



Key Financial Controls Review (including Reserves)

Assignment Report 2022/23 (Final)

Cheshire Fire and Rescue

Report Ref: 302CFRS_2223_003

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Public Sector Internal Audit Standards

Our work was completed in accordance with Public Sector Internal Audit Standards and conforms with the International Standards for the Professional Practice of Internal Auditing.

Key Dates

Report Stage	Date
Discussion Document Issued	19/12/2022
Discussion Meeting	19/12/2022
Final Draft Report Issued	19/12/2022
Client Approval Received	19/12/2022
Final Report Issued	19/12/2022

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Acknowledgement and Further Information

MIAA would like to thank all staff for their co-operation and assistance in completing this review. This report has been prepared as commissioned by the organisation, and is for your sole use. If you have any queries regarding this review please contact the Audit Manager. To discuss any other issues then please contact the Director. MIAA would be grateful if you could complete a short survey using the link below to provide us with valuable feedback to support us in continuing to provide the best service to you.

https://www.surveymonkey.com/r/MIAA_Client_Feedback_Survey

1 Executive Summary

1.1 Objective

As part of the Internal Audit Plan for 2022/23, the Fire Authority have approved a review of the combined financial systems.

This audit focuses on the key controls within financial systems and involves review of the most significant controls within: General Ledger, Accounts Payable, Accounts Receivable, Treasury Management, and Budgetary Control. This review also included an evaluation of the management, use and control of Reserves.

1.2 Opinion

High Assurance	There is a strong system of internal control which has been effectively designed to meet the system objectives, and that controls are consistently applied in all areas reviewed.
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1.3 Key Findings

Overall, our review identified that controls were effectively designed and operating effectively on a consistent basis.

The following provides a summary of the key themes.

Sub Objective	Key Themes
General Ledger	<p>Areas of good practice:</p> <ul style="list-style-type: none"> Balance sheet control account reconciliation are completed on a monthly basis. Completion of each reconciliation is recorded on an annual tracker that is maintained by the Finance team, demonstrating when each reconciliation was completed and signed off. This clearly shows the status of each control account reconciliation. Audit testing of a sample of control account reconciliations (payroll, sales ledger and purchase ledger) for July, August and September 2022 identified that adequate segregation of duties was in place between the preparer and approver. All accounts reviewed were adequately reconciled to the general ledger and trial balance. All reconciliations were completed in a timely manner. Audit testing of a sample of 20 journals between July – September 2022 identified that in all instances, adequate segregation of duties was in place between the person preparing and approving the journal.

Sub Objective	Key Themes
	<ul style="list-style-type: none"> Audit review identified some instances whereby journals were approved after they were posted. However, this issue has been raised previously by MIAA and the Fire Service do not accept this is a risk having confirmed that sufficient compensating controls are in place as only Finance staff have the ability to post journals.
Accounts Payable	<p>Areas of good practice:</p> <ul style="list-style-type: none"> Our review confirmed that approval limits are built into the finance system Agresso. A review of the approval limits (from a report generated from the system dated 28th October 2022) confirmed that they were in line with budget responsibilities included within the Financial Regulations (these were subject to review and approval by the Cheshire Fire Authority in December 2022). The Financial Regulations do not detail any specific approval limits for each role, therefore we were unable to test this. Audit testing of a sample of 10 purchase orders (PO) confirmed that there was adequate segregation of duties between the person requesting and authorising a purchase order. All orders reviewed were approved appropriately by a member of management. MIAA review of the invoice payment process highlighted payments are processed online through BACS. A payment report is run and checked by 2 senior members of Finance staff, prior to payment processing. A clear audit trail to support the payment run is retained. MIAA testing highlighted that amendment to supplier details is controlled through the Finance team, on request from suppliers. A log is maintained to evidence all changes and updates to details made. A procedure to support the process is also in place. It was noted that there have been no amendments made since April 2022.
Accounts Receivable	<p>Areas of good practice:</p> <ul style="list-style-type: none"> Evidence was in place to demonstrate that the Fire Service actively chase outstanding debt. Audit review of a sample of aged debtors over 3 months found that there was adequate evidence to demonstrate follow-up to recover. Our testing on a sample of debtor invoices confirmed there is sufficient back up for the debt in terms of a valid Purchase

