



POLICE AND CRIME COMMISSIONER FOR NORTH YORKSHIRE AND CHIEF CONSTABLE OF NORTH YORKSHIRE

**Key Financial Systems: Creditors, Debtors, Cash &
Bank and Investments**

FINAL

Internal Audit Report: 11.16/17

16 February 2017

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Debrief held	20 December 2016	Internal Audit team	Dan Harris, Head of Internal Audit Angela Ward, Senior Manager Philip Church, Manager Eddie Ndhlovu, Senior Auditor Dulcie Hakin, Auditor
Draft report issued	17 January 2017		
Responses received	16 February 2017		
Final report issued	16 February 2017	Client sponsor	Michael Porter, PCC - Chief Finance Officer Jane Palmer, Force - Chief Finance Officer
		Distribution	Michael Porter, PCC - Chief Finance Officer Jane Palmer, Force - Chief Finance Officer

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1 EXECUTIVE SUMMARY

1.1 Background

An audit of key financial systems was undertaken as part of the 2016/17 internal audit plan. The review was to evaluate the adequacy of the controls to ensure the systems and processes were operating effectively. The audit included the following areas:

- Procedural documentation;
- Creditors;
- Cash and Bank;
- Debtors; and
- Investments.

The Force's Procure to Pay (P2P) team use the ORACLE i-Procurement system for processing its creditors, debtors and cash. The team comprises of a P2P Manager, a Senior P2P Officer and a number of P2P officers. System access is appropriately assigned to staff members in accordance to their job roles.

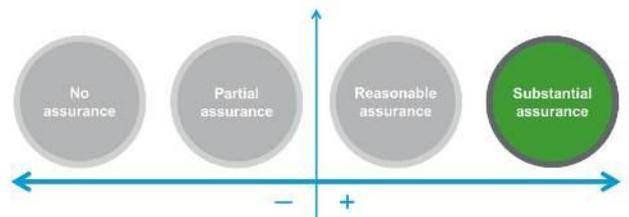
1.2 Conclusion

Overall, we found that the majority of controls in place for the procedural documentation, creditors, cash and bank, debtors and investments were appropriately designed and consistency applied. We have however agreed one medium and three 'low' priority management actions relating to:

- Procurement and credit card statements had not been reviewed in a timely manner;
- BACs payment run sheets had not been signed by the authoriser;
- Debtor reconciliations had not been signed as reviewed by the Head of Finance; and
- Bank reconciliations had not been signed by a second member of staff.

Internal Audit Opinion:

Taking account of the issues identified, the Police and Crime Commissioner (PCC) for North Yorkshire and Chief Constable of North Yorkshire can take **substantial assurance** that the controls upon which the organisation relies to manage the identified areas are suitably designed, consistently applied and operating effectively.



1.3 Key findings

We have identified the following areas as controls that are suitably designed, consistently applied and operating effectively. These controls included:

Procedural Documentation

- Review of the Financial Regulations confirmed they were up to date and had been presented to the Executive Board in November 2014 for approval.
- We confirmed that a Devolved Resource Management (DRM) was in place which covers various areas including cash and bank, creditor payment functions, debtor procedures and treasury management. This was reviewed on a regular basis by its various owners, and available to all relevant staff on the Force's intranet.
- Discussions with the Governance and Value for Money (VfM) Manager confirmed that the scheme of authorisation was a working document which was updated on a regular basis.

Creditors

- Sample testing of 25 staff members who had approved requisitions found in all instances, with one exception, that they were included in the scheme of authorisation and the amounts approved were in line with their stipulated budget limits. We extended our sample and confirmed this was an isolated incident.
- Access to the Oracle system was restricted to staff who required it for their role and users were reviewed on a regular basis. Testing of 10 users on the finance system confirmed that in all instances the users were current employees and their access was appropriate.
- Daily back-ups of the Oracle system were carried out and any failures were investigated by the Information Technology (IT) team.
- Testing of a sample of 25 payments confirmed that in all cases the invoice matched with the purchase order in every case and that the goods / services had been receipted within the Oracle system prior to payment.
- Testing of 25 orders confirmed, with one exception, that a requisition and purchase order had been raised prior to the invoice being received for payment. The exception related to Enlighten Training for a training course, which amounted to £11,340 where the requisition had been raised retrospectively. We extended our sample and confirmed this was an isolated incident.
- Appropriate action was taken to approve and process all credit notes in our sample testing.

