



THE POLICE AND CRIME COMMISSIONER FOR CLEVELAND AND THE CHIEF CONSTABLE OF CLEVELAND

Key Financial Controls

Final Internal audit report 5.22/23

18 October 2022

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1. EXECUTIVE SUMMARY

Why we completed this audit

As part of the internal audit plan for 2022/23 we have undertaken an audit on the key financial controls to ensure there is an appropriate framework and audit trail in place. We considered the controls in place for both accounts payable and accounts receivable and that these are appropriate and are working as intended.

The Force utilise the Joint Corporate Governance Framework which includes financial regulations that are used to govern the Force's use of funds and outlines the responsibilities for key individuals such as the Chief Constable, the Commissioner, and the Force's Chief Financial Officer. The Oracle finance system helps to manage financial processes which includes the general ledger and purchase order requisition and approval. An authorised signatories list has also been created and regularly monitored and updated to include all individuals who can approve purchase orders. This has been built into the Force's finance system to ensure additional controls are in place. A month-end procedure document is in place to outline the process that staff must use at month-end and includes a step-by-step guide.

The Treasury Team are responsible for all bank reconciliations, cash flow management and all payment runs which are reviewed and approved by the Strategic Finance Manager. There are only five members of the Treasury Team who have access to the Banking system, the system has a built in two-person authorisation, one member can submit the payment, but a secondary user is required to authorise in line with the segregation of duties.

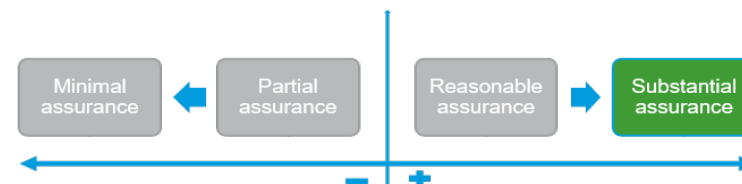
We have conducted IDEA data analytics to consider a more in-depth and accurate testing of the Force's financial data. This has included testing to determine any duplicate payments, duplicate suppliers and bank details and purchase order approval by individuals that are not included on the authorised signatory list. We have also conducted sample testing on this data. Management have been provided with copies of the IDEA results to review and action if necessary. Results of the IDEA testing and sample testing can be seen in Appendix B.

Conclusion

The Police and Crime Commissioner and the Chief Constable have robust financial regulations in place which sets out the key financial controls, which can be supported by additional evidence and clear justification within the Oracle System. As a result of our review, we have agreed one **low priority** management action in relation to the testing completed for purchase order authorisation, we identified four discrepancies which did not follow the purchase order authorisation process before an invoice was received.

Internal audit opinion:

Taking account of the issues identified, the Police and Crime Commissioner and the Chief Constable can take **substantial assurance** that the controls upon which the Chief Constable of Cleveland relies to manage this area are suitably designed, consistently applied and effective.



Key findings

Following our audit testing, we have agreed one low priority management action, details of which can be found in section 2 below. Our audit review identified that the following controls are suitably designed, consistently applied, and are operating effectively:



The Force utilised the Joint Corporate Governance Framework which outlines the financial regulations which governs the Force's funds and sets out the individual responsibilities.



An authorised signatory list is also available alongside the financial regulations to ensure the Force is aware of which staff member can approve purchase orders and their authorisation limit. There is also an electronic copy input within the Oracle system to ensure authorisation limits cannot be exceeded.



A month end procedure document is available to staff which provides a step by step guide on how to complete month end process. Each step is supported by screenshots from Oracle and includes key responsibilities.



To ensure there is segregation of duties across the Finance Team, they are allocated responsibilities each month. We took a sample of three months of accounts payable and receivables ledgers to confirm a different member of the team conducted these each month and were appropriately reviewed by the Head of Finance and Payroll. We confirmed in all cases responsibilities were allocated to a different member of the team each month and they were all reviewed and authorised by the Head of Finance and Payroll.



Control account reconciliation is completed on a monthly basis, we took a sample of three months (June, July, and August 2022). For all three months we obtained evidence to show the control account reconciliation has been reviewed, approved and by an appropriate individual.



