



# ESSEX FIRE AUTHORITY

## Key Financial Controls

FINAL

Internal Audit Report: 4.16/17

20 February 2017

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# 1 EXECUTIVE SUMMARY

## 1.1 Background

We have undertaken a review of Key Financial Controls at Essex Fire Authority (the Authority) as part of our annual internal audit plan for 2016/17.

The Finance department at the Authority is headed by the Assistant Director of Finance and further consists of three Finance Managers and a Finance Processing Manager. There is also a small team of supporting Finance Staff undertaking day-to-day accounting tasks.

The Authority uses the 'Dream' financial system which has the capability of recording financial transactions and having various financial reporting mechanisms at different levels of the organisation. Financial transactions including payments and overnight deposits are processed through the Lloyds Banking System with this being the Authority's main banker.

Our review focused on the following key financial controls:

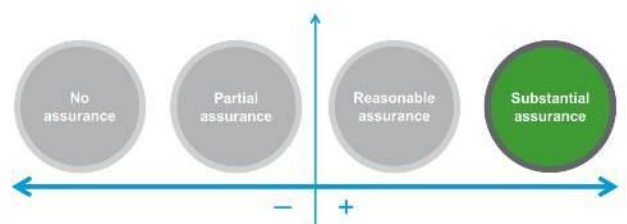
- General Ledger;
- Cash, Banking and Treasury Management;
- Payments and Creditors; and
- Income and Debtors.

## 1.2 Conclusion

Our substantial assurance opinion is based on the number of robust controls that were found to be operating, with only one low priority finding within the General Ledger area.

### Internal Audit Opinion:

Taking account of the issues identified, the Authority can take substantial assurance that the controls upon which the organisation relies to manage this area are suitably designed, consistently applied and operating effectively.



## 1.3 Key findings

The key findings from this review are as follows:

### General Ledger

Access to Dream and the General ledger is controlled by the use of different user profiles which provides segregation of duties. We selected a sample of ten current users from the Dream user listing and confirmed that they were current employees and the access level corresponded to their job role.

To confirm that employees are being set up and removed appropriately we also selected a sample of five new employees and confirmed access had been set up once appropriate authorisation had been obtained, as well as a sample of five recent leavers and confirmed that their access had been removed.

The Authority has an up to date Journal Procedure document that details the weekly journal transfer procedures used by the Finance Department. We reviewed the most recent journal transfer folder and confirmed that a chronological collection of journal registers documenting the checking and approval of transfers was available, with only one week's journal register being missing. Through discussion with the Finance staff we determined that the journal register should have been completed but it may have been misfiled. To rectify this Finance re-printed and completed the register to ensure a complete file and a low priority action was agreed to ensure these are retained.

We selected a recent sample of five registers and confirmed that all the registers were completed in a timely manner in line with the procedure document, that the registers were all approved by the DDoF in a timely manner, and that the backing journal sheets were completed in a timely manner prior to DDoF approval with an appropriate checking and approval for each.

Reconciliations are performed by the Finance Processing Manager and feed into the trial balance at month end, which is reviewed and approved by the Finance Processes Manager and the DDoF. We reviewed the Trial Balance and reconciliations performed for the months of October, November and December 2016 and confirmed that these reconciled, had been carried out in a timely manner, and had been subject to a segregation of duties in all three months.

### **Cash, Banking and Treasury Management**

The Authority creates a cash flow forecast that is drafted during January for the coming year. We viewed the 2016/17 cash flow forecast and obtained the October 2016 through March 2017 section. Through review we confirmed that actual figures had been updated in the forecast for October 2016 to date and expected contractual income (known and assumed) was included for future dates up until March 2017.

A sample of five lines where there were forecast figures in February and March 2017 were selected. For this sample we performed comparative testing and confirmed that the forecast figures appeared appropriate and in line with previous actuals providing assurance that the forecast is reasonable. We also selected a sample of 10 completed days and confirmed that the correct opening balance for payments and the revenue bank account was used providing assurance about the robustness of the spreadsheet and the brought forward and final figures.

Monthly bank reconciliations are undertaken by a member of the Finance Team and checked and approved by the Financial Processes Manager. We obtained the October, November and December 2016 bank reconciliations and confirmed that all reconciled and were completed by a member of the Finance team on the first working day of the following month, and approved by the Financial Processes Manager on the same day.

The Authority has a signatory list held by their main banker Lloyds. This list gives signatory rights to a selection of employees of an appropriate level and job role at the Authority. Through review of the updated signatory list we confirmed suitable employees had been included, that approval limits were appropriate, and that the list was approved and updated in line with the Financial Regulations.

There is also Lloyds online banking system for which a number of employees at the Authority have access. We reviewed the system and confirmed access was appropriate for all 10 individuals with access levels differing depending on the job needs of the individuals further securing the accounts.

