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|  | **The Police and Crime Commissioner for Cleveland and the Chief Constable Cleveland Police** |
|  | **Assurance Review of Key Financial Controls**  **November 2018** |
|  | **FINAL** |

**Executive Summary**

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| **OVERALL ASSURANCE ASSESSMENT** |  | **OVERALL CONCLUSION** |
|  |  | **The areas reviewed are appropriately directed and there are proportionate controls in the processes operating.**   * **Audit trails were detailed and readily available for the testing undertaken at Sopra Steria during the audit.** * **Month-end reconciliations were seen to be carried out in a timely manner and were appropriately checked and signed off.** * **Documentation retained for credit notes raised to correct invoices could be more detailed.** * **Treasury activities are well controlled and detailed audit trails are maintained for the cash flow and investment activities.** |
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| **SCOPE** |  | **ACTION POINTS** |
| The review assessed the adequacy and effectiveness of the internal controls in place at the Cleveland Police for managing the following key financial systems:   * Accounts Receivable; * Accounts Payable; * Treasury Management; and * General Ledger. |  | |  |  |  |  | | --- | --- | --- | --- | | **Urgent** | **Important** | **Routine** | **Operational** | | **0** | **0** | **1** | **0** | |

**Management Action Plan – Priority 1, 2 and 3 Recommendations**

| **Rec.** | **Risk Area** | **Finding** | **Recommendation** | **Priority** | **Management Comments** | **Implementation**  **Timetable**  **(dd/mm/yy)** | **Responsible**  **Officer**  **(Job Title)** |
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| 1 | Compliance | Testing identified that the supporting documentation for two credit notes was not as expected. Both credits notes were correctly applied. | Credit notes be only raised on receipt of correct documentation. | 3 | *Comment noted: Process updated to accommodate request.* | *22/11/2018* | *G Gallagher* |

**Operational Effectiveness Action Plan**

| **Ref** | **Risk Area** | **Item** | **Management Comments** |
| --- | --- | --- | --- |
| No Operational Effectiveness Matters were identified. | | | |

**Detailed Findings**

**Introduction**

1. This review was carried out in November 2018 as part of the planned internal audit work for 2018/19. Based on the work carried out an overall assessment of the overall adequacy of the arrangements to mitigate the key control risk areas is provided in the Executive Summary.

**Background**

1. The Force utilises an external provider, Sopra Steria, for the back office financial arrangements. In relation to this review, this includes accounts payable and the accounts receivable function, as well as the general ledger journals. The treasury management aspect of this review is undertaken by the Treasury team, who are OPCC staff.

**Materiality**

1. For the period up to the end of accounting month seven in the current financial year a total of 3,398 payments have been made totalling £51.8M. In the same period last year 483 invoices had been raised amounting to £163.9M.

**Key Findings & Action Points**

1. The key control and operational practice findings that need to be addressed in order to strengthen the control environment are set out in the Management and Operational Effectiveness Action Plans. Recommendations for improvements should be assessed for their full impact before they are implemented.

**Scope and Limitations of the Review**

1. The review assessed the adequacy and effectiveness of the internal controls in place at Cleveland Police for managing the following key financial systems: Accounts Receivable, Accounts Payable, Treasury Management and General Ledger.
2. The definition of the type of review, the limitations and the responsibilities of in regard to this review are set out in the Annual Internal Audit Plan.

**Disclaimer**

1. The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

**Risk Area Assurance Assessments**

1. The definitions of the assurance assessments are:

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| **Substantial Assurance** | There is a robust system of internal controls operating effectively to ensure that risks are managed and process objectives achieved. |
| **Reasonable Assurance** | The system of internal controls is generally adequate and operating effectively but some improvements are required to ensure that risks are managed and process objectives achieved. |
| **Limited Assurance** | The system of internal controls is generally inadequate or not operating effectively and significant improvements are required to ensure that risks are managed and process objectives achieved. |
| **No Assurance** | There is a fundamental breakdown or absence of core internal controls requiring immediate action. |

**Acknowledgement**

1. We would like to thank staff for their co-operation and assistance during the course of our work.

**Release of Report**

1. The table below sets out the history of this report.

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| **Date draft report issued:** | 22nd November 2018 |
| **Date management responses rec’d:** | 23rd November 2018 |
| **Date final report issued:** | 30th November 2018 |

1. The following matters were identified in reviewing the Key Risk Control Objective:

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| **Directed Risk: Failure to direct the process through approved policy & procedures.** |

