

## Internal Audit Report

### Key Financial Systems Review

Report status	Final
Report date	<b>April 2013</b>
Financial Period	2012/13
Prepared by	Yasmeen Mehmood (Haines Watts)

## Executive Summary

### Objective of the audit

The overall objective of the audit was to ensure that effective and efficient processes are in place for the key financial systems and that the information generated by these systems is accurate and complete. Our work was designed to test the adequacy of the key controls within the following systems:

- Debtors;
- Creditors;
- Payroll; and
- Travel & Subsistence.

### Key background information

The key financial systems are managed centrally by the Fire Service's Finance section. The Finance section comprises eight members of staff including the Finance Manager, who reports to the Head of Finance and Asset Management.

The audit focused mapping the key processes that comprise the financial systems above and then testing a sample of transactions to ensure that the processes are adequately controlled. As part of this testing we have complied with the sampling requirements of the Service's external auditor in order to underpin and support the external auditor's financial statements audit.

### Our Opinion

**Overall, based upon the work undertaken we can give an ADEQUATE assurance on the level of control in place to manage the risks associated with the key financial systems process.**

Our opinion has been informed by the following key findings:

#### weaknesses in controls:

- The Fire Service does have a debt recovery process however this process is not documented.
- The audit trail underpinning the matching of credit notes to invoices is not transparent and inadequate information is recorded on Aptos;
- A 'audit report' which captures all amendments/ deletions/ creations of vendors has been created but has not been put into operation;
- The Fire Service performs reasonableness checks on the monthly payroll payments report from Avarto however, these checks are not documented;
- The Purchasing card's guidance notes were compiled by the Finance Manager, who has left the Fire Service two years ago, and have not been subject to review or update since his departure; and
- Use of procurement cards to book hotels should follow the same procurement process as documented in the constitution.

### areas of good practice:

- The finance section has a collection of procedure notes that are stored on the Finance folder of the network to enable access by all members of the finance section.
- Testing of a sample of debtor invoices identified that in all cases supporting evidence was retained to support the debtor invoices raised by Finance;
- A 'Scheme of Delegation' has been compiled and now forms part of the Fire Service's Constitution;
- There is adequate segregation of duties in place when processing debtors and creditors;
- All purchase orders raised across the Fire Service undergo a final approval by the Senior Finance Officer (Systems and Procurement) prior to being placed for order;
- Review and testing of a sample of Payroll and Bank reconciliations revealed that these were subject to review and were evidenced by way of a signature and date;
- The Director of Finance reviews all payments over £25,000 prior to the payment run and this is evidenced by way of a signature and date;
- Testing of a sample of travel & subsistence claims/ expenditure revealed that:
  - the in the main Purchasing card was used to book hotels; meals for staff;
  - receipts were attached to the claims; and
  - all claims had been signed by the submitting officer and were appropriately authorised.




### Observation



- During the audit, it was noted that certain responsibilities have been delegated to staff, such as the authorisation of supplier payments; approval of payroll runs and debtor invoice batches, which does not adhere to the levels as set out on the Fire Service's Scheme of Delegation.



Whilst it is acknowledged that the Finance team is small, Finance may wish to consider reviewing the existing authorisation/ approvals process and implement a secondary sign off for material balances.



**Action Plan**



**Explanation of priority ratings:**

Priority	Explanation
	<p><b>High:</b> Action that is considered imperative to ensure that the Fire Service is not exposed to high risks. Major adverse impact on achievement of Fire Service's objectives if not adequately addressed.</p>
	<p><b>Medium:</b> Action that is considered necessary to avoid exposing the Fire Service to significant risks.</p>
	<p><b>Low:</b> Action that is considered desirable and should result in enhanced control or better value for money. Minimal adverse impact on achievement of the Fire Services objectives if not adequately addressed.</p>