Debtors

- From a sample of 10 aged debtors, we identified that the dunning process had not been followed as the Accounts Receivable (AR) team were instead chasing payment by phone and email due to the process being much more effective than the dunning process. Review of the 10 aged debtors confirmed that the debt chasing actions and contact with debtors were recorded on an aged debt spreadsheet to which all staff within the P2P team had access to.

- A debtor request form had been completed and approved for all 10 debtor invoices reviewed within our sample. Furthermore, we reviewed the write off of aged debt from the 2015/16 financial year-end and on all occasions they had been signed off supporting documentation had been retained and archived.
- We confirmed from our sample that the daily income had been receipted appropriately in the receipt book. Furthermore, for a sample of 10 daily cash / cheque recordings, we confirmed that a weekly banking sheet had been completed electronically and reconciled to the daily value in the receipt book and the electronic banking sheet.

Cash and Bank

- Through observation, we confirmed that the safe was locked and appropriately restricted to the P2P team at the time of the audit.
- Review of the insurance documents confirmed that arrangements were in place for cash within the Finance department and across the Force. We also confirmed that there were banking arrangements in place for cash across the Force.

Investments

- We confirmed that the cash flow forecast, including the interest forecast, are working documents which are maintained and updated by the Treasury team on a daily basis.
- For a sample of five call and five fixed investments we confirmed that they had all been approved appropriately and recorded on the daily dealing sheet, in accordance with the DRM treasury procedure.

From our review, we have agreed the following medium management action:

- We identified that procurement and credit card statements had not been reviewed and processed for May 2016 and August to November 2016.

Further details of the above findings are in section two of this report.

1.4 Additional information to support our conclusion

Area	Control design*	Compliance with controls*	Agreed actions		
			Low	Medium	High
Procedural documentation	0 (5)	0 (5)	0	0	0
Creditors	0 (10)	2 (10)	1	1	0
Debtors	0 (5)	1 (5)	1	0	0
Cash and Bank	0 (7)	0 (7)	0	0	0
Investments	0 (3)	1 (3)	1	0	0
Total	0	4	3	1	0

* 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 DETAILED FINDINGS

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.

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	Controls complied with	Audit findings and implications	Priority	Actions for management
Area: Creditors						
1	Supplier set up and amendments Amendments are made once they have been confirmed as genuine by the P2P team and they have received appropriate evidence (such as company headed paper and confirmation via telephone / email) from the supplier. For bank account details changes the	Yes	Yes	We were unable to obtain a report from the system with a list of all amendments and new suppliers that had been made / set up during the year due to the system not being able perform this task. We confirmed through review of the system that the supplier amendment entry was limited to two staff members. We noted that the Oracle system could generate a report of any amendments to supplier details added to the system. In our sample testing of 10 amendments we confirmed in all instances of the following: <ul style="list-style-type: none"> Evidence of the change had been completed on an appropriate company headed paper. The change had been confirmed as genuine by the P2P team via telephone using existing contact details held within the system or details 	Suggestion	The system administrator will explore the option of generating a supplier amendment and new supplier report to enable a check to be undertaken to confirm that additions and amendments are genuine. Responsible owner: Nicola Johnson, P2P Manager Implementation date: 31 January 2018