* 1. The Joint Corporate Governance Framework includes the Financial Regulations and Standing Orders for the Force. Adequate direction for the operation of accounts payable, accounts receivable and treasury management is included, along with any relevant delegated limits. The Financial Regulations make explicit reference to the requirement to have segregation of duties.
  2. The Annual Investment Strategy provides direction for the treasury activities and includes the Treasury Policy. It was last reviewed in February 2018, at which point the Prudential Indicators were also reviewed, which complies with the CIPFA Prudential Code of Practice.
  3. Procedures are documented for the various activities undertaken as part of the accounts payable and accounts receivable arrangements. Treasury procedures are also documented for cash flow management and BACS processing and release arrangements.
  4. This review was last undertaken in October 2017. There have been no material changes to the policy or processes since this review. Minor changes to staffing have recently been made, however this relates to staff moving between roles and provides further resilience within the Finance Team.

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| **Compliance Risk: Failure to comply with approved policy and procedure leads to potential losses.** |

**Accounts Payable**

* 1. A sample of 20 transactions was selected from two scheduled payment runs that were made in June 2018. This equated to 8% of the total transactions in the two payment runs. The sample included 19 invoices and one credit note with values from under £200 to over £430k.
  2. For each transaction a hardcopy invoice was evidenced that accorded with the details held on Oracle. Each document had been signed and dated by the Finance Team as part of the input validation process. Associated documentation, such as schedules and emails were also attached, where relevant.
  3. The Oracle system holds an approval tree for the routing of invoices for authorisation. All invoices in the sample had been appropriately approved and the audit trail held on the system providing details of all approvers and dates. Supporting documentation was evidenced for the credit note that had been issued by a supplier.
  4. A report was generated form Oracle that recorded all new suppliers that had been set up during the current financial year. A sample of 20 new suppliers was selected for review, which equated to 10% of the new accounts in the period selected. For each account in the sample, a Supplier Setup Form was evidenced that had been completed by the originator and subsequently authorised. The forms also included a record of the date of input and the inputter. It was noted that on receipt of the form the Finance Team review the information and carry out additional checks to confirm that the payments details do not already exist on Oracle.
  5. Supporting documentation from the supplier was also held on file for each supplier reviewed.
  6. Supplier ‘Mandate Fraud’ continues to become more sophisticated with fraudsters researching the suppliers engaged with organisations using public domain information, such as published tender awards or supplier lists. It is therefore paramount that appropriate robust controls are operated to mitigate the risk of this fraud being successful.
  7. A report was generated from Oracle to identify supplier accounts where there had been a change to the bank account details during the current year. A sample of 10 changes was selected for review, which equated to 3% of the total number of changes. It should be noted that the total number also includes accounts that were being reinstated.
  8. A Supplier Form was evidenced for each account in the sample that had been correctly completed and duly authorised. Evidence was also held that demonstrated communication with the supplier on existing contacts details to confirm the validity of the request.

**Accounts Receivable**

* 1. A sample of 30 creditor entries that had been raised during the current financial year was selected for review. The sample equated to just over 6% of the total invoices raised and comprised of 23 invoices and seven credit notes.
  2. A Debtor Invoice Requisition form was evidenced for each of the invoices reviewed in the sample. The form was fully completed in each instance and included the relevant budget code for the accounts. Each form was signed by the inputting officer and dated with the date of entry. It was noted that six of the request recorded the same originator as authoriser. Further investigation determined that these related to ongoing periodic charges/costs and supporting documentation was provided to demonstrate the expected segregation of duties.
  3. The appropriate form had been used for five of the seven credit notes that were reviewed. For the remaining two, however, a copy of a Debtor Invoice Requisition was held in the records. It was established that both credits were raised due to original invoices being raised twice and the credits were referenced back to the original invoice requisition, which matched the paperwork held in the file. It should be noted that this was not due to system or control errors.

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| **Recommendation: 1** | **Credit notes be only raised on receipt of correct documentation.** |
| **Priority 3** |

* 1. An aged debtors report was generated from Oracle during the audit visit. It was noted that Grant income is included in the report, as the amounts are raised to allow for tracking. The value of debtors excluding this income is £1.48M of which £777k relates to ongoing discussions between Cleveland and a neighbouring Force over the split of costs for collaborative work.
  2. Eight overdue accounts were selected for review. In each case, evidence to support actions taken to recover the outstanding monies was provided. This included repayment agreements for two former employees, letters/emails and telephone calls.

