



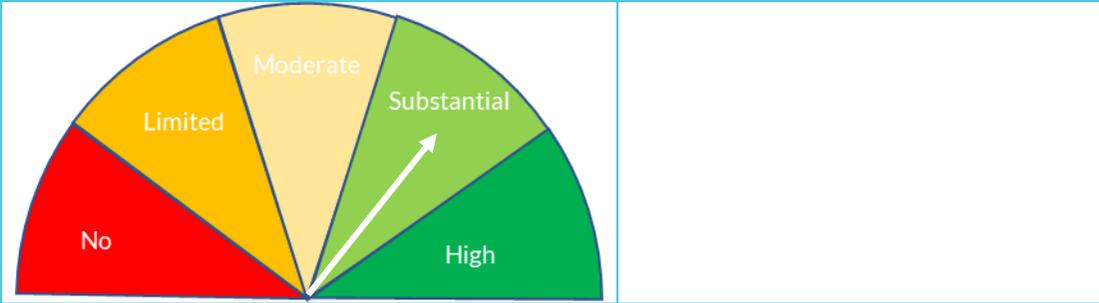
Key Financial Transactional Processing Controls Review

Assignment Report 2023/24 (Final)

North Wales Fire & Rescue Service

304NWFRS_2324_001

Overall Assurance Opinion



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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, there was a good system of internal control in place designed to meet the system objectives, however some areas for improvement had been identified.

The main areas of good practice related to Treasury Management. Testing of systems in place for Treasury management 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. In addition, our testing of General Ledger identified that journals had been appropriately approved ensuring adequate segregation of duties in place.

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

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

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

Areas of Good Practice

General Ledger

- From October 2023, bank account reconciliations have been completed on a monthly basis. Completion is recorded on monthly report, which reconciles the trial balance against the bank statement balance.
- MIAA testing of a sample of 20 journals found segregated approval evidenced within the TechOne system.
- Audit review of the October 2023 Corporate Budget Variance report to the Budget Monitoring Procurement Committee confirmed the accurate reconciliation of the year-to-date actuals against budget, to the TechOne system.
- In March 2023, the service implemented Budget Monitoring and Procurement Committee meetings. The 2023/24 budget was presented in January 2023 and was subsequently approved by the Fire Authority in April 2023. This detailed the budgeted figures for the 2023/24 financial year. The initial financial planning assessment for 2024/25 was presented in October 2023.

Accounts Payable

- Standing Financial Regulations (SFRs) are in place and set out roles and responsibilities supported by an employee hierarchy maintained within the system. Our testing of a sample of 20 delegated limits set up in TechOne confirmed that they had been set up correctly in line with the SFRs.
- 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 TechOne system. 10 payments which had

been made without a purchase order were found to have been appropriately approved in line with the financial limits set.

Accounts Receivable

- Audit testing of 10 sales invoices highlighted appropriate approval and supporting backing documentation had been retained.
- Audit review of 6 credit notes raised since April 2023 identified valid justification was provided for the cancellation of the debt, with appropriate authorisation evidenced.
- No long outstanding or high value debts were evidenced in the most recent aged debt analysis report.
- It was confirmed there have been no debt write offs in year. Write offs are reported annually to the Fire Rescue Authority (FRA).

Treasury Management

- BACS payments runs are processed weekly and are subject to approval by the Deputy Head of Finance and Procurement and the Head of Finance and Procurement.
- Segregation of duties is enforced when accessing the Barclays online portal to process payment runs.
- Staff set up on the Fire Service Bank Mandate were appropriate to their role and changes processed in March 2023 were appropriately authorised.

Key Findings – Issues Identified

Medium

1.1 Audit trails were not retained to evidence supplier verification checks for 5 out of 10 supplier bank amendments tested.

Segregation of duties was not enforced between processing and approval for all 10 supplier bank amendments tested.

New supplier and supplier amendment documentation did not reference bank mandate anti-fraud guidance.

At the time of the review, it was noted that the Procurement and Contract Manager was drafting guidance for verification check requirements. This should include procedure notes for new supplier set up and current supplier bank amendments.

A periodic review of supplier bank amendments and new supplier set up was not evidenced.

Low

1.2 The service does not have a formalised aged debt policy.

1.3 Bank reconciliations checks should be evidenced to confirm who prepared the bank reconciliation and whether the bank reconciliation had been reviewed, to ensure adequate segregation of duties in place. At the time of the review (Goods Received Not yet Invoiced (GRNI) reconciliation were not undertaken.

1.4 The service does not routinely report a standard financial breakdown of actual income and expenditure, and cash including a net position.