There is a Treasury Management Policy which details the strategy of the Authority including its policy on investments. From the cash flow spreadsheet we selected a sample of five investments and confirmed that these were in line with the policy, that the documentation agreed to the cash flow forecast, and that these were approved appropriately in line with the policy.

## **Payments and Creditors**

The Finance system Dream is pre-set with authorisation limits for individual authorisers. We obtained the authorisation list from Dream and through review confirmed that all individuals with an approval limit of £10,000 or above were of an appropriate position at the Authority to hold this responsibility. To test these limits we attempted to have a transaction approved by an individual that was above their authorisation limit. On attempting to send we received an error message stating that this individual could not approve the transaction assuring us that the system is robust.

We confirmed that purchase orders are completed and authorised in a timely manner by performing testing on a sample of 10 purchase orders and 10 invoices received in year. For the sample we confirmed that all had a purchase order, that the purchase order had appropriate authorisation, and that all purchase orders were raised and approved prior to receipt of the related invoice. For the same sample we also confirmed there were associated invoices which were matched to the purchase orders and paid in a timely manner within 30 days of receipt of the invoice. There was one exception to the payment confirmation in our sample as it was a new purchase which had not yet been paid as the goods had not yet been received.

Although our sample did not identify any late payment of invoices there are occasions where these occur and the Authority maintains monthly late payment spreadsheets which record the invoices paid in month and the timeliness of these payments. We obtained the July, October and November 2016 spreadsheets and confirmed that the majority (over 80% for all months) of invoices paid were timely in 0-30 days. Late payment of invoices was limited, and those paid in over 45 days were in the majority of cases due to ongoing disputes. These figures and explanations indicate good credit control and payment functions at the Authority.

The Authority has a structured process for setting up new suppliers and making amendments to existing suppliers on the Finance system to ensure these are legitimate additions and changes. We selected a sample of five new suppliers added in 2016/17 and five amendments made during 2016/17. For these samples we confirmed that in all cases the appropriate procedures were followed with the new supplier form being completed where appropriate and any bank details or address additions or changes being provided on signed letterhead and confirmed by an appropriate independent individual. There was one new supplier exception in our sample and that related to a volunteer. The addition of a volunteer follows a slightly different process to a new company being set up and we confirmed this alternate procedure was followed with the appropriate evidence being maintained to provide assurance that the individual is an appropriate payee.

Payment run processing is completed on a weekly basis. We selected a sample of five weeks over the 2016/17 financial year and obtained the relevant payment runs. For each we confirmed that the payment run was completed in a timely manner, checked and approved by an appropriate Finance Manager at the Authority.

## **Income and Debtors**

The Authority raise a limited number of debtor invoices each year. We obtained an invoice transaction listing for all invoices raised from April 2016 to date and selected a sample of 20. For this sample we confirmed that in all cases the invoice request had appropriate authorisation, all invoices were processed in a timely manner, and that in all cases supporting documentation for the request was available.

There are a small number of regular income streams for which the Authority maintains a 'monthly invoices to raise' spreadsheet. We selected a sample of five items listed on this spreadsheet that should have been paid to date. For this sample we obtained the raised invoice and confirmed this was raised in a timely manner according to the dates listed on the monthly invoice spreadsheet, providing assurance that income is being requested in a timely manner.

There is a current Debtors Procedure document which adequately details the correct treatment of outstanding debtors. We obtained the most recent aged debtors report which was completed at the beginning of January for all overdue outstanding debtors up until the end of December. This was printed off on the first working day of January and was signed off by the Finance Processes Manager and the Deputy Finance Director and Treasurer in line with the procedure document. From this report we selected a sample of 20 debtors and confirmed that those under 30 days had an email or letter sent out and those over 30 days had a letter sent, with correspondence records being maintained on Dream. There was one debtor in our sample for which a letter was not sent, but we confirmed this was because the payment is in dispute, and we confirmed this was logged appropriately on Dream. The full sample being appropriately managed provides assurance that the Authority has a good credit control function which should limit the number of bad debts and the number of potential write-offs.

A write off journal listing is maintained on Dream which details all processed write offs. We reviewed this listing and noted there had only been one write off in 2016/17. Through discussion with Finance we learnt that this write off was in fact reversed with the company subsequently paying the bad debt. We obtained the supporting evidence and confirmed the reversal had been appropriately documented on Dream. To confirm the write off process we selected an actual write off that was completed in February 2016. For this write off we confirmed the invoice write off form had been completed with appropriate authorisation obtained prior to write off.

