



MANAGEMENT AUDIT UNIT

CUMBRIA POLICE INTERNAL AUDIT REPORT

**Creditor Payments
Debtors
Income
Main Accounting System
Budget Monitoring**

**Draft Report Issued: July 2006
Final Report Issued: August 2006**

1.0 INTRODUCTION

- 1.1 The purpose of this review was to assess the controls in place at Cumbria Police for the following areas; Creditor Payments, Debtors, Income, Main Accounting System and Budget Monitoring. Audit testing was carried out during June 2006.
- 1.2 The following members of staff provided information during, and after, the audit review:
- Michael Thompson, Director of Finance & Resources
 - Roger Marshall, Head of Financial Services
 - Fiona Miller, Budget & Accounting Manager
 - Ann Dobinson, Payroll & Pensions Manager
 - Lorraine Watt, Finance and Accounting Officer
 - Shelagh Miller, Assistant Financial and Accounting Officer
 - Mark Carter, Corporate Budget and Accounting Officer
 - Alison Hunter, Assistant Payroll and Pensions Manager
 - Nikki Mair, Creditors Administrator
 - Jill Rebanks, Budget and Accounting Clerk
 - Julie Bailey, Trainee Accounting Technician
- 1.3 Further queries were raised with numerous departmental managers and administrative staff concerning individual payments within the review of Creditors.
- 1.4 The recommendations made in this report are graded in accordance with their perceived importance. The grading falls into the following categories:
- Grade 1: Major recommendation that indicates a fundamental control weakness that must be addressed.
- Grade 2: Recommendation which should be addressed in order to establish a satisfactory level of internal control.
- Grade 3: Minor recommendation made to improve the system under review.
- 1.5 Recommendations to this report are included as Appendix 1 – Summary of Recommendations & Action Plan.

2.0 OVERALL EVALUATION & CONCLUSION

- 2.1 **The evaluation of controls is based on testing carried out at the time of the audit, usually based on sampling. Management Audit assesses the controls operating in each audited area as ‘good’, ‘satisfactory’, ‘fair’ or ‘weak’. This assessment is based on the number and grading of recommendations made.**
- 2.2 **Controls have been evaluated as follows:**

AREA REVIEWED	EVALUATION
Creditor Payments	Good
Debtors	Good
Income	Good
Main Accounting System	Good
Budget Monitoring	Good

- 2.3 **Adequate controls are in place within each area, but some previously agreed actions to improve controls have not been implemented. These mainly relate to documentation of systems/procedures and details are set out in section 3.2.**

3.0 FOLLOW UP TO PREVIOUS RECOMMENDATIONS

3.1 The previous audit review of Creditor Payments, Debtors, Income, Main Accounting System and Budget Monitoring was performed as a block review in June 2005, resulting in six recommendations (as listed below).

3.2 Action taken since the last review was assessed as part of the current audit review.

AREA	RECOMMENDATION	GRADE	AGREED / INTENDED ACTION	IMPLEMENTATION DATE	ACTIONED	ACTION TAKEN
Creditors	Local invoice processing procedures should be updated to reflect current personnel.	3	Memo sent to all relevant parties requesting updated signature lists	Complete	Part completed	Work on documenting creditors procedures was undertaken in conjunction with internal audit and needs to be finalised and agreed by the Constabulary.
	To strengthen internal control, consideration should be given to the introduction of a list of staff authorised to approve purchase orders, which highlights any financial limits and classifications of spend.	2	Memo sent to all relevant parties requesting preparation of list of staff authorised to approve purchase orders	Complete	Part completed	A memo was sent to each budget holder requesting that they formally, list all staff who are authorised to commit expenditure and the framework in which they are permitted to operate. Signed acceptance of responsibility was also required. This information needs to be consolidated into the existing scheme of delegation document.
	An appropriate member of staff, separate to the certifying officer should check that goods / services have been received and that prices are accurate. This check should be evidenced on the payment authorisation slip.	2	Memo sent to all relevant parties requesting updated signature lists and re-iterating the need for segregation of duties, wherever practical.	Complete	Yes	Review of sample payments found that generally procedure correctly applied.
Debtors	Debt recovery procedures should be formally documented, including the requirement to retain follow-up letters to debtors on file, as evidence that procedure followed.	3	Current procedures are informal – these will be formally documented by the Budget & Accounting Technician	Dec 2005	No	Debt recovery procedures currently not been updated due to lack of resources resulting from long-term staff sickness. Plans to improve and formalise debt collection arrangements including greater involvement of out posted staff will be implemented as soon as resources become available