	Finding	Risk	Recommended Action	Priority	Management Action
<b>General</b>					
1.	<p>Finance maintain an 'Authorised Signatory List' (ASL) which contains officer name; titles and their respective signatures.</p> <p>A review of the ASL identified that it contained a name of an officer who has since left the Fire Service and the list has not been subject to review and refresh since its creation in 2012.</p>	<p>Failure to review and update the Authorised signatory list may lead to fraudulent activity taking place which may lead to the Fire Service facing a financial loss and damage to reputation.</p>	<p>Finance should review and update the ASL on an annual basis. This will ensure that the list contains current officers in post.</p>		<p><i>Agreed, the Authorised Signatory list will be reviewed on an annual basis at the end of the 12/13 financial year.</i></p> <p><i>Responsible Officers: Finance Officer (Systems)/Senior Finance Officer (Contracts and Procurement)</i></p> <p><i>June 2013</i></p>
2.	<p>The Finance section does not have in place an office manual for reference/ guidance.</p> <p>It is acknowledged that the finance officers have an in-depth knowledge of the key financial systems process including legislative requirements but the absence of a manual means that this knowledge resides with the officers and is not transferrable.</p> <p><i>(Issue noted in the last two reviews).</i></p>	<p>The absence of an office manual increases the risk of variable practices emerging/going unchecked and may undermine the effectiveness and efficiency of continuity arrangements in the event of key staff leaving/being unavailable.</p>	<p>The Head of Finance and Asset Management should ensure that an office manual is compiled for reference purposes, which should be periodically reviewed and updated by a nominated officer.</p>		<p><i>The Finance section procedure notes are collated together in the finance folder to all staff to access the folder.</i></p> <p><i>Procedures will be reviewed at the end of each financial year.</i></p> <p><i>Responsible Officers: Finance Officer (Systems)/Senior Finance Officer (Contracts and Procurement)</i></p> <p><i>March 2013</i></p>



	Finding	Risk	Recommended Action	Priority	Management Action
<b>Debtors</b>					
3.	<p>We obtained and reviewed the debtor's arrears report as at 13<sup>th</sup> February 2013 and noted that the balance stood at £153,343.17. Of which £52,405.76 (34%) represented debtor balances over 90 days.</p> <p>Discussions with the Finance Officer (Income and Expenditure) revealed that these balances are being chased and that there are valid reasons as to why these have not yet been paid by the debtor but will be paid in due course.</p> <p>Moreover, it was also noted that the Fire Service does not have a formal 'Debt Recovery' policy in place.</p>	<p>Failure to collect outstanding debtor balances in a timely manner may lead to the Fire Service facing a financial strain and thereby impacting on service delivery. (Are you sure this should be in here – See response →</p> <p>The absence of a formal 'Debt Recovery' policy, may lead to erroneous and inconsistent working practices developing by staff.</p>	<p>Finance should ensure all outstanding debtor balances are collected in a timely manner.</p> <p>Additionally, a formal debt recovery policy should be formulated and put in place. A nominated officer should be responsible for ensuring the policy is reviewed and refreshed annually.</p>		<p>All debtors over 30 days are chased by using statements and letters and the Authority has a very low level of uncollected and written off debts.</p> <p>A procedure note will be produced to include in the procedures folder of the finance network drive.</p> <p>Responsible Officers: Finance Officer (I &amp; E)/Senior Finance Officer (Accountancy)</p> <p>June 2013</p>
4.	<p>Review of the suspense account revealed whilst the account stood at an immaterial balance of £1902.98 it contained an item dated back to May 2012 for £1235 (65%), which related to a returned BACs payment.</p> <p>Discussions with the Finance Officer revealed that all balances will be</p>	<p>Failure to clear the suspense account in a timely manner may lead to income/expenditure being understated thereby leading management making decisions on information which is</p>	<p>Finance should ensure that all suspense account entries are cleared in a timely manner and not at the year end.</p>		<p>Agreed, A procedure note will be produced and stored in the procedure notes folder of the finance network drive and a quarterly review of the suspense account undertaken by the Senior Finance Officer (Accountancy).</p> <p>Responsible Officer Senior Finance</p>