Sub Objective	Key Themes
	<p>Order and supporting backing information. Appropriate segregation of duties was also in place.</p> <ul style="list-style-type: none"> • Testing of the 2 credit notes raised by the Fire Service since April 2022 identified that the reasons had been clearly stated which related to a pension fund interest recalculation. We confirmed that independent authorisation for the 2 credit notes was evidenced. • Discussions with key staff at the time of the review identified that there have been no debt write-offs for the year to date.
Treasury Management	<p>Areas of good practice:</p> <ul style="list-style-type: none"> • Audit review of the current bank mandate in place identified there have been changes in signatories in the past 12 months. Our review confirmed these were appropriate with the changes confirmed as the following: <ul style="list-style-type: none"> - Change in personnel for the Chief Fire Officer; and, - Change in personnel for the Treasurer. • Evidence was in place to demonstrate that the financial forecast outturn, including short term cash flow statement is reported on a quarterly basis to the Performance and Overview Committee. • Our review of the bank account control accounts (with Natwest) for July, August and September 2022 confirmed that adequate segregation of duties were in place between the preparer and approver. Each reconciliation had been undertaken in a timely manner and reconciled to the General Ledger and Trial Balance.
Budgetary Control	<p>Areas of good practice:</p> <ul style="list-style-type: none"> • Our review confirmed that the draft 2022/23 Budget was approved by the Cheshire Fire Authority in February 2022. Along with this, the Council Tax precept and Medium-Term Financial Plan 2022-27 was presented and subsequently approved. • Budget holders are provided with budget monitoring reports on a monthly basis. These reports clearly illustrate total budget for the year, budget to date, actual figures to date and any variances for each cost centre. • During the review it was noted that the Heads of Department noted and agreed their own department revenue budget as

Sub Objective	Key Themes
	part of a Service Management Team meeting held in July 2022.
Reserves	<p>Areas of good practice:</p> <ul style="list-style-type: none"> • A Reserves Strategy 2022 – 2027 is in place which was presented to the Cheshire Fire Authority in February 2022 (as an appendix to the draft 2022/23 Budget). This includes details of the reserves held and their proposed usage over the next 5 years. We confirmed that the Reserves Strategy is aligned to the annual budget, Medium-Term Financial Plan 2022-27 and Capital Strategy. Our review identified that the Reserves Strategy is reviewed and approved on an annual basis. • The Reserve Strategy sets out the purpose for each of the reserves including those which are Earmarked Revenue reserves (usable), General reserves (usable) and Capital reserves (which supports the Capital Strategy) and their proposed usage. • Evidence was in place to demonstrate that movements in revenue reserves are presented on a quarterly basis for approval to the Performance and Overview Committee as part of the quarterly Finance Report. • It was noted that movements to and from capital reserves are undertaken at the end of the financial year.

1.4 Recommendation Summary

The table below summarises the prioritisation of recommendations in respect of this review.

Critical	High	Medium	Low	Total
0	0	0	0	0

2 Engagement Objectives and Scope (Terms of Reference)

2.1 Objective

The overall objective of the review was to provide assurance that the organisations key financial controls are appropriately designed and operating effectively in practice.

2.2 Scope

The review focused on the key controls within the areas below to support the achievement of the Service's key financial duties and to minimise the risk of error, misappropriation and fraud.

General Ledger

Control and Suspense Accounts

Journals

Processes to support Financial Reporting

User Access Levels

System Back-Up and Recovery

Budgetary Control

Budget Setting

Approval of Annual Budget

Budget Holder Structure/Scheme of Delegation

Budget Reporting

Accounts Payable

Purchase Order System Controls

Non-Purchase Order Payments

Goods Received Not Invoiced (GRNI) Monitoring and Reporting

BACS Payment Run Controls

Supplier Bank Detail Changes

Accounts Receivable

Raising of Debtors Accounts

Use of Credit Notes

Credit Control

Aged Debt Reporting and Analysis

Write-off of Debts

Treasury Management

Cash Flow Reporting

Control of Bank Accounts

Urgent Payment Processes

Bank Reconciliations

Reserves

Reserves Strategy and procedures

Management use and control of reserves

The controls reviewed related to the 2022-23 financial year to date.

Appendix A: Assurance Definitions and Risk Classifications

Level of Assurance	Description
High	There is a strong system of internal control which has been effectively designed to meet the system objectives, and that controls are consistently applied in all areas reviewed.
Substantial	There is a good system of internal control designed to meet the system objectives, and that controls are generally being applied consistently.
Moderate	There is an adequate system of internal control, however, in some areas weaknesses in design and/or inconsistent application of controls puts the achievement of some aspects of the system objectives at risk.
Limited	There is a compromised system of internal control as weaknesses in the design and/or inconsistent application of controls puts the achievement of the system objectives at risk.
No	There is an inadequate system of internal control as weaknesses in control, and/or consistent non-compliance with controls could/has resulted in failure to achieve the system objectives.

Risk Rating	Assessment Rationale
Critical	Control weakness that could have a significant impact upon, not only the system, function or process objectives but also the achievement of the organisation's objectives in relation to: <ul style="list-style-type: none"> • the efficient and effective use of resources • the safeguarding of assets • the preparation of reliable financial and operational information • compliance with laws and regulations.
High	Control weakness that has or could have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall organisation objectives.
Medium	Control weakness that: <ul style="list-style-type: none"> • has a low impact on the achievement of the key system, function or process objectives; • has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.
Low	Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.

Limitations

The matters raised in this report are only those which came to our attention during our internal 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, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regards to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

Responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

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