



# THE CHIEF CONSTABLE OF NORTH YORKSHIRE

## Key Financial Controls: Fixed Assets

**FINAL**

**Internal audit report: 9.17/18**

**26 February 2018**

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# 1 EXECUTIVE SUMMARY

## 1.1 Background

An audit of fixed Assets was undertaken as part of the approved internal audit periodic plan for 2017/18.

The Fixed Asset Register (FAR) is embedded within the Oracle Finance System. The Accountant is responsible for the maintenance of the main Fixed Asset Register. All capital transactions processed through the finance system are reviewed for appropriateness by the Accountant. Due to unavoidable staff absences in the Finance team, the decision had been made to delay processing of transactions to the fixed asset module of Oracle until later in the year. Our substantive testing has therefore been limited to April of the financial year 2017/18.

Digital Information Services Group (DISG) keep a log of the IT related assets on the Sostenuto system. The Estates department use the Planet FM System as the register for estate related assets including buildings. Transport services utilise the Tranman system for the process of managing transport related assets. Each asset register's material assets are reconciled on a yearly basis.

The main FAR on Oracle is formally updated on an annual basis in preparation for the year end accounts, to ensure all additions and disposals are accurately reflected and to apply depreciation. The Force's Fixed Asset Procedure states that a monthly review should be undertaken to check capital invoices have been appropriately coded as part of the monitoring progress against the capital programme for the year.

The Force is exploring the use of Oracle cloud based system which would combine a number of Oracle services and make them available on demand via the internet. Our review has considered the benefits realised by other RSM clients that have made this transition.

We have also considered the Force's consideration of an approach to recording building enhancements and improvements as single items on the asset register and examine the implications of accumulating the data and recording each asset as a single entry at the end of the year.

## 1.2 Conclusion

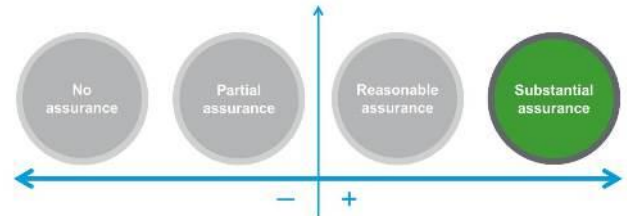
Overall, we found the Force has well-designed control framework in place for key areas relating to fixed assets. We did however note a **low priority** management action in relation to a sample of four disposals completed in April 2017. As part of the audit we have also mapped out the current fixed process using Visio to determine if efficiencies can be identified (please see the appended process maps). We have identified the following areas of consideration by the Force which could result in efficiencies and cost savings:

- Consider undertaking the revaluation of land and buildings every five years in line with best practice thereby saving money and the time taken to input the revalued amounts. The current yearly requirement of undertaking revaluation may be time consuming and costly.
- The current de minimis level of £1,000 is considered low and therefore the Force should consider increasing its de minimis value of capitalising expenditure to a reasonable level thereby reducing the number of times the Fixed Asset Register is updated.
- Consider accumulating fixed asset data to be recorded on the FAR on a quarterly, six monthly or yearly basis thereby reducing the time and staff needed to complete this on a monthly basis.

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#### Internal audit opinion:

Taking account of the issues identified, the Chief Constable of North Yorkshire can take **substantial assurance** that the controls upon which the organisation relies to manage the identified area are suitably designed, consistently applied and operating effectively.



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### 1.3 Key findings

The key findings from this review are as follows:

#### Procedural Documentation

We confirmed the Devolved Resources Manual (DRM) and Regulatory Framework Manual (the Manual) were in place, available to all staff and provided a framework for responsibilities surrounding fixed assets. The Manual was last reviewed in 2014 and the DRM was last reviewed in July 2017.

#### Access Controls

We confirmed through review of the user report that access to the main FAR was appropriately restricted to authorised personnel.