**Treasury Management**

* 1. Prior to the start of each financial year a 12-month cash flow forecast is prepared with expected income and expenditure being collated from across the Force. This information is collated using an Excel spreadsheet that incorporates checks to ensure that all expected income and expenditure lines are included. The completed forecast is prepared by the two Treasury Managers and is subject to review by the Deputy Finance Manager and the CFO. Detailed records of the information used to prepare the 2018/19 is retained and provides an appropriate audit trail.
  2. The forecast spreadsheet is protected and is available to relevant staff in the Force and PCC. The forecast is updated on a daily basis throughout the year to capture actual income and expenditure. The processes adopted incorporate a month end review that identifies any difference to the original forecast, which is then investigated and used to assist with the following years forecasting process.
  3. The daily element of the cash flow forecast is reconciled to the bank statements, these being downloaded daily from the bank.
  4. There were four investments in place at the time of the audit. Each investment was confirmed to have been made with counterparties that accorded with the policy as set out in the Annual Investment Strategy that was approved in February 2018.
  5. A review of the four current investments plus four other investments made during the current financial year was undertaken. Each investment had been placed by the Treasury Manager and the records maintained were cross-referenced to the confirmation documentation provided by the counter party.
  6. Month-end routines include reconciliations of all bank accounts and ledger accounts. The bank reconciliations for May and July 2018 were selected for review. Hardcopy records were evidenced that supported preparation of the reconciliations on the first day of the following month by the Treasury Manager. The Corporate Finance Manager reviewed and signed off the reconciliations on the same day for both months selected.
  7. BACS credit payment runs are scheduled for Thursday each week. The Treasury Team are provided with an email from the Finance Team at Sopra Steria confirming that the payment run has been scheduled, its reference number and the total value of the payments. The Treasury Manager reviews the cash flow and confirms to the Finance Team that they pay run can go ahead. The BACS files are then created by the Finance Team and are picked up by the Treasury Team, checked and released using one of the five authorised cardholders.
  8. A BACSTEL-IP Submissions Summary report is generated on completion of the authorisation process which confirms that the payments have been accepted by the bank for onward transmission. The report records each individual payment as well as any rejected items, which are then subject to further review with the Finance Team. Confirmation that the BACS has been successful is communicated back to the Finance Team.
  9. A sample of 10 BACS payment runs between April and September 2018 was selected for review. Summary reports along with an audit trail to confirm the interaction between the Finance and Treasury Teams were evidenced for each BACS payment run.
  10. One of the BACS payment run selected for review included a warning/failure message. This related to the BACS released on 13th September 2018 where one item was highlighted by the system as “beneficiary sort code failed validation”. Further investigation confirmed that the creditor’s bank sort code was reviewed and amended with the correct payment being made on the following week’s pay run.

**Oracle**

* 1. User access for Oracle is controlled through specific user permissions based on the allocated role within the organisation. User accounts can only be set up on receipt of an auto generated email which follows an account being authorised by HR. A basic account that allows access to the CP Employee Self Service system is initially set up, with any additional permissions for users only being applied on receipt of an authorisation from the relevant Business User Manager.
  2. A report that identified all users that had any level of access for Accounts Payable and Accounts Receivable was generated from Oracle during the audit site visit. A review of the data extracted was undertaken and it was confirmed that all accounts were required as well as having the appropriate level of access assigned. . The table below shows the user levels and the number of live accounts, excluding the Administrator account.

| **User Access Level** | **No. of Users** | **Correct Access Level** |
| --- | --- | --- |
| **Payables** | | |
| Payables Accounts User | 3 | Yes |
| Payables Inquiry | 41 | Yes |
| Payables Inquiry & Supplier | 4 | Yes |
| Payables Super User | 4 | Yes |
| Payables User | 2 | Yes |
| **Receivables** | | |
| Receivables Receipt User | 3 | Yes |
| Receivables Inquiry | 25 | Yes |
| Receivables Inquiry & Customer | 5 | Yes |
| Receivables Super User | 3 | Yes |
| Receivables User | 2 | Yes |

**General Ledger**

* 1. Changes to the Chart of Accounts require the completion of Form A 02-10 Oracle Coding Request, which is subject to review and approval by the Lead Finance Business Partner. Amendments to components can only be made by the Senior Management Accountant and the systems and Account Manager. Combinations within components changes can be made by staff within the management accounting team.
  2. A sample of six new account codes that have been added during the current financial year was selected for review. For each code a duly completed and authorised Oracle Coding Request was evidenced that accorded with the code on Oracle along with an email trail conforming approval of the code.
  3. A sample of fifteen month-end ledger reconciliations spread across three months during the current financial year was reviewed. A detailed audit trail was evidenced for each reconciliation in the sample, with each reconciliation being prepared by the Treasury Manager and signed off by the Corporate Finance Manager. All reconciliations were completed in the month following the previous period closing.

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