AREA	RECOMMENDATION	GRADE	AGREED / INTENDED ACTION	IMPLEMENTATION DATE	ACTIONED	ACTION TAKEN
Budgetary Control / Main Accounting System	The Financial Rules Manual should be updated and reissued, following completion of the Financial Regulations.	3	The Director plans to undertake a comprehensive review of Financial Rules, following completion of revisions to Financial Regulations.	March 2006 (but linked to completion of Financial Regulations)	No	Updated Financial Regulations have been drafted but these have not been submitted for formal approval and adoption by the Police Authority as it was decided to prepare a new set of Regulations for the merged Cumbria and Lancashire Police Authority. Now that the amalgamation will not proceed it is intended to submit the Financial Regulations for approval and develop a new set of Financial Rules.
Main Accounting System	Consideration should be given to reviewing and strengthening code validation rules.	3	These will be reviewed to see whether additional systematic code validation rules are necessary.	Subject to appointment of the Technical Accounting Manager	No	No opportunity due to long-term vacancies / settling in periods for replacements. It was agreed that manual reconciliation provides adequate level of control.

4.0 AUDIT SCOPE

The following key control areas and associated risks were identified:

Key Control Area	Key Potential Risks	Sample reviewed
Creditor Payments	<ul style="list-style-type: none"> Inappropriate payment Overpayment Delay in payment Inaccurate recording of expenditure 	<ul style="list-style-type: none"> Internal Audit selected a sample of high value payments for review in addition to all invoices in one payment run. Control account reconciliations.
Debtors	<ul style="list-style-type: none"> No identification of income due to be collected Income due not collected. Poor recovery rates Inaccurate accounting 	<ul style="list-style-type: none"> Sample of debt raised & income collected in 2005/06. Control account reconciliations
Income	<ul style="list-style-type: none"> Missing / unidentified income Inaccurate accounting Delay in banking 	<ul style="list-style-type: none"> Sample of receipts & bankings in 2005/06
Main Accounting System	<ul style="list-style-type: none"> Unreliable financial information Unsupported adjustments to financial information. Incorrect coding Information within accounting system inaccurate. 	<ul style="list-style-type: none"> All high value journals actioned within 2005/06. All input during March 2006.
Budget Monitoring	<ul style="list-style-type: none"> Decision making affected by inaccurate information Budget responsibilities not clearly defined. Untimely financial reporting. 	<ul style="list-style-type: none"> Management Accounts. Projected accounts for a sample of non-BCU departments (BCU projections reviewed at area visits).

5.0 DETAILED FINDINGS & RECOMMENDATIONS

5.1 CREDITOR PAYMENTS

CONTROL	COMMENT	EVALUATION	REC. REF.
Staff responsible for ordering and receiving goods, and processing invoices have access to financial regulations. Invoices are stored securely in date order.	<p>Financial Regulations are stored on the network in a file accessible to all staff. Previous audit reviews indicated regulations require updating. Draft regulations have been presented to the Constabulary, however submission to the Police Authority for formal approval to and adoption of the regulations was delayed pending the merger with Lancashire Constabulary.</p> <p>Local procedures for processing payments are held by the Creditors Administrator. These procedures were previously identified as including out of date information. It was confirmed during the audit that work has been undertaken to document procedures by internal audit as part of compliance with the new International Audit Standard. This process needs to be agreed and finalised with the Audit Commission.</p> <p>Invoices are held within Financial Services prior to payment. Once paid, invoices are archived.</p>	Satisfactory	R1/R2
RECOMMENDATION			
R1	Revised Financial Regulations should be formally submitted for approval and adoption by the Police Authority, at the earliest opportunity (Grade 1)		
R2	The process of documenting local invoice processing procedures needs to be agreed and finalised. (Grade 3)		