	Finding	Risk	Recommended Action	Priority	Management Action
	cleared by the year end.	incomplete/ inaccurate.			Officer (Accountancy)  June 2013
<b>Creditors</b>					
5.	<p>Testing of a sample of 10 credit notes identified that in 4 cases we were unable to verify as to which invoices the credit notes had been matched too on the system.</p> <p>Additionally, we also noted that there were no comments on Aptos informing the user as to why the credit note was issued to the Fire Service. It was only by going through the system could we establish as to why the credit note was issued.</p>	<p>Failure to trace credit notes to matched invoices undermines the audit trail which in turn may compromise the efficiency of resolving queries or issues that may arise.</p> <p>Moreover, in the absence of appropriate comments on Aptos pertaining to credit notes leads to inefficient use of time and resources in locating the information.</p>	<p>Finance should ensure that there is an adequate audit trail on the system to verify the matching of credit notes to the appropriate invoices.</p> <p>Additionally, staff inputting credit notes onto Aptos should insert comments as to the reason why the credit note has been received and thus saving time trawling the system for the information.</p>		<p>Agreed.</p> <p>More detail will be entered onto the Aptos system to indicate the reason for the credit note, the number of the invoice that the credit note relates to will also be recorded.</p> <p>Responsible Officers: Finance Officer (I&amp;E)/Senior Finance Officer (Accountancy)</p> <p>With immediate effect.</p>
6.	<p>Amendments and setting up of vendors is performed by the Store section whereas changes to vendor bank details are actioned by Finance.</p> <p>Discussions held with the Senior Finance Officer revealed that an 'Audit Report' capturing amendments/ deletions/ creation of vendors on Aptos has been created over six months ago, however, it has not been put into operation as of yet.</p>	<p>Failure to put into operation the vendor 'audit report', may lead to errors going undetected and there is the risk of 'ghost' vendors being created.</p>	<p>Finance should put the 'audit report' into operation with immediate effect.</p> <p>The report should be run monthly and should be subject to review by a nominated officer. The review should be evidenced by way of a signature and date.</p>		<p>Agreed.</p> <p>The 'Audit Report will be implemented asap and processed on a monthly basis with outputs reviewed and stored electronically.</p> <p>Responsible Officers: Finance Officer (Systems)/Senior Finance Officer (Contracts and Procurement)</p> <p>June 2013</p>

	Finding	Risk	Recommended Action	Priority	Management Action
<b>Payroll</b>	<p>7. Testing of a sample of 10 starters we noted that :</p> <ul style="list-style-type: none"> <li>On 4 occasions the starter's documents were not retained in a file;</li> <li>On 1 occasion the P155 form used for 'Post Changes' had not been signed off by two certifying officers authorising the post change;</li> <li>In 3 occasions the P155 had only been signed off by one of the two certifying officers;</li> </ul> <p>Additionally, it was also noted that the P155 forms had been signed post start date rather than pre start date.</p>	<p>The audit trail the underpinning process is not transparent which in turn may compromise the efficiency of resolving queries or issues that may arise.</p>	<p>HR should ensure that starter forms are signed off by two certifying officers prior to starting work in their posts. Additionally, all starter documents should be retained in a file.</p>		<p>HR will ensure that the existing requirements for each P155 form to be signed off by two certifying officers and for a copy to be retained on the Personal Record File are adhered to. The procedure checklist for new starters will be reviewed to ensure that these requirements are clearly recorded. Whilst every effort is made to complete the P155 form before the individual starts work in their post, on occasion this is not possible due to individuals not sending back their bank account details in time.</p> <p>Responsible Officers: HR Manager June 2013</p>
8.	<p>Testing of a sample of 11 leavers it was noted that:</p> <ul style="list-style-type: none"> <li>On 1 occasion the leaver's documents were not retained in a file;</li> <li>On 1 occasion the leaver's form (P10) had been signed off post their leaving date.</li> </ul>	<p>The audit trail the underpinning process is not transparent which in turn may compromise the efficiency of resolving queries or issues that may arise.</p>	<p>HR should ensure that leaver forms are signed off by the certifying officer prior to leaving work. Additionally, all starter documents should be retained in a file</p>		<p>HR will ensure that the existing requirement for leaver forms to be retained on the Personal Record File is adhered to. The procedure checklist for leavers will be reviewed to ensure that this requirement is clearly recorded. Whilst every effort is made to complete the leaver form before the individual leaves work, on</p>