## 1.4 Additional information to support our conclusion

Area	Control design*	Compliance with controls*	Agreed actions		
			Low	Medium	High
General Ledger	0 (3)	1 (3)	1	0	0
Cash, Banking and Treasury Management	0 (4)	0 (4)	0	0	0
Payments and Creditors	0 (5)	0 (5)	0	0	0
Income and Debtors	0 (4)	0 (4)	0	0	0
<b>Total</b>			<b>1</b>	<b>0</b>	<b>0</b>

\* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

## 2 ACTION PLAN

### Categorisation of internal audit findings

Priority	Definition
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may, lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The table below sets out the actions agreed by management to address the findings:

Ref	Findings summary	Priority	Actions for management	Implementation date	Responsible owner
<b>Area: General Ledger</b>					
1.2	When reviewing the journal register folder we were unable to locate the completed journal register for the week 26/12/16 – 1/1/17.	Low	<p>The Authority will create a Journal Register monitoring document that details when Journal reports are produced and reviewed as well as when approval was obtained.</p> <p>This will be maintained in the relevant Journal Register folder and completed by a member of the Finance team that is independent to the process.</p>	Implementation completed on 8 <sup>th</sup> February 2017.	Finance Processing Manager.

### 3 DETAILED FINDINGS

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
<b>Area: General Ledger</b>						
1.1	<p>For an employee to be set up on Dream a request must be received by the Finance Processes Manager with the required access rights.</p> <p>The Finance Processes Manager forwards the request to IT that set the individual up on the Cherwell system. This provides a tracking system. Since December 2016 Finance has required email evidence of the authorisation for set up to be stored on Cherwell as an evidence source.</p> <p>Once IT have processed the request the Finance Processes Manager sets up the user on Dream ensuring access levels are appropriate to the request. Controls are put in place at the point including preventing individuals from approving orders they enter. To set up users the inputter must have specific admin rights.</p> <p>To ensure the list and access is maintained up to date the Finance Processes Manager receives a</p>	Yes	Yes	<p>The listing of current Dream users including their access level was extracted from Dream. We selected a sample of ten individuals from this listing and confirmed they were current employees with access rights that correlated to their job role.</p> <p>To review the new users added in year we obtained a listing of new users added to Dream in year which was compiled by comparing current Dream users to the prior year end payroll. From this listing we selected a sample of five individuals and confirmed that an appropriate individual had requested access and that the access level correlated to their job role. For one of the sample the authorisation was not loaded onto Cherwell however we were able to confirm it had been obtained as the original authorisation email was located.</p> <p>Finance is not responsible for attaching the email evidence to Cherwell as only IT have these access rights, however it is important authorisation evidence is retained to ensure a simple audit trail. Currently if emails are not recorded on Cherwell they are accessible as emails are archived, but this is not a simple direct trail.</p> <p>We obtained the last five reports sent by HR to finance and confirmed that Finance was receiving these on a weekly basis aiding their ability to keep the Dream user listing up to date. Through review of the listings we pulled out all employees who had left the organisation over that period. For this sample we compared the individuals to those on the current Dream user listing and confirmed that all had had access removed and were</p>	Suggestion	The importance of attaching the authorisation emails to Cherwell for Dream user access requests will be reiterated to IT.



Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
	<p>weekly email from HR which details any leavers and joiners. Leavers will have access removed, and joiners will only have access added if their manager contacts Finance with the request.</p> <p>Amendments to access rights are updated as advised by the relevant management.</p>			now listed as 'inactive' providing assurance that ex-employees are being removed in a timely manner.		
1.2	<p>The Authority has a Journal Procedure document which lays out the correct weekly journal procedures.</p> <p>A weekly report of journals is produced from Dream on the Monday of each week for journals processed or amended in the previous week. A Register Form is completed for the week which details the included journals, any amendments and evidence of checking and final approval by the Assistant Director of Finance.</p> <p>The journal report is also run by individual so that each can be provided with details of journals they input in week. They are required to check the inputs, agree them, and have this approved by a Manager or more senior member of staff.</p>	Yes	Yes	<p>The Journal Procedure Document was reviewed in January 2017 and is next due for review in January 2018 confirming it is current and up to date. Through review we confirmed that the document is sufficiently detailed clearly laying out the weekly journal transfer procedures.</p> <p>Prior to selecting our sample of weekly journal transfers we reviewed the most recent journal transfer folder. Through review we confirmed that Journal Registers had been created for every week of that period except for the week 26/12/16 - 1/1/17. Through discussion with the Finance team they explained this journal register should have been completed but it may have been misfiled.</p> <p>A replacement register and documentation was printed for completion and filing during the audit. As the original was not recovered we are unable to confirm that it was created, reviewed and approved in a timely manner. To prevent this happening again the Authority may consider creating a monitoring spreadsheet kept in the relevant Journal Folder. This could document when the register was printed off and when approval was obtained to provide assurance that all registers are being completed in a timely manner.</p>	Low	<p>The Authority will create a Journal Register monitoring document that details when Journal reports are produced and reviewed as well as when approval was obtained. This will be maintained in the relevant Journal Register folder and completed by a member of the Finance team that is independent to the process.</p>

