Review of financial systems

Carlisle City Council

Audit 2011/12

Contents

Key messages

This report summarises the findings from my 2011/12 interim audit.

Overall conclusion from the interim audit

My Audit Plan for 2011/12 sets out the work I need to do to meet my responsibilities under the Code of Audit Practice (the Code). I am required by the Code to consider the annual accounts and whether they give a true and fair view of the Council's financial position.

This report summarises the findings from my review of the Council's financial systems and IT control environment.

The Council needs to improve the controls operating within some of its systems to safeguard its assets and ensure that transactions are correctly recorded within the statement of accounts.

I have identified some control weaknesses in the Council's systems and made recommendations to improve arrangements. The section on detailed audit findings provides a full summary of the issues I identified. The Action Plan, agreed with officers, is at appendix 1.

I have made recommendations to improve and formalise arrangements for:
■ Journal authorisation;
■ Council tax write offs, and;
■ IT control environment.

The background to the professional practice I must follow and my audit approach are shown in appendix 2.

Detailed audit findings

I review of the Council's financial systems and IT control environment. These are the issues I want to raise with you.

Table 1: **Audit findings**

Finding	Risk	Recommendation
Journals		
No documented procedure for authorising manual journals. In practice they are authorised by Assistant Accountant or above although some journals, such as year-end accruals, would normally be authorised by the Chief Accountant.	High value or complex journal adjustments may not receive proper scrutiny and incorrect entries could be made to the ledger.	**R1** Formalise procedures for the authorising manual journals. This should specify level of authorisation required for different types and value of journal.
Council Tax		
Cases identified for write off are written off on the Council tax system. Details are then recorded on a spreadsheet. Quarterly, the spreadsheet listings is sent for write off approval. There is no reconciliation of the write offs approved to the write offs on the system.	A debt may be written off on the system but subsequently not approved.	**R2** Carry out quarterly checks to ensure that write offs on the system have all been properly approved ie approved write off spreadsheet record agrees to system.
IT issues		
There is an ICT Connect shared service with Allerdale BC. Delays have caused a lack of standardised IT policies and procedures in place across the two authorities.	ICT Connect fails to realise all potential efficiency savings that should be gained through a shared service.	**R3** Review progress made by ICT Connect regarding the completeness and standardisation of policies and procedures across both authorities.

Finding	Risk	Recommendation
Written requests for IT access for new starters to the General Ledger, Accounts Payable and Accounts Receivable are not required. Reliance is placed on the knowledge of the two officers who can add users to the system.	New users may get inappropriate access to the Council's financial systems.	**R4** Ensure arrangements for adding new starters to the financials system are formalised with written authorised requests stating the level and areas of access required.
Testing of a leaver identified a case where there was a delay of over two months in removing the network access.	Weaknesses may exist that allow unauthorised access to the Council's IT network and systems.	**R5** Remove access rights to Council systems as soon as possible after the officer leaves their employment.

Appendix 1 – Action plan

Recommendations	
Recommendation 1	
Formalise procedures for the authorising manual journals. This should specify level of authorisation required for different types and value of journal.	
Responsibility	Chief Accountant
Priority	Medium
Date	April 2012
Comments	Matrix to be prepared showing authorisation procedure and levels of approval required.
Recommendation 2	
Carry out quarterly checks to ensure that write offs on the system have all been properly approved i.e. approved write off spreadsheet record agrees to system.	
Responsibility	Shared Service Partnership Manager – Revenues and Benefits
Priority	Medium
Date	July 2012
Comments	Operational reasons for write off prior to formal approval to avoid unnecessary recovery action and allows officers to concentrate on current arrears. Quarterly reconciliations to be undertaken between Council Tax System, Executive reports and spreadsheets.

Recommendation 3	
Review progress made by ICT Connect regarding the completeness and standardisation of policies and procedures across both authorities.	
Responsibility	Shared ICT Manager
Priority	High
Date	July 2012
Comments	The standardisation of policies and procedures across both authorities was originally planned to form a major part of ictCONNECT workload for 2010/11. Progress has been slower than planned due to resourcing issues. The introduction of additional staff in January 2012 will allow us to complete this task by July 2012.
Recommendation 4	
Ensure arrangements for adding new starters to the financials system are formalised with written authorised requests stating the level and areas of access required.	
Responsibility	Shared ICT Manager / Financial Services Manager
Priority	Medium
Date	September 2012
Comments	Process to be formalised.
Recommendation 5	
Remove access rights to Council systems as soon as possible after the officer leaves their employment.	
Responsibility	Shared ICT Manager
Priority	High
Date	Immediate
Comments	

Appendix 2 – Background and audit approach

Background

International Standards on Auditing (ISAs) set out the professional practice I must follow in auditing the Council's accounts. They allow me to test systems on a cyclical basis under my agreed testing strategy. I gain assurance over the assertions the Chief Finance Officer makes when he authorises the accounts for issue by testing controls within a system. These assertions are listed below.

Revenue Accounts
- Occurrence: the transaction has occurred and relates to the Council.
- Completeness: amounts relating to the transactions have been recorded in full.
- Accuracy: amounts relating to the transactions have been recorded accurately.
- Cut-off: transactions have been recorded in the correct accounting period.
- Classification: transactions have been recorded in the correct codes/headings.

Balance sheet
- Existence: transaction or event has occurred.
- Rights and obligations: the Council owns or is entitled to use it.
- Valuation and allocation: amounts relating to the transactions have been recorded accurately.
- Completeness: amounts relating to the transactions have been recorded in full.

Disclosure
- Classification: amounts are recorded under the correct description.

Audit approach

As part of my work each year I must understand the systems that record the transactions that lead to material figures in your annual accounts. The systems that lead to material figures in the Council's accounts are:

■ General ledger;
■ Payroll;
■ Accounts receivable;
■ Accounts payable;
■ Loans;
■ Investments;
■ Cash receipting;
■ Council Tax;
■ NNDR;
■ Housing Benefit;
■ Asset register;
■ Contractor Plus; and
■ Car parking income.

My audit approach is to annually refresh my audit documentation of each material system and identify the key controls within the system. I then walk a transaction through the system to confirm that controls within the Council's main financial systems exist and operate as expected. Controls are in place to safeguard the Council's assets and to ensure that transactions are accounted for correctly.

I also consider systems which record transactions that lead to figures in the statements which are considered material due to their sensitivity. These are Members' allowances, senior officer remuneration, related party transactions, audit fees, and termination benefits.

Where controls are in place, and I can test them, and they work as intended, I can place reliance on them to support the entries in the statement of accounts. However, if I find controls are not working properly and cannot rely on their operation to provide audit assurance, I have to undertake additional audit work. The audit fee is based on an assumption that controls are operating effectively.

The ISAs also require me to understand the key elements of your Information Technology (IT) control environment and to consider any risks of material misstatement arising from identified weaknesses.

I seek to rely on the work of Internal Audit wherever possible.

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