement
- Revenue Support Grant
- Fire Pensions Grant
- Building Risk Review Grant
- The agreed 2021-22 Council Tax Precept

A walkthrough was conducted for the Firelink grant. This found:

- The income was received on the expected date.
- The amount received as shown on the bank statement and Integra agrees to the schedule.
- The relevant grant conditions were complied with.
- The grant income was allocated to Integra's correct cost centre/GL account.

A review of bank reconciliations for September and October 2021 confirmed that grant income is reconciled as part of the bank reconciliation process and signed off by the Principal Accountant as part of the monthly Control Accounts reconciliation.

Capital

The Capital Programme for 2021-22 to 2025/26 was approved as part of the MTFP at the Executive Committee meeting on 10 February 2021 and Fire Authority on 17 February 2021.

The Principal Accountant confirmed four capital growth bids submitted for 2021-22 budgets onwards. A walkthrough was carried out of a bid for Wide Area Network (WAN) & Local Area Network (LAN) Replacement, confirming:

- A bid template was completed with all the required information.
- This was reviewed and approved by Business Transformation Board, Executive Committee and Fire Authority. The first officer challenge fell outside of the scheduled meetings, which was done via email.

Assets are valued annually by Bruton Knowles. A copy of the valuation report produced in July 2021 was obtained. Beaconsfield Fire Station land and building assets were selected from the valuation report and searched for in the asset register. We confirmed that the up to date valuation was included in the Asset Register in both cases.

As per the Asset Register, disposals for 2020-21 totalled £2,338,400.81. This included £76,269 of Red Fleet disposals, £29,808 of White Fleet disposals and £114,868 of plant and equipment disposals. There were £1,934,957 worth of land or building disposals. A walkthrough of the disposal of Bletchley Fire Station, listed as a disposal on the Asset Register, was carried out. Its sale to Milton Keynes Development Partnership was appropriately approved. Review of the annual valuation report confirmed that Bletchley Fire Station is not shown as part of the 31 March 2021 valuations.

The asset register for 2020-21 shows that additions totalled £4,206,115.13 over the period. A walkthrough was carried out for the purchase and addition to the Fire Authority's asset register of furniture for the Blue Light Hub. A complete list of transactions and a sample of three purchase orders and invoices included in this addition were obtained and examined as part of the walkthrough. The bid and associated purchase orders and invoices were appropriately approved.

Banking and Reconciliations

Bank reconciliations for October and November 2021 were obtained, confirming that they are carried out monthly. The Principal Accountant signs off these as part of the monthly control account sign-off spreadsheet, which links to all the individual reconciliations. This process was observed by way of a walkthrough of the reconciliation process. The walkthrough noted no exceptions.

Access to the bank account via Lloyds Link is restricted to the Director of Finance and Assets, Principal Accountants, and key finance staff members. Access levels 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.

VAT

A review of the VAT return reports for September and October 2021 confirmed that the reconciliation for these was reviewed and agreed to each month's sales ledger and Purchase Ledger VAT amounts. These were then agreed to the control account.

A walkthrough of the process was viewed during the preparation and authorisation of the returns for September and October 2021. For both months, the Finance Assistant created the report, which was checked and authorised by the Principal Accountant and submitted to HMRC using unique log-in details.

Treasury Management

The Treasury Management Strategy for 2021-22 was approved at the Fire Authority meeting on 17 February 2021. The Strategy refers to CIPFA best practice and guidance on prudential investments and DLUHC 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.

Link Treasury Services provide regular weekly updates of credit ratings for counterparties to BMKFA and a monthly Investment Analysis Review. Treasury. We obtained a copy of the signed contract with Link Treasury Services for Treasury Management Advisory services. In September 2021 the contract with Link Treasury Services, which was due to expire in March 2022, was extended to 31 March 2024, in line with the contract terms and conditions as well as the Contract Standing Orders. Counterparties are agreed as part of the Treasury Management Strategy.

Management reports are produced quarterly by the Principal Accountant and presented to the Overview and Audit Committee. For 2021-22 Quarter 2, the report shows that the accrued interest earned for the first half of 2021-22 was £20k, which is £5k higher than the budget for the same period.

A report was obtained of deals executed between April and November 2021 from Treasury Live. This shows all investment deals made, matured investments, and moving in money market funds (MMF) from 1 April to 20 November 2021. There were 22 Fixed deals, eight MMF deals and nine call deals made over this period. A walkthrough was conducted for a £1,000,000 fixed deal made on 15 October 2021. No exceptions were noted.

Table 2: Detailed Audit Findings and Management Action Plan

Finding 1: Financial Control Framework – User training	Risk Rating	Agreed Management Actions
<p>Finance maintain training records for each employee who receives training on Integra. Users receive training on the relevant transactions required for their role when added as users.</p> <p>Whilst the process for providing and recording training was identified as an example of best practice, in the case of one training record, the initial user training for the required Integra transactions was not recorded on the form.</p> <p>If user training records are not completed when training is completed, there is a risk that training records are not accurate or up to date and that users are not aware that they have received the relevant training.</p>	L	<p>Action:</p> <p>A monthly review will be carried out to ensure all new users to the Finance System have a signed and completed 'Finance System Training' checklist.</p> <p>Officer responsible: Principal Accountant</p> <p>Date to be implemented by: March 2022</p>
Finding 2: Debtors – Payment plans	Risk Rating	Agreed Management Actions
<p>Where a debtor cannot settle an outstanding debt with a single payment, a payment plan may be agreed upon. A record that the Fire Authority and debtor have decided on the payment plan should be retained.</p> <p>A walkthrough of the process for recovering aged debts was carried out for a £2,161.37 debt owed by Encompass Select Ltd, of which £1,330.25 was outstanding. The walkthrough found that the debt was chased in line with the Fire Authority's debt recovery process. A payment plan was subsequently agreed upon.</p> <p>Whilst emails were found chasing payment against a payment plan, there was no record that the payment plan was agreed by the debtor. The Finance Assistant and Principal Accountant (Technical Accounting) confirmed that emails are deleted after a year due to data storage capacity limitations, meaning the original email agreeing the payment plan could not be found. Review of the Aged Debt report and Aged Analysis report found no other debts that were being repaid by way of a payment plan.</p> <p>If an agreed payment plan is not held on file, there is a risk that the Fire Authority does not have recourse to continue the collection of the debt and that payment is further delayed or not collected, leading to financial loss to the Fire Authority.</p>	L	<p>Action:</p> <p>Documentation agreeing for Customers settling outstanding debts by way of a payment plan will be saved within the Customer records held within the Finance System and Finance document drive.</p> <p>Officers responsible: Principal Accountant</p> <p>Date to be implemented by: February 2022</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	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	<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 generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.	<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>
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	<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>
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	<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 actioned. 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 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
Laura Taylor
Raheel Iqbal

Title:

Deputy Director of Finance and Assets
Principal Accountant (Technical Accounting)
Principal Accountant (Management Accounting)
Finance Assistant

The Exit Meeting was attended by:

Name:

Mark Hemming
Asif Hussain
Laura Taylor
Marcus Hussey

Title:

Director of Finance and Assets
Deputy Director of Finance and Assets
Principal Accountant (Management Accounting)
Principal Accountant (Technical Accounting)

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
Laura Taylor
Marcus Hussey

Director of Finance and Assets
Deputy Director of Finance and Assets
Principal Accountant (Management Accounting)
Principal Accountant (Technical Accounting)

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

17 December 2021
13 January 2022
10 February 2022
16 February 2022
22-26

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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