A new supplier is required to complete a new supplier form which takes all necessary details which are to be input within the Oracle system. We selected a sample of 20 suppliers and confirmed that a new supplier form matched the details within the Oracle finance system.



All new customers require a new customer form to be completed and signed off by the Head of Finance and Payroll. We selected a sample of 10 new customers and requested copies of the new customer form to check that this matched the data held on Oracle. In all 10 cases we were provided with a matching form and noted no discrepancies between the new customer form and Oracle.



All credit notes raised must have a completed credit note form which includes sign off by an authorised member of staff. We selected a sample of 20 credit notes and checked to determine whether a credit note form was on file and this had been signed by an appropriate officer as per the authorised signatories list. In 14 cases we confirmed that a credit note form was on file and had been correctly approved by authorised individuals. In the remaining six cases, approval was not required as the credit was raised due to a refund for the items purchased.



Segregation of duties is clear on the Force's banking system with dual authorisation required for any transaction made. We verified that all users that have access to the system are appropriate, still employed by the Force and have relevant access rights (depending on their job role). We selected a sample of five payments made by the Force and confirmed that they had been requested by one user and approved by another separate user.



Bank reconciliations are completed on a monthly basis by the Treasury Team as part of the month end processes. All reconciliations are reviewed and approved by the Strategic Finance Manager. We have confirmed for nine accounts across a three month period (June, July, and August 2022) where all reviewed and approved.



All payment runs are requested by a member of the Finance or Payroll Team and approved by a member of the Treasury Team. We took a sample of five payments runs and confirmed for each there is an appropriate requestee and there is emails authorisation from the Treasury Team confirming the payments can be made. All authorisations have been completed correctly and a clear audit trail is available to confirm authorisation.

2. DETAILED FINDINGS AND ACTIONS

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.

Area: Purchase Order Authorisation				
Control	Purchase order requisitions are submitted through the Oracle system for approval from the appropriate authorised signatory. Invoices are automatically reconciled to each purchase order within the system. For invoices of multiple purchase orders, they are combined under a multiple record within the Oracle system to ensure an effective audit trail is present.		Assessment:	
			Design	✓
			Compliance	×
Findings / Implications	<p>For a sample of 20 purchases, we confirmed the purchase requisition was raised and approved by the appropriate authorised signatory for the amount requested.</p> <p>In 16 cases, we confirmed the invoice was available and submitted after the purchase order. However, in four cases we identified the invoice was submitted before the purchase order was processed.</p> <p>In these cases, we identified multiple invoices raised over the financial year which have been combined into one invoice. We also identified that suppliers who complete scheduled work throughout the year, invoice in advance for work they are due to complete.</p> <p>Four discrepancies were identified that did not follow the purchase order authorisation process before an invoice was received. However, two of the invoices raised were rejected by the Finance Team as there was no reconciling PO, requested supplier to resend invoice following the receipt of a PO raised internally. In one case, the original purchase order was cancelled as the value amount did not reconcile and a new PO was submitted. In the remaining one case the PO was raised in advance of the invoice, but the PO was not approved until after the invoice was received.</p> <p>There is a risk that if all staff are not performing the correct purchase order procedure, the Finance Team will be unable to reconcile invoices which are raised and they cannot proceed with payment until authorised signatory has approved, which could lead to delay payments.</p>			
Management Action 1	The Force will ensure all staff are made aware of the purchase order authorisation process for any goods or services.	Responsible Owner:	Date:	Priority:
		Head of Finance and Payroll	31 December 2022	Low

APPENDIX A: CATEGORISATION OF 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.

The following table highlights the number and categories of management actions made as a result of this audit.

Area	Control design not effective*	Non Compliance with controls*	Agreed actions		
			Low	Medium	High
Key Financial Controls	0 (20)	1 (20)	1	0	0
Total			1	0	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.

APPENDIX B: DATA ANALYTICS

The following is a summary of findings from our analytical work which we have discussed with management.