2 Findings and Management Action

1. Accounts Payable - Supplier verification and Anti-fraud guidance		Risk Rating: Medium
Operating Effectiveness		
<p>Key Finding – Audit trails were not retained to evidence supplier verification checks for 5 out of 10 supplier bank amendments tested.</p> <p>Segregation of duties was not enforced between processing and approval for all 10 supplier bank amendments tested.</p> <p>New supplier and supplier amendment documentation did not reference bank mandate anti-fraud guidance.</p> <p>At the time of the review, it was noted that the Procurement and Contract Manager is drafting guidance for verification check requirements. This should include procedure notes for new supplier set up and current supplier bank amendments.</p> <p>A periodic review of supplier bank amendments and new supplier set up was not evidenced.</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 once drafted, including procedure notes and relevant forms, references bank mandate anti-fraud guidance.</p> <p>The service should consider the use of bank account verification and validation services such as Experian for all new suppliers and bank detail amendments.</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 – Procurement and Contract Manager is drafting guidance for verification check requirements. We have started to complete a basic company search for all</p>		<p>Evidence to confirm implementation – Guidance procedures. Supplier bank amendment supporting documentation.</p>

<p>new supplier requests, and Finance Officers are aware of the requirement to document any amendments against the account.</p> <p>Reports to be created to show last activity (to inactivate any 'unused' accounts), and to monitor account amendments.</p> <p>Responsible Officer – Senior Finance Officers, Procurement & Contracts Manager</p> <p>Implementation Date – May 2024</p>	
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2. Accounts Receivable - Aged Debt Policy		Risk Rating: Low
Control Design		
<p>Key Finding – The service does not have a formalised aged debt policy in place.</p>	<p>Specific Risk – A policy and sufficient audit trails may not be retained to support the service in pursuing debtors.</p>	<p>Recommendation – The service should ensure that a debt management policy/ procedure is formalised, which identifies timescales for debt follow up and escalation such as write offs and debt referrals.</p>
<p>Management Response – The Service is currently reviewing a large number of policies. In the meantime, invoices will continue to be raised accurately and promptly, using the approved financials system, with backing evidence included to support. Recovery action will be taken as appropriate and proportionate, with outstanding debts reported to the Audit Committee.</p> <p>(The majority of our debt is with other public sector bodies with whom we have SLA or other agreements in place. The remainder of the debt are small amounts relating to payroll overpayments, where payment plans are offered.)</p> <p>Responsible Officer – Senior Finance Officer, Deputy Head of Finance & Procurement</p> <p>Implementation Date – July 2024</p>		<p>Evidence to confirm implementation – Aged debt policy</p>

3. General Ledger - Control Account Reconciliations		Risk Rating: Low
Control Design		
<p>Key Finding – Since October 2023, the service has implemented bank reconciliation reports. TechOne is updated on a regular basis with the cash balance from the bank statement. On a monthly basis a reconciliation report is run and a bank reconciliation is finalised. However, this does not confirm who prepared the bank reconciliation and whether the bank reconciliation had been reviewed, to ensure adequate segregation of duties in place.</p> <p>At the time of the review GRNI reconciliation were not undertaken. These should be undertaken on a routine basis by Finance to ensure that there are no old GRNIs.</p>	<p>Specific Risk – Balance sheet control accounts may not be formally reconciled and reviewed on a monthly basis.</p>	<p>Recommendation – Bank account reconciliations should be documented to confirm who has prepared and reviewed the reconciliations and to ensure that these have been undertaken in a timely manner. GRNI reconciliations should be undertaken on a routine basis by Finance to ensure that there are no old GRNIs.</p>
<p>Management Response – Bank reconciliations will continue to be completed by the Senior Finance Officer, with oversight from the Head of / Deputy Head of Finance and Procurement. Audit trail history is available within the financials system.</p> <p>The finance team will continue to encourage users to undertake regular housekeeping on the financials system, to remove any orders and receipts that are no longer required. Suppliers are requested to submit invoices electronically, direct to the AP team, quoting a valid PO reference to avoid unnecessary delays.</p> <p>Responsible Officer – Senior Finance Officer, Finance Officer</p> <p>Implementation Date – Not applicable</p>	<p>Evidence to confirm implementation – Bank reconciliations and audit trail history within the financial system</p>	

4. General Ledger - Financial Performance Reporting		Risk Rating: Low
Control Design		
Key Finding – The service does not routinely report a standard financial breakdown of actual (current) income and expenditure, and cash including a clear net position.	Specific Risk – Financial performance is not accurately represented in the governance arrangements.	Recommendation – Quarterly finance reports include a summary of the actual (current) income and expenditure, and cash including a clear net position.
Management Response – The Service will continue to provide a full year financial forecast, which is reported to both the Senior Leadership Team and FRA. Budget holders across the Service are able to access real time financial information relating to their budget areas through the Technology One financials system. This information is also shared at the Budget Monitoring and Procurement Committee meetings, and discussed as part of the regular budget monitoring meetings between budget holders and the Senior Finance Officer. Responsible Officer – Head of / Deputy Head of Finance and Procurement Implementation Date – Not applicable		Evidence to confirm implementation – Real time financial information through Technology One financials system.

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
Helen MacArthur	Assistant Chief Fire Officer
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Dawn Docx	Chief Fire Officer
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