#### Identification and recording of fixed assets

All fixed assets are recorded under the capital expenditure account code at the purchase order stage. The Accountant extracts a capital expenditure report from the general ledger on a monthly basis. All assets are required to be recorded on the Fixed Asset Register within three months of the invoice being received. Our testing was therefore limited to the period mentioned above (April 2017). We reviewed a sample of 10 IT, transport and estates capital payments processed through the ledger in April 2017. Our review identified the following:

- The assets had been added to the register in July 2017. The Finance team was aware of the untimely addition of the asset due to the already mentioned challenges;
- Supporting documentation exists demonstrating that the addition to the register was correctly authorised;
- The details on the register corresponded to those on the supporting documents; and
- With the exception of one purchase, we confirmed what the purchase was for and confirmed that the capitalisation was appropriate. There was one exception noted for an item relating to a software product support covering three years which had been capitalised therefore resulting in the subsequent calculation of depreciation which was not appropriate. No management action has been raised in this regard as the addition of the asset had not yet been reviewed by management.

#### Physical Asset Verifications

Whilst we did not undertake physical verification of assets as part of the audit, we were satisfied that there was sufficient detail retained within the departmental records for staff to be able to identify the location of assets if required. We noted that the different systems in place in Estates, DISG and Transport departments allowed for monitoring of assets on a regular basis.

## Depreciation

Testing of 10 fixed assets added to the Fixed Asset Register for the month of April 2017 confirmed that in all nine instances:

- The assets had been allocated to the correct category of fixed asset in the register with the appropriate asset life;
- The rate and basis of depreciation in the register tallied with that specified in the fixed asset policy; and
- The amount of depreciation applied for the month had been correctly calculated.

There was one exception relating to a software product support which had been capitalised resulting in the subsequent calculation of depreciation which was not appropriate. No management action has been raised in this regard as the addition of the asset had not yet been reviewed by management.

## Valuations

Testing of five revalued properties identified the following:

- Revaluation totals for land, structure, roof, services and external part of the buildings had been accurately reflected on the asset register in accordance with the revaluation sheet;
- Land was not depreciated as per the DRM
- However, the revalued life of the roof at Selby Police station had been inaccurately input on the Fixed Asset Register in accordance with the revaluation schedule. This had been entered as nine years instead of 19 years. We extended our sample by a further two revaluations and confirmed they had been accurately recorded.

## 1.4 Additional information to support our conclusion

The following table highlights the number and categories of management actions made. The detailed findings section lists the specific actions agreed with management to implement.

Area	Control design not effective*		Non Compliance with controls*		Agreed actions		
					Low	Medium	High
Fixed Assets	0	(10)	1	(10)	1	0	0
<b>Total</b>					<b>1</b>	<b>0</b>	<b>0</b>

\* 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.

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## 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 regulatory scrutiny/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, regulatory scrutiny, 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 (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management
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#### Area: Fixed Assets