CONTROL	COMMENT	EVALUATION	REC. REF.
Checks are made to ensure invoices are accurate, correctly coded and correctly certified.	<p>Certifying officers are responsible for checking the accuracy and coding of invoices. Invoices within Internal Audit's sample were appropriately authorised by a member of staff denoted on the list of authorised invoice signatories.</p> <p>Invoices were appropriate and accurately coded.</p>	Good	

CONTROL	COMMENT	EVALUATION	REC. REF.
Payments are supported by official documentation.	Where expected, high value payments were supported by complete and authorised orders. As no authorised signatory list was available to audit, it was not possible to confirm authorisation is appropriate. Following the previous review it was agreed that a scheme of delegation would be prepared for orders, this list has been collated and now requires consolidation into a single schedule to be held by the Budget and Accounting Clerk. . Order books are securely held and monitored within Printing Services. Where available payments were discussed with relevant Managers. All payments reviewed were found to be reasonable, where necessary further documentation was obtained to support invoices.	Satisfactory	R3
RECOMMENDATIONS			
R3	The list of staff authorised to approve purchase orders should be consolidated and held by the Budget and Accounting Clerk (Grade 2)		

CONTROL	COMMENT	EVALUATION	REC. REF.
There are controls over batch transmission of invoices from areas to HQ	Each department or area maintains records of submitted batches. A central record is maintained in Financial Services of all batches submitted, and this is regularly reviewed to identify and follow up any potentially missing batches. Invoices are generally input on a timely basis.	Good	
Goods are checked as received and prices are confirmed as accurate.	The receipt and prices of goods and services were confirmed for all but three payments within the sample. Checks were performed independently to the authorising officer.	Good	
Payment runs are checked and properly authorised	BACS submissions are reconciled to pre-lists of invoices due for payment prior to approval by the Budget and Accounting Manager.	Good	
Payments are made independently of authorising officers	Invoices are certified by authorised departmental employees as per the list of approved signatories. Payment runs are subsequently processed within HQ Finance Department.	Good	
All cheques are securely controlled and accounted for	Registers are maintained of all manual cheque payments. A sample of manual cheque payments was traced from Oracle to bank statements, registers and supporting documentation.	Good	
Periodic Payments are reasonable and reviewed for accuracy.	Registers are maintained of all periodic payments. A sample of periodic payments was traced from Oracle to bank statements, registers and supporting documentation.	Good	

CONTROL	COMMENT	EVALUATION	REC. REF.
Adequate access and authorisation controls are in place over BACS transactions	There are adequate controls over BACS access and transmission.	Good	
Payments are made on a timely basis and discounts taken where offered	The system is set so that all discounts are taken. No payments within the sample reviewed offered discounts for prompt payment. Payments are generally made on a timely basis.	Good	
Regular reconciliation of purchase ledger to Creditors control account	The Creditor Control Account is reconciled on a daily basis.	Good	
Creditors master files are subject to appropriate controls and authorisation.	Good administrative arrangements are in place relating to the creation and amendment of suppliers details.	Good	

5.2 DEBTORS

CONTROL	COMMENT	EVALUATION	REC. REF.
Procedures are documented.	Procedures are documented to show posting of invoices/cash receipts to both Sage sales ledger and Oracle General Ledger. The monthly reconciliation procedure is also documented.	Good	
Raising of invoices is controlled	Invoices are raised on receipt of an authorised invoice requisition.	Good	
Invoices are raised on a timely basis and are accurate.	A sample of invoices raised was reviewed, and details agreed to requisition details. Invoices were processed on a timely basis.	Good	
Debtors' accounts are fully documented and accurately coded.	A sample was tested and found to be satisfactory.	Good	
Control account is reconciled regularly to Sage sales ledger.	The Sage sales ledger is reconciled to Oracle on a monthly basis. Reconciliations were reviewed for the period April 2005 to March 2006 and these had been completed on a timely basis. A sample month's reconciliation was checked in detail & agreed back to supporting figures.	Good	
Credit control/debt recovery is adequate.	The Constabulary cannot usually choose customers so credit control is limited. Monthly aged debt reports are produced and a summary is reviewed by the Technical and Accounting Manager. As previously identified debt recovery procedures are not formally documented.	Satisfactory	R4

