

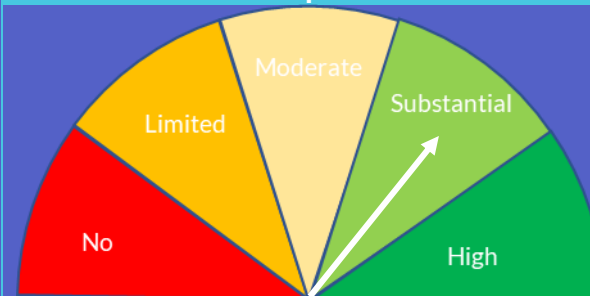
Key Financial Transactional Processing Controls Review

Assignment Report 2023/24 (Final)

Cheshire Fire & Rescue Service

302CFRS_2324_001

Overall Assurance Opinion



There is a good system of internal control designed to meet the system objectives, and that controls are generally being applied consistently.

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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 Engagement Manager. To discuss any other issues then please contact the Director.

1 Executive Summary

Overall Audit Objective: The overall objective of the review was to provide assurance that the most significant key controls in the areas detailed in the scope, outlined in Appendix A, are appropriately designed and operating effectively in practice.

Scope Limitation: The controls reviewed related to the 2023-24 financial year to date.

Key Findings/Conclusion

Overall, the review identified there was a good system of internal control designed to meet the system objectives, however their operation could be improved in certain areas. Following the withdrawal from the Blue Light Collaboration with Cheshire Police, The Fire Service's Financial Services are now independent, however Cheshire Police still manage the Fire Service's legal proceedings for debt recovery.

We found good practice in all areas related to Treasury Management. Testing found the transmission of BACS payments was well controlled and BACS payment run totals are reconciled to control totals prior to authorisation. Our testing of Accounts Receivable further identified appropriate approval in place for debtor invoices and credit notes raised.

The Financial Regulations do not detail any specific approval limits for each role therefore, we were unable to test this. Approval levels are not included in the finance regulations as they are updated and amended on a regular basis. Any changes made to approvers are approved by the Head of Service for the department being amended.

Within General Ledger, we have raised recommendations regarding timely completion and review of some balance sheet control account reconciliations, and ensuring journals are approved within delegated limits.

New supplier set up and supplier amendments should be enhanced to ensure a clear audit trail is retained for verification checks completed and these checks should be subject to periodic review by senior management.

Debt management processes require strengthening to ensure there is consistent management review of aged debt reports and evidence of follow up is documented. We have recommended the Fire Service implement a formalised Debt management policy which should comply with best practice.

Objectives Reviewed	RAG Rating
General Ledger	Amber
Accounts Receivable	Amber
Accounts Payable	Amber
Treasury Management	Green
Overall Assurance Rating	Substantial

Recommendations		
Risk Rating	Control Design	Operating Effectiveness
Critical		
High		
Medium	1	1
Low		2
Total	1	3

Areas of Good Practice

- Balance sheet control account reconciliation are completed on a monthly basis. An annual schedule 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 review of the November 2023 finance report to the Performance and Overview Committee confirmed the accurate reconciliation of the base revenue budget approved for 2023-24.
- The 2023/24 budget along with the council tax precept was approved by the Fire Authority in February 2023. The 2023/24 budget precept will be reported at the February 2024 Fire Authority meeting.
- Our review confirmed that approval limits are built into the finance system Agresso. A review of the approval limits confirmed that they were in line with budget responsibilities included within the Financial Regulations.
- MIAA testing of a sample of 10 payments made with an approved purchase order, found adequate segregation of duties and approval was enforced within the Agresso system. 10 payments which had been made without a purchase order were found to have been appropriately approved.
- BACs payment runs are checked by a senior member of Finance staff, prior to payment processing and a clear audit trail to support the payment run is retained.
- Audit testing of 10 sales invoices highlighted appropriate approval and supporting backing documentation had been retained on file.
- 4 credit notes have been raised since April 2023 and our testing identified valid justification was provided for the cancellation of the debt, with appropriate authorisation evidenced.
- It was confirmed there have been no debt write offs in year.
- Access to online banking allowed for segregation of duties between preparation and approval of payments.
- 2 urgent payments raised since April 2023 were processed and approved appropriately.
- Staff set up on the bank mandate were appropriate to their role. Changes processed in the last 12 months were appropriately authorised with the removal of Cheshire Police staff and the addition of the newly appointed Head of Finance.
- 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 reconciliations confirmed that adequate segregation of duties were in place and reconciled to the General Ledger and bank statement.