1	Methods of disposal and the authorisation processes for disposals are defined within the DRM.  Disposals are documented on a standardised form 52, which details the income received from the disposal of the asset and the	Yes	No	We tested a sample of four disposals completed in April 2017. This exercise identified that disposal of motor vehicles at the Force did not have documented evidence to support approval of the disposal nor a record of the disposal methods used. It was however confirmed that the disposal proceeds had been treated as income and coded to the accounting system appropriately.  The Force's DRM states that a budget holder may (with the approval of the Chief Constable's Chief Finance Officer) write off stock and inventory deficiencies up to a limit of £5,000 in any period of three consecutive calendar months. In excess of that amount the approval of the Police and Crime Commissioner's Chief Finance Officer, who may require a report be made to the Police and Crime Commissioner, or the approval of the Chief Constable as relevant, will be required. Discussions with the Chief Finance Officer noted that the schedule for the replacement of fleet was detailed in the capital expenditure programme decision notice as part of the budgeting process, however we could not locate the decision on the PCC's website at the time of the audit. Furthermore, although the	Low	The Force will ensure there is clear documentation and retention of the approval by the delegated budget holder of the disposals of vehicles as per the Force Fixed Asset Policy.  <b>Responsible officer:</b>  Accountant  <b>Implementation date:</b>  31 March 2018
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Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management																								
	authorisation channel.  The completed form 52 is passed to Finance who check the disposal has been correctly authorised before updating the Fixed Asset Register.			capital programme is approved at the beginning of the year, it is prudent to ensure that there is clear approval of disposals by the Fleet Department.  <table border="1"> <thead> <tr> <th colspan="3">Risk Exposure</th> <th colspan="3">Root causes</th> </tr> </thead> <tbody> <tr> <td colspan="3">Risk inappropriate disposals being undertaken leading to loss of proceeds.</td> <td colspan="3">Lack of clear approval of disposals.</td> </tr> <tr> <th>Probability</th> <th>Financial</th> <th>Reputational</th> <th>Operational</th> <th>Legal</th> <th>Rating</th> </tr> <tr> <td>Probable</td> <td>Negligible</td> <td>Negligible</td> <td>Minor</td> <td>Negligible</td> <td>5:8</td> </tr> </tbody> </table>	Risk Exposure			Root causes			Risk inappropriate disposals being undertaken leading to loss of proceeds.			Lack of clear approval of disposals.			Probability	Financial	Reputational	Operational	Legal	Rating	Probable	Negligible	Negligible	Minor	Negligible	5:8		
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Probable	Negligible	Negligible	Minor	Negligible	5:8																									
2	Valuation of land and buildings is undertaken on a yearly basis by an independent valuer.  The revalued amounts, along with the estimated useful lives, are entered on the Fixed Asset Register by the Accountant at the start of the year.	Yes	Yes	<p>Testing of five revalued properties identified the following:</p> <ul style="list-style-type: none"> <li>Revaluation totals for land, structure, roof, services and external part of the buildings had been accurately reflected on the asset register in accordance with the revaluation sheet;</li> <li>Land was not depreciated as per the policy; and</li> <li>The revalued life of the roof at Selby Police station had been inaccurately input on the Fixed Asset Register in accordance with the revaluation schedule. This had been entered as nine years instead of 19 years. This therefore had resulted in the depreciation amount of the £134.51 being overstated.</li> </ul> <p>A further two samples were selected to extend and no further exceptions were identified. This was noted as an isolated exception, along with the fact that the review of the reconciliation had not yet been undertaken, we therefore have not raised a management action in this regard.</p> <p>The CIPFA Public Accounting Code 2016 specifies that for assets that are required to be carried at fair value, revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. We noted that other forces undertook revaluation of land and buildings between</p>	Suggestion	<p>The PCC-CFO has previously considered the revaluation intervals, and has concluded that annual valuations are the most effective option, since on a year when a valuation is not carried out, the PCC would still have to commission a review of the valuations to ensure that there is no significant change.</p> <p><b>Responsible officer:</b> Chief Finance Officer</p> <p><b>Implementation date:</b> 31 March 2018</p>																								

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management
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every three to five year which is within the CIPFA code best practice minimum. As such, the Force should consider undertaking revaluations at the minimum every five years saving money and time to input the values.

See benchmarking table below:

	NYP	Force 1	Force 2	Force 3
Valuation frequency	Yearly	Every 3 years	Every 5 years	Every 5 years

Risk Exposure			Root causes		
Risk of inefficiencies.			lack of an efficient process.		
Probability	Financial	Reputational	Operational	Legal	Rating
Probable	Negligible	Negligible	Minor	Negligible	5:8