RECOMMENDATIONS

R4 Debt recovery procedures should be formally documented, including the requirement to retain follow-up letters to debtors on file, as evidence that procedure followed. (Grade 3)

CONTROL	COMMENT	EVALUATION	REC. REF.
Write offs are properly authorised	Write-offs are made on an annual basis, where required. For 2005/06, the Treasurer, in line with the Authority's Financial Regulations, approved debts of £988 for write off.	Good	
Income posted to correct debtors accounts in Sage and to Oracle GL	A sample of income was checked and had been fully and accurately posted to both Sage accounts and to Oracle GL.	Good	

5.3 INCOME

CONTROL	COMMENT	EVALUATION	REC. REF.
Procedures are documented.	Procedures are documented that set out processes for receipting income, paying monies into the bank, creating income journals and posting income to Sage sales ledger and Oracle GL systems. Current procedures are out of date, particularly concerning individual responsibilities for input to Oracle and Sage	Satisfactory	R5

RECOMMENDATION

R5 Local pay to bank procedures should be updated to reflect current personnel. (Grade 3)

CONTROL	COMMENT	EVALUATION	REC. REF.
Responsibilities are allocated and result in an appropriate segregation of duties.	Duties are appropriately segregated.	Good	
All income collected is properly documented.	There is an adequate audit trail to document the receipt, collection, and banking of income.	Good	
Income is receipted and banked on a timely basis.	A sample of income was traced from receipts to bank, and all was paid in on a timely basis. Income held on site was found to be within insurance levels.	Good	
All income collected is correctly reflected in Oracle.	A sample of receipted income was traced to Oracle. This was appropriately coded and uploaded on a timely basis.	Good	

5.4 MAIN ACCOUNTING SYSTEM

CONTROL	COMMENT	EVALUATION	REC. REF.
The main financial system should be operated in accordance with standing orders, financial regulations and financial rules.	Standing Orders and Financial Regulations are in place. Financial regulations have been reviewed but were not formally submitted to the Police Authority for approval and adoption, pending the proposed merger with Lancashire. The current Financial Regulations were approved in 2001 but the Financial Rules date from 1996 and are out of date. It is anticipated that these will be updated once the Regulations are approved.	Satisfactory	R6
RECOMMENDATION			
R6	The Financial Rules Manual should be updated and reissued, following completion and adoption of the revised Financial Regulations (Grade 3)		

CONTROL	COMMENT	EVALUATION	REC. REF.
All direct input to Main Accounting System should be authorised and complete.	Standard journal vouchers including coding and adequate narrative details are used to perform adjustments within the Accounting System. Vouchers are e-mailed to a designated address by appropriate Finance Officers and Central Finance Staff. Prior to upload, journals are assigned a serial number and entered onto a spreadsheet record, which is available to Finance Officers to determine the progress of journals submitted.	Good	
Transactions within main accounting system are coded and calculated correctly.	Journals are completed on Excel using a standard format, which is transferred to ADI for upload. Both formats independently provide credit and debit totals that need to net to a zero balance to allow upload to take place.	Good	
Transactions should be initiated and recorded promptly.	Testing confirmed that journal vouchers are uploaded into the accounting system on a timely basis. No miscoding suspense accounts are in use.	Good	
All records should be protected against loss or unauthorised access.	Access levels are granted subject to job profiles. Standard forms are in use to grant and remove access. A sample of new starters, alterations to profiles and leavers were agreed to appropriately authorised forms. System access and usage is regularly monitored.	Good	
All codes set up should be authorised.	Central and BCU Finance staff request new codes via standard forms. A sample of new codes were traced to appropriately authorised forms.	Good	

