



Internal Audit Report

Key Financial Systems Review (Part 2)

Report status	Final
Report date	April 2014
Financial Period	2013/14
Prepared by	Y Mehmood, Auditor (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:

- Creditors; and
- Payroll.

Key background information

The key financial systems are managed centrally by the Service's Finance section. The Finance section comprises eight members of staff including the Finance Manager, who reports to the Director of Finance & Assets/ Section 151 Officer.

The audit focused on mapping the key processes that comprise the financial systems noted above and then testing a sample of transactions to ensure that the processes are adequately and consistently 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:




- One of the previous year's recommendations has not been implemented;
- In some instances staff opt for Non Purchase Orders rather than raising a Purchase Order on APTOS; and
- Human Resources were unable to provide all files selected for testing on starters; leavers; and interim posts.



areas of good practice:


- A 'Scheme of Delegation' has been compiled and now forms part of the Fire Service's Constitution;
- 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 reconciliations revealed that these were subject to review and were evidenced by way of a signature and date; and
- 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.

Action Plan


Explanation of priority ratings:

Priority	Explanation
	<p>High:</p> <p>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>Medium:</p> <p>Action that is considered necessary to avoid exposing the Fire Service to significant risks.</p>
	<p>Low:</p> <p>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
Previous Year's Recommendations				
<p>1</p> <p>Previous Recommendation 5</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 thus saving time trawling the system for the information.</p> <p>Findings</p> <p>Testing and review of credit notes revealed that comments are not noted on APTOS, for example to which invoice the credit note relates to.</p>	<p>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>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>Completed:</p> <p><i>The Procedure notes for credit note processing have been amended to require comments to be placed on credit notes in future.</i></p> <p><i>Action by: Senior Finance Officer (Accounting)</i></p> <p><i>Date: 31st March 2014</i></p>
<p>2.</p> <p>Previous Recommendation 6</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</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</p>		<p><i>This is in development and will be implemented by 31st December 2014.</i></p> <p><i>Action by: Senior Finance Officer (Contracts and Procurement)</i></p>

	Finding	Risk	Recommended Action	Priority	Management Action
	<p>signature and date.</p> <p>Findings: Discussions held with the Senior Finance Officer revealed that this task is still to be actioned.</p>		signature and date		Date: 31 st December 2014
3.	<p>Previous Recommendation 9 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>Findings: Testing of a sample of Arvato monthly payroll reports identified that the reasonableness checks performed by the Finance Officer are not documented. Additionally, these payroll reports have not been reviewed by the Senior Finance Officer.</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>Failure to review the monthly payroll reports undermines management's responsibilities.</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>Additionally, the payroll reports should be reviewed and evidenced by way of signature and date.</p>		<p><i>Completed:</i> The reasonableness checks are carried out and the payroll reports signed by the finance officer (systems). The reports are then countersigned by the Senior Finance Officer (Contracts and Procurement). However the calculation check performed is not documented. The procedure notes for the check have been amended and the calculation will be documented.</p> <p>Action by: Finance Officer (Systems)</p> <p>Date 31st March 2014</p>

	Finding	Risk	Recommended Action	Priority	Management Action
Creditors					
4.	<p>Through our testing of the Fire Service's purchase orders and non purchase orders it was noted that staff were more inclined to procure goods/services through the non purchase order route rather than raise an order on APTOS. At time of the audit approximately 700 purchase orders had been raised compared to 4,800 non purchase orders.</p>	<p>Staff are incorrectly procuring goods/ services which may lead to fraud/ malpractice taking place.</p>	<p>Finance should remind all staff across the Fire Service that goods/ services procured should be done so via raising a purchase order on APTOS.</p>		<p><i>Budget holders will be reminded that goods and services should be requisitioned through the Aptos system in the first instance.</i></p> <p><i>Action by: Senior Finance Officer (Accountancy)</i></p> <p><i>Date: 30th April 2014</i></p>
5.	<p>Testing of a sample of 20 Purchase Orders and 20 Non Purchase orders identified that:</p> <p>Purchase orders</p> <p>In two instances an EM purchase order had not been raised on APTOS.</p> <p>Non Purchase Orders</p> <p>In seven instances the invoice did not contain the signature of the budget holder.</p>	<p>The audit trail underpinning the purchase and non purchase order is not transparent and in the event of query this may not be resolved in a timely manner.</p>	<p>It should be ensured that all purchase orders and non purchase orders are raised and authorised appropriately.</p>		<p><i>All EM purchase orders should be raised and approved on Aptos. Non purchase orders require a Group Manager or Grade 13 or above to authorise them (as per the scheme of delegation).</i></p> <p><i>A reminder will be sent to remind users that all PO's should be raised and approved on Aptos.</i></p> <p><i>Action by : Senior Finance Officer (Accountancy)</i></p> <p><i>Date: 30th April 2014</i></p>

	Finding	Risk	Recommended Action	Priority	Management Action
Payroll					
6.	We requested a sample of post holders personnel files from Human Resources however they were unable to provide these files as they could not be located.	Personnel files not being readily available for inspection and review may increase the likelihood fraud and malpractice taking place.	Human Resources should ensure that all personnel files can be located and are available for inspection and review at anytime.		<p><i>PRFs for starters and current staff had been located and handed to the Auditor, however some leavers files were not located in time. The archive files for leavers are to be reviewed shortly.</i></p> <p><i>Officer: Senior HR Officer</i></p> <p><i>Date: 31st December 2014</i></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.
Adequate	While there is a basically sound system of internal control designed, there are weaknesses, which put some of the system objectives at risk.
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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