3	All fixed assets are recorded under the capital expenditure account code at the purchase order stage.  The Accountant extracts a capital expenditure report from the general ledger extract on a monthly basis, which is used to enable review of	Yes	Yes	Our testing was therefore limited to the period mentioned above (April 2017). We reviewed a sample of 10 IT, transport and estates capital payments processed through the ledger in April 2017. Our review identified the following: <ul style="list-style-type: none"> <li>The assets had been added to the register in July 2017. The Finance team was aware of the untimely addition of the asset due to the already mentioned challenges;</li> <li>Supporting documentation exists demonstrating that the addition to the register was correctly authorised;</li> <li>The details on the register corresponded to those on the supporting documents;</li> </ul>	Suggestion	The PCC will consider increasing its de minimis value of capitalising expenditure thereby reducing the number of times the fixed asset register is updated.  <b>Responsible officer:</b>  Chief Finance Officer  <b>Implementation date:</b>
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Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management										
	<p>additions, removals and depreciation of fixed assets on the FAR.</p> <p>All assets are required to be recorded on the Fixed Asset Register within three months of the invoice being received.</p> <p>All expenditure in excess of £1,000 on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis.</p>			<ul style="list-style-type: none"> <li>With the exception of one purchase, we confirmed what the purchase was for and confirmed that the capitalisation was appropriate. There was one exception noted for an item relating to a software product support covering three years which had been capitalised therefore resulting in the subsequent calculation of depreciation which was not appropriate. No management action has been raised in this regard as the addition of the asset had not yet been reviewed by management.</li> </ul> <p>We noted that the de minimis value of £1,000 for capitalising individual assets or projects was lower compared to other forces. Our benchmarking exercise noted that the de minimis values were between £10,000 and £12,000 for three other forces reviewed. The increase of the de minimis value of capitalising assets would reduce the number of times the Fixed Asset Register is updated, as £1,000 is not considered a material amount.</p> <p>The Force would also have less transactions coded to the capital code and thereby a reduction of transaction to clear from the fixed asset clearing account and entered on the FAR.</p> <p>See benchmarking table below:</p> <table border="1"> <thead> <tr> <th></th> <th>NYP</th> <th>Force 1</th> <th>Force 2</th> <th>Force 3</th> </tr> </thead> <tbody> <tr> <td>Capitalisation threshold Plant, Machinery and Equipment</td> <td>£1,000</td> <td>£10,000</td> <td>£12,000</td> <td>£10,000</td> </tr> </tbody> </table>		NYP	Force 1	Force 2	Force 3	Capitalisation threshold Plant, Machinery and Equipment	£1,000	£10,000	£12,000	£10,000		31March 2018
	NYP	Force 1	Force 2	Force 3												
Capitalisation threshold Plant, Machinery and Equipment	£1,000	£10,000	£12,000	£10,000												
4	The Force procedures state that the reconciliation of the Fixed Asset Register to the general ledger should be	Yes	Yes	<p>In comparison with three other forces, we noted that two forces undertaken their reconciliations on a quarterly basis and one other force undertook this on a yearly basis. Due to staffing pressures in the department, the Force may benefit in not undertaking reconciliations on a monthly basis as this may be time consuming. Consideration should be given in undertaking the reconciliations either quarterly, six monthly or on a yearly basis.</p> <p>See benchmarking table below:</p>	Suggestion	The Force should consider undertaking reconciliations of the FAR on a quarterly, six monthly or yearly basis thereby reducing the time and staff needed to complete this on a monthly basis.										

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications				Priority	Action for management
	undertaken on a monthly basis.				<b>NYP</b>	<b>Force 1</b>	<b>Force 2</b>	<b>Force 3</b>	<b>Responsible officer:</b> Chief Finance Officer  <b>Implementation date:</b> 31 March 2018
	However ,due to staffing issues this has not been possible and thus the Force is currently reviewing how this will be undertaken going forward.			Fixed Asset Register update frequency	Monthly	Quarterly	Quarterly	Yearly	

# APPENDIX A: 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:

### Objectives of the area under review

To accurately record and account for all capital assets owned by the organisation.

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

#### Areas for consideration:

Due to unavoidable staff absences in the Finance team, the decision has been made to delay processing of transactions to the Fixed Asset module until later in the year. Our substantive testing will therefore be limited to the first months of the financial year. We will consider the application of the Force's procedures in the following areas:

#### Procedural documentation

- Financial regulations
- Policies and procedures
- Access to the fixed asset register

#### Identification and recording of fixed assets

- Capitalisation
- Security tagging
- Location, movement and verification of fixed assets

#### Depreciation

- Basis and application

#### Disposals

- Methods
- Authorisation
- Income generated

## **Reconciliations**

- Month-end process

In addition, we will also map the current process using Visio to determine if efficiencies can be identified.

We will also consider the Force's approach to recording fixed assets as single items on the asset register and examine the implications of accumulating the data and recording each asset as a single entry at the end of the year. In addition, the Force is considering exploring the use of Oracle on the "Cloud" and we will consider the benefits realised by other RSM clients that have made this transition, and whether any benefits could be realised in NYP.

## **Limitations to the scope of the audit assignment:**

- We will not consider the maintenance of inventories during this review.
- We will not consider the purchase order process during this review.
- We will not seek to substantiate the appropriateness of any transactions in the financial statements during this review.
- We will not substantively re-perform reconciliations.
- Testing will be completed on a sample basis on transactions in the current financial year.
- 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:**

- Accountant
- Manager
- Chief Finance Officer

### **Documentation reviewed during the audit:**

- DRM
- Land and buildings invoice
- Oracle clearing account
- Fleet reconciliation
- Asset movement form
- Fixed asset clearing account
- Revaluation and depreciation spreadsheet
- Asset valuation report, 2016/17
- Journal entry depreciation and valuations

## FOR FURTHER INFORMATION CONTACT

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