Ref	Control	Adequate control design	Controls complied with	Audit findings and implications	Priority	Actions for management				
	P2P team will ring the supplier directly. The details are input onto a supplier form which details the amendments and is processed by the P2P Manager or the Senior P2P Officer.			<p>from the company website. This was subsequently on the supplier form and initialled to provide an audit trail.</p> <ul style="list-style-type: none"> The changes on the Oracle system had been made by the two members of staff with authorised system access. <p>We have however noted that to improve the control environment for supplier amendments and the establishment of new suppliers a report of all amendments should be generated from the system on a regular basis.</p> <p>This report should be compared against a supplier amendment file ensuring that evidence of the request has been retained and that the change is genuine.</p>						
2	<p>BACs Payment Run</p> <p>Before a payment is made, the Oracle system will generate a report of all the payments. The report then lists every payment that is due to be paid by the Force.</p> <p>The report also enables the P2P Manager to highlight any supplier that are going to be paid over £20,000.</p> <p>The list is sent to the Head of Finance, Chief Finance Officer, Governance and VfM Manager supported by invoices for review and</p>	Yes	No	<p>Testing of 10 BACs payment run identified the following:</p> <ul style="list-style-type: none"> In eight instances they had been approved appropriately by a senior manager. In all ten instances and where payments were over £20,000 these had been highlighted and the report annotated. We however identified in two instances for 14 September 2016 and 19 October 2016 where the payment run had not been signed as authorised by an appropriate member of staff. <p>It was however noted that the payment run had been annotated and invoices had been initialled suggesting that it had been checked although there was no evidence of this.</p> <table border="1"> <thead> <tr> <th>Risk Exposure*</th> <th>Root causes</th> </tr> </thead> <tbody> <tr> <td>There was a risk that payment runs were not appropriately authorised which could lead to financial loss.</td> <td>Staff not signing off the BACs payment runs.</td> </tr> </tbody> </table>	Risk Exposure*	Root causes	There was a risk that payment runs were not appropriately authorised which could lead to financial loss.	Staff not signing off the BACs payment runs.	Low	<p>The designated managers within finance will ensure that the payment run is signed as authorised before it is processed for payment.</p> <p>Responsible owners:</p> <p>Jane Osbourne, Head of Finance</p> <p>Simon Nott, Governance and VfM Manager</p> <p>Implementation date: Ongoing</p>
Risk Exposure*	Root causes									
There was a risk that payment runs were not appropriately authorised which could lead to financial loss.	Staff not signing off the BACs payment runs.									

Ref	Control	Adequate control design	Controls complied with	Audit findings and implications	Priority	Actions for management												
	approval. Once authorised the file is transmitted to the Treasury team for them to process the payment.			<table border="1"> <thead> <tr> <th>Probability</th> <th>Financial</th> <th>Reputational</th> <th>Operational</th> <th>Legal</th> <th>Rating</th> </tr> </thead> <tbody> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Probability	Financial	Reputational	Operational	Legal	Rating								
Probability	Financial	Reputational	Operational	Legal	Rating													
3	<p>Procurement and Credit Cards</p> <p>The P2P team has four purchase cards. For all of these purchases, staff must always raise a requisition for each transaction. The purchasing process is followed for this.</p> <p>There are currently 23 purchase cards and four credit cards which all have varying limits.</p> <p>At the end of the month, the purchase card users will complete a credit card form with a detailed log of all the expenditure and attach any invoices / receipts to support the expenditure and this is input into the system by the Senior</p>	Yes	No	<p>We identified that procurement and credit card statements had only been processed for April 2016, June 2016 and July 2016. This highlighted that statements had not been reviewed and processed for May 2016 and August to November 2016. Discussions with the Head of Finance and the P2P Manager identified that this had been due to resourcing issues and the delegated staff member being off sick.</p> <p>We tested two credit cards and two purchase cards for each month (April, June and July 2016) and identified the following:</p> <ul style="list-style-type: none"> One purchase card had been used for car parking. No receipt was submitted for this expenditure. One credit card had been used to purchase Wi-Fi on a train hence no receipt had been provided. In all other cases receipts had been provided for all purchases on the cards. On one receipt there was a purchase of a bath towel in April 2016, we highlighted this to the Senior Accounting Technician who showed us a draft email she had already compiled to that individual questioning the purchase. She was also in the process of adding any other questionable purchases to the email to send to the individual all at once. <table border="1"> <thead> <tr> <th>Risk Exposure*</th> <th>Root causes</th> </tr> </thead> <tbody> <tr> <td>Due to the delay in the processing of credit cards statements, there is a risk</td> <td>Staffing issues which caused a delay in ensuring that there is</td> </tr> </tbody> </table>	Risk Exposure*	Root causes	Due to the delay in the processing of credit cards statements, there is a risk	Staffing issues which caused a delay in ensuring that there is	Medium	<p>The procurement and credit cards will be processed in a timely manner to ensure that questionable expenditure is challenged swiftly and to enable reconciliation to be undertaken in a timely manner.</p> <p>Responsible owner: Nicola Johnson, P2P Manager</p> <p>Implementation date: 1st April 2017</p>								
Risk Exposure*	Root causes																	
Due to the delay in the processing of credit cards statements, there is a risk	Staffing issues which caused a delay in ensuring that there is																	