Key Findings – Issues Identified

Medium	<p>1.1. At the time of testing audit trails were not retained to evidence supplier verification and amendment checks. Secondly, a periodic review of supplier bank amendments and new supplier set up was not evidenced.</p> <p>1.2. The Fire service does not have a formalised aged debt policy in place. Aged debt follow up is not formally monitored and therefore does not allow for consistent management oversight of aged debt. It was noted going forward the Fire Service plans to monitor aged debtors on a quarterly basis.</p>
Low	<p>1.3. MIAA testing found non-timely completion and management review of temporary income control account reconciliations and sundry debtors control account reconciliations.</p> <p>1.4. MIAA testing found 1 journal entry with a value of £105,740.67 was approved by an Accountancy Assistant who has a maximum approval limit set of £50,000.</p>

2 Findings and Management Action

1. Accounts Payable - Supplier verification and Anti-fraud guidance		Risk Rating: Medium
Operating Effectiveness		
<p>Key Finding – At the time of testing audit trails were not retained to evidence supplier verification and amendment checks. Secondly, a periodic review of supplier bank amendments and new supplier set up was not evidenced.</p> <p>New supplier and supplier amendment documentation drafted was not formalised and did not reference bank mandate anti-fraud guidance.</p> <p>It is noted that following issue of the draft report, procedure notes have been drafted. However, these should be approved appropriately and ensure all procedure notes state a review date to ensure they are kept up to date.</p>	<p>Specific Risk – The service is at greater risk of fraudulent activity.</p>	<p>Recommendation – The service should ensure the following:</p> <p>Evidence of verification checks for all new suppliers and bank detail amendments is retained including the date of the check and the person (including role) spoken to, to strengthen existing controls in place. Verification checks should be subject to independent approval prior to payment runs.</p> <p>New supplier and supplier amendment guidance is formally approved and dated, including procedure notes and relevant forms.</p> <p>A periodic new supplier and supplier amendment report is run at least quarterly for supervisory review, which evidences sample checking of any amendments completed and new supplier set ups.</p>
<p>Management Response – It was noted at the time of the audit testing, documentation had not been drafted. However, the draft procedures have now been shared as evidence. The procedures notes incorporate the above recommendations concerning dealing with supplier changes and commencing a monthly periodic review of supplier bank amendments.</p> <p>Responsible Officer – Grace Cooke - lien management on transaction team</p> <p>Implementation Date – June 2024</p>	<p>Evidence to confirm implementation – Procedure notes have been approved appropriately and have been formally implemented.</p>	

2. Accounts Receivable - Aged Debt Policy and Management Oversight		Risk Rating: Medium
Control Design		
<p>Key Finding – The Fire service does not have a formalised aged debt policy in place.</p> <p>Aged debt follow up is not formally monitored and therefore does not allow for consistent management oversight of aged debt. It was noted going forward the Fire Service plans to monitor aged debtors on a quarterly basis.</p>	<p>Specific Risk – A policy and sufficient monitoring arrangements are not retained to support the Fire Service in pursuing debtors.</p>	<p>Recommendation – The Fire Service should ensure:</p> <p>A debt management policy/procedure is formalised, which identifies timescales for debt follow up and debt referrals. In line with the financial regulations.</p> <p>This policy/ procedure should stipulate an electronic log of emails and letters sent should be retained as a central record to track follow up. Relevant attachments and narrative should be uploaded to Agresso for each debt.</p> <p>Quarterly aged debt reports are subject to supervisory review to identify appropriate action is taken when necessary.</p>
<p>Management Response – In the context of a £50m spend budget our overall outstanding debt is very small. Equally the nature of our debt is almost exclusively related to employees leaving ie clearing education agreements, cycle to work schemes. None of these are fundamental nor material to our operations. Notwithstanding this, we do have a Debt Recovery Policy (albeit not detailed on ageing), further we have the Financial Regulations that have delegated authority to the Chief Exec and Treasurer in terms of write off of old debts.</p> <p>However, we have instigated a quarterly meeting with the Dept Head of Legal, to review and action aged debt. When passed to Legal dept, the file with any agreement and correspondence is attached.</p>	<p>Evidence to confirm implementation – Confirmation of quarterly meeting with Legal department.</p>	