Analytics Findings:

The following is a summary of findings from our data analytics work which we have discussed with management. This has involved us sharing the data analytics spread sheets which detail the findings for further consideration and checking.

For the purpose of our findings, we have used a 'pause' and 'tick' approach to highlight at a glance which areas require further investigation following our findings.




Area: Accounts receivable – duplicate customer accounts

Criteria:	Identify instances of potential duplicate customer accounts.
Source Data/Reports:	Customer Listing
Period Covered:	2022 / 2023
Testing Undertaken:	There are 574 records on the Customer Listing provided for review. We analysed the report for any potential duplicates by part name and post code.
Issues identified:	Using part name and post code, we identified four potential duplicate customer accounts. 
Overall Conclusion:	From the four identified, we discussed with the Head of Finance and Payroll and confirmed one customer account had two different site locations attached within the Oracle system. In the remaining one case the Finance Business Manager confirmed this was a duplication, but only one accounts was utilised for any transactions.

Area: Multiple customer accounts with the same bank details


Criteria:	To identify any potential duplicate customer accounts using bank details.
Source Data/Reports:	Customer Listing
Period Covered:	2022 / 2023
Testing Undertaken:	The Force do not retain bank detail information for customer accounts; therefore no testing has been undertaken.
Issues identified:	N/A
Overall Conclusion:	N/A

Area: Credit notes or write-offs over the delegated authority thresholds


Criteria:	To identify credit notes or write-offs over the delegated authority thresholds.
Source Data/Reports:	Sales Invoices 01.01.22 – 31.07.22
Period Covered:	2022 / 2023
Testing Undertaken:	There are 23 credit records listed on the Sales Invoice Report provided for review. The 23 credit records were approved by five separate individuals. We reviewed these approvers against the authorised signatories list for 2022 / 2023.
Issues identified:	Of the five separate approvers, one approver was not listed on the authorised signatories list and two approvers did not have an approval value listed. 
Overall Conclusion:	No discrepancies identified. For the three different approvals, two were given delegated authority by their line managers as they were on annual leave during this time. The second approval was a cancelled order by the individual, there was no approval issues identified when we reviewed the Oracle system as an individual with no authorisation threshold originally approved before the order was cancelled.

Area: Duplicate sales invoices

Criteria: Identify duplicate sales invoices.

Source Data/Reports:	Sales Invoices 01.01.22 – 31.07.22
Period Covered:	2022 / 2023
Testing Undertaken:	There are 417 sales invoices recorded on the Sales Invoice Report provided. We analysed the records by customer, invoice summary and gross value to identify any potential duplicates.
Issues identified:	From our analysis, we identified 22 potential duplicate records using customer, invoice summary and gross value. 
Overall Conclusion:	No discrepancies identified. We confirmed for a sample of five invoices there was no duplication. In the first and second sample, we confirmed there was two different invoice summary numbers associated with each record. In the third and fourth sample, we confirmed the duplication was a credit note which had been raised in line with the original invoice. For the remaining sample, we confirmed the invoice numbers were completed separately and the amount paid is from an agreed contract price per quarter.

Area: Supplier accounts with the same bank details

Criteria:	Identify supplier accounts with the same bank details
Source Data/Reports:	Supplier Listing
Period Covered:	2022 / 2023
Testing Undertaken:	There are 2,876 supplier accounts listed on the Supplier Listing Report provided. We analysed these records for potential duplicate by bank account details and by names and bank account details.
Issues identified:	We identified 291 supplier accounts with the same bank account details and 91 supplier accounts with the same name and bank account details. 

Area: Supplier accounts with the same bank details

Overall Conclusion: No discrepancies identified. The report duplicated supplier accounts once exported from the Oracle system. We sample tested 10 supplier accounts and confirmed there was no duplication within the Oracle System. Upon further discussion, we identified the report is only exported for audit purposes and is not used internally.


Area: Purchase orders above delegated authority thresholds

Criteria: Identify purchase orders above delegated authority thresholds.