Ref	Control	Adequate control design	Controls complied with	Audit findings and implications			Priority	Actions for management	
	Accounting Technician. All purchase / credit card holders must adhere to the DRM procedures and only purchase items which are detailed within the procedures.			that receipts may not have been provided for purchases. There is also a risk that staff members may be purchasing unauthorised items as previous purchases of this type have not been questioned.		regular challenge for any inappropriate / questionable purchases.			
				Probability	Financial	Reputational	Operational	Legal	Rating

Area: Debtors

4	The debtor reconciliations are reviewed and signed off by the P2P Manager and then sent to the Head of Finance for review and sign off.	Yes	No	<p>For a sample of three months (May, July and August 2016) we confirmed that a reconciliation of debtors had been carried out. These reconciliations were saved electronically.</p> <p>In all cases they had been electronically signed and dated by the Accounting Technician that prepared them and by the P2P Manager who had reviewed and signed them off. However we could not obtain evidence of that the Head of Finance had reviewed and signed off the reconciliations.</p> <p>Furthermore, during our testing we found there were errors on two of the reconciliations we reviewed. On the May reconciliation there had been a difference of nine pence and in the August reconciliation there was a difference of £797.50 that had been brought forward from the previous month's reconciliation spreadsheet. This had been resolved at the time of the audit.</p> <p>It was noted that the bank reconciliations were correct and at the time of the audit the spreadsheet had been amended to ensure that the values that had differences between them would now be compared and any differences highlighted.</p>	Low	<p>Debtor reconciliations will be evidenced as signed and reviewed ensuring that any discrepancies / variances are investigated on an on-going basis. The process for review and signing of debtor reconciliations will be visited and changes will be made to ensure that the whole process is not overdone.</p> <p>Responsible owner: Jane Osborne, Head of Finance</p> <p>Implementation date: 31 March 2017</p>
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Ref	Control	Adequate control design	Controls complied with	Audit findings and implications	Priority	Actions for management
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Risk Exposure*			Root causes		
Due to the unnoticed error on the spreadsheet there was a risk that variances are not detected and investigated in timely manner furthermore there was a risk that the debtor reconciliations were not being reviewed and signed off by the Head of Finance			Reconciliations are being reviewed by too many people resulting in potential overkill. There was spreadsheet formulae error which had not been rectified.		
Probability	Financial	Reputational	Operational	Legal	Rating

Area: Investments

5	The Finance team, on a monthly basis, carry out bank reconciliations.	Yes	No	<p>For a sample of three months (May, July and August 2016) we confirmed that bank reconciliations had been carried out.</p> <p>In all three cases the bank reconciliation had been signed by the preparer but not by the second staff member / designated manager.</p> <p>For the August 2016 bank reconciliation we found that the value on the bank statement was nil, however the bank reconciliation stated that the value in the bank was £2,073.57, the same value as the general ledger.</p>	Low	<p>Bank reconciliations will be reviewed and signed off in a timely manner each month ensuring that any discrepancies are identified and investigated.</p> <p>Responsible owner: Jane Osborne, Head of Finance</p> <p>Implementation date: 31 March 2017</p>								
			<table border="1"> <thead> <tr> <th colspan="2">Risk Exposure*</th> <th colspan="2">Root causes</th> </tr> </thead> <tbody> <tr> <td colspan="2">If the bank reconciliations are not reviewed by a second member of finance there is a risk that variances or errors, such as the difference in the August 2016 bank reconciliations, will not be detected, investigated and subsequently rectified.</td> <td colspan="2">There was a lack of timely undertaking of bank reconciliations due to busy staff schedules.</td> </tr> </tbody> </table>		Risk Exposure*		Root causes		If the bank reconciliations are not reviewed by a second member of finance there is a risk that variances or errors, such as the difference in the August 2016 bank reconciliations, will not be detected, investigated and subsequently rectified.		There was a lack of timely undertaking of bank reconciliations due to busy staff schedules.			
Risk Exposure*		Root causes												
If the bank reconciliations are not reviewed by a second member of finance there is a risk that variances or errors, such as the difference in the August 2016 bank reconciliations, will not be detected, investigated and subsequently rectified.		There was a lack of timely undertaking of bank reconciliations due to busy staff schedules.												