<p>Given the nature of these debt <i>ie</i> employee related, there can be some sensitivities that a catch all policy may exclude.</p> <p>Responsible Officer – James Cunningham - Treasurer.</p> <p>Implementation Date – Quarterly meeting with legal team now in place, and no implementation for aged debt policy planned, as financial regulations sufficient.</p>	
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3. General Ledger - Control Account Reconciliations		Risk Rating: Low
Operating Effectiveness		
<p>Key Finding – MIAA testing found non-timely completion and management review of temporary income control account reconciliations and sundry debtors control account reconciliations.</p>	<p>Specific Risk – All balance sheet control accounts are not formally reconciled and reviewed in a timely manner.</p>	<p>Recommendation – All balance sheet control accounts are formally reconciled and reviewed on a timely basis in line with the monthly control schedule.</p>
<p>Management Response – Balance sheet accounts are reconciled monthly. Low value/non-material accounts are not prioritised to the same degree as cash for example, especially while we have some vacant posts following the team move back from Police. Once we have the team trained and at full establishment we will be looking to bring all accounts into the timetable.</p> <p>Responsible Officer – Sue Mantle</p> <p>Implementation Date – July 2024</p>		<p>Evidence to confirm implementation – Reconciliations are completed for all accounts, and this is evidenced within the timetable.</p>

4. General Ledger – Journal Posting		Risk Rating: Low
Operating Effectiveness		
<p>Key Finding – MIAA testing found one journal entry with a value of £105,740.67 was approved by an Accountancy Assistant who has a maximum approval limit of £50,000.</p>	<p>Specific Risk – Journals posted are not approved appropriately.</p>	<p>Recommendation – All journal entries posted should be compliant with the Service’s two levels of approval.</p> <p>The Fire Service should ensure the Financial Regulations are updated to reflect the current approval levels enforced for journal entries.</p>
<p>Management Response – The Accountancy Assistant explained what had occurred and this was to correct a journal posted in error by one of the transactional team. It was required in a timely manner in order to complete the reconciliation, it had no material reporting implication. However, it was still a breach of the approval limit. We will be looking at appropriate approval limits in the financial regulations, and controls in Agresso to posting limits.</p> <p>Responsible Officer – Sue Mantle</p> <p>Implementation Date – June 2024</p>		<p>Evidence to confirm implementation – Financial regulations have been reviewed and updated to reflect appropriate approval limits.</p> <p>Controls in Agresso have been reviewed and updated regarding posting limits.</p>

Appendix A: Engagement Scope

Scope

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

General Ledger

- Control and Suspense Accounts
- Journals
- Processes to support Board Reporting

Accounts Payable

- Purchase Order System Controls
- Non-Purchase Order Payments
- Goods Received Not Invoiced Monitoring and Reporting
- BACS Payment Run Controls
- New Supplier Bank Details/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

Scope Limitations

The controls reviewed related to the 2023-24 financial year to date.

IT system administration and management was not within the scope of this review.

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

Appendix B: 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 is likely to 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.

Appendix C: Report Distribution

Name	Title
Alex Waller	Chief Fire Officer
Paul Vaughan	Treasurer
James Cunningham	Head of Finance
Nicola Guise	Accountancy Assistant
Chris Astall	Risk and Project Officer
Andrew Leadbetter	Director of Governance and Commissioning



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