CONTROL	COMMENT	EVALUATION	REC. REF.
All codes should be documented adequately.	On creation, all codes are added to the code book, a copy of which is available to all finance staff over the network Testing found that new codes were documented.	Good	
All coding transactions should be initiated and recorded promptly.	The system will not accept postings to code elements, which have not been set up. As previously identified, the “dynamic insertion” function is operational within the system, so invalid code combinations (made up of existing code elements) may be accepted and result in the creation of those codes. Two code combination validation rules are operational within the system. The need to develop validation rules was agreed historically. Responsibility for development was assigned to the then vacant Technical and Accounting Manager Post. A monitoring routine is currently in operation that reconciles the total of all FSG prints (budget monitoring reports) to the Trial Balance. Any material expenditure on new codes would be picked up through this reconciliation This produces an adequate level of control without any need to develop the system.	Good	
All data received from feeder systems should be authorised.	There are procedures in place in all feeder systems to ensure that transactions are authorised. All input to the accounting system for a sample period was agreed to supporting documentation.	Good	
All relevant main accounting system records should be updated to record all transactions.	Controls are in place to ensure all transactions successfully transferred to main accounting system.	Good	
All transactions recorded in feeder systems are transferred completely and accurately to the main accounting system.	A series of control accounts are in use to provide assurance that all data is successfully transferred to the main accounting system. Adequate segregation is maintained in the operation and reconciliation of these.	Good	
There should be documentary evidence to prove the total net cash balance shown on the consolidated balance sheet.	Documentary evidence is retained for cash and bank balances.	Good	

CONTROL	COMMENT	EVALUATION	REC. REF.
The bank reconciliation should be calculated correctly.	A full bank account reconciliation is performed and reviewed on a monthly basis. Testing found reconciliations to be reasonable, supported and timely.	Good	
There is a definitive list of suspense accounts and their owners (i.e. officers responsible for their maintenance).	<p>There are no suspense accounts as such within the main accounting system (i.e. no accounts specifically set up to hold</p> <ul style="list-style-type: none"> • Miscoded items • Items whose correct coding is unclear/to be determined. <p>Holding Accounts are in place to collate income and expenditure for projects funded by grants and other external funding.</p> <p>These accounts are cleared as part of year-end close down procedures. Current balances were obtained and discussed.</p> <p>One account has a particularly high balance used to collate expenditure incurred following recent storm damage. Relevant Managers are aware of expenditure in this code. The Head of Financial Services informed Internal Audit that the item would be included as an exceptional item in the 2005/06 accounts.</p>	Good	

5.5 BUDGET MONITORING

CONTROL	COMMENT	EVALUATION	REC. REF.
Budget monitoring procedures are clearly documented and understood.	Roles and responsibilities of Budget Holders and Officers are set out within the Constabulary Budget book. Additionally new Finance Managers are provided with informal training.	Good	
Budgets are appropriately allocated and are consistent with Constabulary strategies.	<p>The Constabulary budget book was produced at the start of 2005-06. Budget Holders have devolved responsibility for managing their budgets with the assistance of assigned Reporting Officers.</p> <p>The Budget and Accounting Manager and Budget and Accounting Officer (West) area have provided training to new budget holders.</p> <p>Budget Holders are subject to financial performance reviews during quarterly management meetings.</p> <p>The 2005/06 Policing Plan and Force Budget of £89,115K were presented to and approved by the Police Authority during February 2005.</p>	Good	