Ref	Control	Adequate control design	Controls complied with	Audit findings and implications						Priority	Actions for management
				Probability	Financial	Reputational	Operational	Legal	Rating		

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

Key financial controls are operating effectively resulting in sound financial management.

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

Areas for consideration:

- Procedural documentation
- Financial Regulations.
- Policies and procedures.
- Access to the finance system.
- Delegated authority limits.
- Back-up of the finance system.

Cash and Bank

- Receipt and recording of cash income.
- Cheques received by post.
- Cash and card payments received.
- Daily cash-up procedures.
- Use of and access to safes.
- Insurance arrangements for cash held on-site.
- Banking arrangement by the Force's staff or third party security firm.

Debtors

- Processing of invoice request forms.
- Creation of debtors accounts.

- Existence and issuing of invoices in a timely manner.
- Debt chasing including the recording of debt recovery actions and updating of debtors account.
- Write off approval and update of debtor account.

Creditors

- Setting up and use of suppliers including amendments to supplier details.
- Raising and approving of purchase orders.
- Receipt of goods received notes.
- Credit notes.
- Purchase order and invoice discrepancy tolerances.
- Payment authorisation (BACS and cheques).
- The appropriate use of purchase and credit cards.

Our review has also considered the use of 'retrospective requisition' payments.

Investments

- Preparation and reporting on the Force's cash flow.
- Bank reconciliations.
- Fixed length and call investments are appropriately recorded on the daily dealing sheet.

Limitations to the scope of the audit assignment:

Cash and Bank

- We have not sought to verify the appropriateness of receipts; we have only confirmed that they have been processed as required.
- We have not re-performed reconciliations.
- We have undertaken testing on a sample basis from transactions in the current financial year.
- Petty cash has been considered as part of a separate review.

Debtors

- Our work does not provide assurance that the Force has identified all debts/monies owed to it.
- We have not considered the suitability of wording used in credit control letters.

- We have not considered the effectiveness of credit control actions take, only whether actions have been taken.
- We have not considered the procedures or performance of any third party debt management contractors used.
- We have not re-performed reconciliations.
- We have undertaken testing on a sample basis from transactions in the current financial year.

Creditors

- We have not commented on whether the Force achieves value for money for its purchases.
- We have not verified any changes to supplier standing data, rather the processes in place for checking the changes are genuine.
- We cannot provide full assurance in the change of supplier details/ amendment and new supplier creation area as we could not select a sample based on amendments/ new suppliers from a system generated report. We have therefore provided some assurance from the amendments forms held on file with the creditors team.
- We have not re-performed reconciliations.
- We have undertaken testing on a sample basis from transactions in the current financial year.

Investments

- The review does not provide a view on the value for money of the actual investments made, or assurance that the value of interest received on the investment has been calculated correctly.
- We have not commented on the suitability of the investments or the credit relating of the financial institutions.
- We have not reviewed the production of the cash flow forecast.

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:

- Jane Palmer, Force - Chief Finance Officer
- Jane Osborne, Head of Finance
- Simon Nott, Governance and VfM Manager
- Nicola Johnson, P2P Manager
- Anita Callahan, Senior P2P Officer
- Antoinette Diovisalvi, Accountant
- Vanessa, Senior Accounting Technician

Documentation reviewed during the audit:

- Financial Regulations, 2014
- Devolved Resource Manual
- Payment Report, 2016/17
- Cash flow Forecast
- List of call and fixed length investments
- Aged debtor report
- Bank statements, 2016/17
- Insurance Policy, 2016/17

FOR FURTHER INFORMATION CONTACT

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