	Finding	Risk	Recommended Action	Priority	Management Action
					<p>occasion this is not possible due to late notification to HR.</p> <p>Responsible Officers: HR Manager June 2013</p>
9.	<p>Through discussions held with the Finance Officer it was noted that she performs a reasonableness check on the monthly payroll payment report, received from Avarto, prior to release of payment which is authorised by the Senior Finance Officer.</p> <p>We were unable to perform any testing to validate that the reasonableness checks had been performed as these are not recorded/documentated by the Finance Officer.</p> <p>(An issue noted in the 2011/12 review)</p>	<p>Failure to document the reasonableness check on the payroll payments report undermines the audit trail which in turn may compromise the efficiency of resolving queries or issues that may arise.</p>	<p>The Finance Officer should ensure that all reasonableness checks performed on the payroll payment reports are documented and retained for future inspection and review.</p>		<p>The Finance Officer completes the reasonableness check and seeks clarification of reasons why the items checked fall out of expected parameters. The reasons have not been documented on the reports.</p> <p>These will be added to the reports asap.</p> <p>Responsible Officers: Finance Officer (Systems)/ Senior Finance Officer (Contracts and Procurement)</p> <p>With immediate effect.</p>

	Finding	Risk	Recommended Action	Priority	Management Action
<b>Travel &amp; Subsistence</b>					
10.	<p>We obtained and reviewed the 'Purchasing Card' guidance document and noted that the guidance was created by the outgoing Finance Manager two years ago.</p> <p>The guidance has not been subject to review since its creation.</p>	<p>Failure to have in place up to date guidance notes which are available to and accessible by staff may lead to erroneous and inconsistent working practices developing.</p>	<p>Finance should ensure that the Purchasing Card guidance document is reviewed periodically.</p> <p>The review should be evidenced by way of a signature; date ; and version control/</p>		<p>Agreed.</p> <p>The Finance Manager will review the Purchasing card guidance annually and provide cardholders with updated guidance as necessary.</p> <p>Responsible Officer: Finance Manager</p> <p>June 2013</p>
11.	<p>Testing of a sample of 20 travel &amp; subsistence claims identified that there is no formally approved expense rates schedule in place for staff to refer to except for the rates as stated by the NJC for basic expenses, such as lunches.</p> <p>This issue was further verified when we spoke to a sample of officers who use the purchasing card. They added that they have no set figures to abide by but always try to obtain the most economical price/ rate.</p>	<p>In the absence of a formally approved 'expense rates schedule' this may lead to staff claiming expenses at unacceptable rates/ amounts thereby putting a strain on Fire Service's resources</p>	<p>The Fire Service should formulate an 'expense rates schedule' which outlines the expenditure that staff can incur on particular spends.</p> <p>This should be stored on the Fire Service's Intranet and accessible by all staff.</p>		<p>Officers who use purchasing cards to book hotels etc will follow the usual procurement rules as per the constitution (3 verbal quotes) for expenditure under £10,000.</p> <p>The purchasing card is a tool to facilitate payment, it does not circumvent the procurement rules.</p> <p>A schedule of approved expenses is not necessary.</p>



## Appendix A – Definition of assurance opinions

Level of Assurance	Definition
Substantial	There is a sound system of internal control designed to achieve the system objectives.
<b>Adequate</b>	<b>While there is a basically sound system of internal control designed, there are weaknesses, which put some of the system objectives at risk.</b>
Limited	Weaknesses in the design of the system of internal controls are such as to put the system objectives at risk.
None	Control design is generally weak leaving the system open to significant error or abuse.



The matters raised in this report are only those that came to our attention during the course of the audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or of all the improvements that may be required.

Whilst every care has been taken to ensure that the information in this report is as accurate as possible, it is based on the information provided and documents reviewed. No complete guarantee or warranty can be given with regard to the advice and information contained within the report. We emphasise that the responsibility to implement a sound system of internal controls rests with management and that our work should not be taken as a substitute for this responsibility. Our work has been considered to identify material irregularity which has a reasonable possibility of discovery, however, this does not provide absolute assurance that material error, loss or fraud do not exist.

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Haines Watts  
Registered Office: 30 Camp Road, Farnborough, Hampshire GU14 6EW.