CONTROL	COMMENT	EVALUATION	REC. REF.
<p>Budget Reports are accurate and provide appropriate information.</p>	<p>Budget Officers provide the Corporate Budget and Accounting Officer with monthly returns that are combined to create Management Accounts. The Corporate Budget and Accounting Officer performs a review of the Management Accounts and will liaise with Budget Officers where problems are identified. Subsequent review is undertaken by the Budget and Accounting Manager and Head of Financial Services</p> <p>A timetable is in place for the completion of monthly returns and management accounts. The Corporate Budget and Accounting and Budget Accounting Manager monitor performance.</p>	<p>Good</p>	
<p>Budget Reports are accurate and provide appropriate information.</p>	<p>Returns are made on a standard template that includes original and revised budgets, actual expenditure to date and year-end projections. These templates are additionally used as a basis for reporting performance at a local level.</p> <p>Projection methodology was discussed with a sample of Budget Officers. Budget and Accounting Officers use a combination of spreadsheets, detailing expected commitments and staffing costs for the remainder of the financial year. Where appropriate discussions are held with local managers to determine expected future expenditure.</p> <p>As at the date of the audit, the latest Management Accounts to 31st January 2006 had been presented to the Resourcing and Standards Board in March 2006. These showed a projected underspend of £766K.</p> <p>A sample of original budgets was traced to revised budgets via adjustments and virements. Virements were appropriately approved in line with requirements detailed within the budget book.</p> <p>Information in the Management Accounts was agreed back to the Main Accounting System. Some minor input errors were found and these were discussed with the Corporate Budget & Accounting Officer. It was agreed that Finance Officers would be reminded to check control totals when inputting data from Oracle to Excel spreadsheets.</p>	<p>Good</p>	

CONTROL	COMMENT	EVALUATION	REC. REF.
<p>Monitoring Reports are presented and discussed at an appropriate level on a timely basis.</p>	<p>Management Accounts are prepared on a monthly basis based on returns provided by reporting officers.</p> <p>Reports are presented to Resources and Standards Board normally on a monthly basis and to Members (Police Authority and Audit and Performance Committee) on a quarterly basis.</p> <p>Interim reports are reviewed by the Budget and Accounting Manager and Corporate Budget and Accounting Officer for large variances prior to presentation to the Director of Finance and Resources and Head of Financial Services.</p>	<p>Good</p>	

SUMMARY OF RECOMMENDATIONS & ACTION PLAN
(TO BE COMPLETED BY POLICE HQ)

REPORT REFERENCE	GRADE	RECOMMENDATION	ASSOCIATED RISK	PERSON RESPONSIBLE (to be completed by client)	AGREED / INTENDED ACTION (to be completed by client)	IMPLEMENTATION DATE (to be completed by client)
R1	1	Revised Financial Regulations should be formally submitted for approval and adoption by the Police Authority, at the earliest opportunity	Financial Regulations out of date	Director of Finance and Resources	The revised Financial Regulations will be formally submitted to the Police Authority for approval.	1 st January 2007
R2	3	The process of documenting local invoice processing procedures needs to be agreed and finalised.	Inadequate / unreliable guidance for staff.	Payroll and Pensions Manager	On –going work on documenting the creditors system to meet International Audit Standards will be finalised with particular emphasis on outlining staff responsibilities	1 st January 2007
R3	2	The list of staff authorised to approve purchase orders should be consolidated and held by the Budget and Accounting Clerk	Lack of control over orders potentially leading to inappropriate purchases.	Head of Financial Services	The list of staff with delegated authority to authorise expenditure, which is currently held on an individual departmental basis will be consolidated and retained alongside the list of authorised signatories.	1 st November 2006
R4	3	Debt recovery procedures should be formally documented, including the requirement to retain follow-up letters to debtors on file, as evidence that procedure followed.	Inadequate guidance for staff. No trail of follow up action for potential legal use.	Technical and Accounting Manager	Debt recovery procedures will be formally documented as soon as resources permit.	1 st April 2007
R5	3	Local pay to bank procedures should be updated to reflect current personnel.	Inadequate / unreliable guidance for staff.	Payroll and Pensions Manager	Pay to bank procedures will be reviewed and where necessary updated.	1 st January 2007
R6	3	The Financial Rules Manual should be updated and reissued, following completion and adoption of the revised Financial Regulations	Inadequate / unreliable guidance for staff.	Head of Financial Services and Technical and Accounting Manager	A revised set of Financial Rules will be drafted and formally submitted to the Police Authority.	1 st April 2007

ACTION PLAN AGREED BY: Roger Marshall – Head of financial Services

DATE:

24/8/06

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