Source Data/Reports: Paid Invoices 01.01.22 – 31.07.22


Period Covered: 2022 / 2023

Testing Undertaken: Review of the approvers on the Paid Invoice Report provided against the authorised signatories list for 2022 / 2023 to ensure all approvers were listed and amounts approved are in line with the authority values.

Issues identified: There are 96 records where the order approver is not documented on the authorised signatories list for 2022 / 2023 provided, which pertains to 27 separate individuals. We identified three further approvers whose approved records exceeded the limits in the authorised signatories list. 

Overall Conclusion: No discrepancies identified. We took a sample of five purchase orders to confirm if they were above delegated authority threshold. In two cases, we noted the individual had been appointed as interim inspectors which would have the appropriate delegated authority at the time, they have now been returned to their original roles. In the remaining three cases the requester had cancelled the order within the Oracle system after an appropriate authorisation was given which overrides the approval within the exported report, as they are the last person to make amendments to the record.

Area: Identify duplicate payments

Criteria:	Identify duplicate payments
Source Data/Reports:	Paid Invoices 01.01.22 – 31.07.22
Period Covered:	2022 / 2023
Testing Undertaken:	There are 7,323 records on the Paid Invoice Report provided. We analysed this report for potential duplicates by supplier number, invoice date, amount and invoice number.
Issues identified:	Using supplier number, invoice date, amount and invoice number, we identified 64 potential duplicate records. 
Overall Conclusion:	No discrepancies identified. We took a sample of 22 payments to confirm if there was a duplication. However, upon further investigation all payments identified within the testing were raised in 21/22 financial year as purchase order and the order was not fulfilled until 22/23 which presents itself as a duplication on the report. However, these are easily identified as column F shows the original purchase order and the adjustment into the new financial year.

APPENDIX C: SCOPE

The scope below is a copy of the original document issued.

Scope of the review

The scope was planned to provide assurance on the controls and mitigations in place relating to the following area:

Objective of the area under review

The organisations' financial system is appropriately managed to ensure that all financial transactions are accurately recorded.

The following areas will be considered as part of this review:

General

- Financial regulations
- Scheme of delegation / list of budget holders

Month-end processes

- Month-end timetable and Allocation of responsibilities
- Management of month-end process
- Control account reconciliation preparation and review
- Journal entries and other adjustments

Accounts Payable

- New supplier set up
- Purchase order authorisation
- Goods receipt and invoice authorisation
- Payments to suppliers
- Our work will incorporate the use of Computer Assisted Audit Techniques (CAATs) using the IDEA software package in order to:
 - Identify potential duplicate supplier accounts
 - Identify multiple supplier accounts with the same bank details
 - Identify purchase orders above delegated authority thresholds

- Identify duplicate payments

Accounts Receivable

- New customer set up
- Receipts from debtors and Credit notes and write-offs
- Our work will incorporate the use of Computer Assisted Audit Techniques (CAATs) using the IDEA software package in order to:
 - Identify potential duplicate customer accounts
 - Identify multiple customer accounts with the same bank details
 - Identify credit notes or write-offs above delegated authority thresholds
 - Identify duplicate invoices

Treasury Management

- Segregation of duties
- Controls over access to banking systems
- Account reconciliations and review process
- Review and authorisation of payment runs
- Recording of receipts

The following limitations apply to the scope of our work:

- The scope of the work will be limited to those areas examined and reported upon in the areas for consideration in the context of the objectives set out in this review.
- Testing will be completed on a sample basis only, based on transactions from the current financial year.
- We will not review controls over credit cards as agreed with management.
- Our work does not provide assurance on the appropriateness of the transactions entered into, or payments made.
- We will not comment on whether the organisations have achieved value for money from specific transactions. Our audit will not cover the broader procurement process.
- Our review will also not include the setting, monitoring and reporting upon budgets relating to the above transactions.
- Our work and report does not provide any assurance on the eventual accuracy at the year end of the current projected outturn or any assurance on the validity and accuracy of any assumptions made in producing the projected outturn.
- Our work does not provide absolute assurance that material error, loss or fraud does not exist.

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The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Actions for improvements should be assessed by you for their full impact. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

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