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
				<p>We selected a recent sample of five and confirmed that:</p> <ul style="list-style-type: none"> <li>• All Journal Registers were created on the Monday following the recorded week;</li> <li>• The Journal Register was signed off by the Assistant Director of Finance in all cases;</li> <li>• The Assistant Director of Finance sign off was timely - the only exceptions were the Christmas holiday weeks where the Assistant Director of Finance was absent. These were signed immediately on their return the first day back after New Year; and</li> <li>• The backing journal sheets were completed timely and prior to the Deputy Directors sign off with the checker and an appropriate approver signature.</li> </ul>		

# APPENDIX A: SCOPE

## Scope of the review

To evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. The scope was planned to provide assurance on the controls and mitigations in place relating to the following areas:

### Objective of the area under review

To ensure that robust controls are in place to safeguard the integrity of the Authority's financial performance

When planning the audit, the following areas for consideration and limitations were agreed:

## Areas for consideration:

This review will include key controls testing against the following areas:

### General Ledger

- Processes are in place to ensure that; all new staff are set up with appropriate access rights, amendments to staff access rights are appropriately authorised and staff leavers are blocked/removed in a timely manner;
- Journals are appropriately raised, authorised and accurately posted in a timely manner;
- Suspense accounts are appropriately managed and cleared on a regular basis;
- Control account reconciliations (AR, AP and Trial Balance etc.) are completed and reviewed in a timely manner following the month end. All variances are investigated and cleared appropriately;

### Cash, Banking and Treasury Management

- Accurate cash flow forecasts are produced on a monthly basis which take into account all know cash in and out flows. Contractual income and expenses have been included for the year;
- Bank reconciliations are completed in a timely manner following month end, and are reviewed and approved by a senior member of staff shortly after;
- Robust controls are in place around the access to the Authority's bank accounts, this include the maintenance of up to date authorised signatory lists which reflect the Authority's scheme of delegation/ authorisation limits;
- Investments have only been made in line with the Authority's policy and have been subject to an appropriate level of scrutiny and approval.

### Payments and Creditors

- Purchase orders are completed and authorised in line with the scheme of delegation prior to being issued to suppliers;
- Invoices received are matched to purchase orders in a timely manner. Where no purchase order is available, an appropriate procedure has been put in place to challenge the purchasing manager;
- Timely payment and approval of invoices in line with financial authority limits and payment targets;
- New supplier and amendments to supplier details are subject to enhanced confirmation procedures to ensure that only genuine updates are made;
- The payment run is subject to senior management approval;

### **Income and Debtors**

- Invoice requests are appropriately authorised and processed by finance in a timely manner;
- Processes are in place to ensure that all regular income invoices are generated in a timely manner. This could involve the establishment of regular income registers;
- All debtors are chased in line with a structured debt management policy. Evidence of all debt chasing activity is clearly recorded and regularly reviewed by a senior member of staff.
- Bad debts are reviewed on a regular basis with only those deemed irrecoverable following all efforts to recover the funds, approved in line with the standing financial instructions for write-off.

In addition to this, we will follow up the actions agreed previously.

### **Limitations to the scope of the audit assignment:**

- We have not provided assurance that the Authority has identified all debt owing to it.
- We have not substantially re-perform reconciliations.
- We have not provided assurance that all goods ordered provide value for money.
- We have not verified the accuracy or completeness of information recorded on the ledger.
- We have not guaranteed that the services and items being invoiced and paid for are correct with the events having actually taken place.
- We have not confirmed that all staff had read and understood policy and procedures.
- Asset management has not been carried out as part of this review.
- The review has been conducted on a sample basis only.
- Our audit has not provided any assurance over the safety and security of any funds invested.
- Our review has not provided an opinion on the appropriateness or security of the organisations investments or banking deposits, or of the appropriateness of its investment policies.

Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

## APPENDIX B: FURTHER INFORMATION

Persons interviewed during the audit:

- Glenn McGuinness, Assistant Director of Finance
- Elaine Hodgson, Financial Processes Manager
- Simon Nobbs, Finance Manager – Systems
- Paula Drane, Finance Manager – Reporting
- Kate Roast, Finance Processing Manager
- Nikki Ludlow, Senior Finance Assistant
- Kelly Pegrum, Finance Assistant

### Benchmarking

We have included some comparative data to benchmark the number of management actions agreed, as shown in the table below. In the past year, we have undertaken a number of audits of a similar nature in the sector.

Level of assurance	Percentage of reviews	Results of the audit
Green (substantial assurance)	64%	✓
Amber (reasonable assurance)	36%	-
Amber (partial assurance)	0%	-
Red (no assurance)	0%	-
Management actions	Average number in similar audits	Number in this audit
	3	1

# FOR FURTHER INFORMATION CONTACT

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