



Corporate Services (APPENDIX C)

Internal Audit Services

Audit of Main Accounting System and
Budgetary Control

Material Systems Review

Final Report

30th March 2007

Lead Auditor	
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Recipient of Report	Action Required	Mgmt Summary	Applicable Section(s) of Matters Arising	Appendix B to note
Head of Financial Services.	- Note action required for follow up in approx. 12 months	Full Summary	All Sections	B (i)
Head of IT Services	- Note action required for follow up in approx. 12 months	Full Summary	Section 3	B (ii)
Director of Corporate Services	Final report – for info only	Full Summary	All Sections	All
Deputy Chief Executive	Final report – for info only	Full Summary	All Sections	All
Chief Executive	Final report – for info only	Full Summary	All Sections	All
Audit Committee	Final report – for info only	Full Summary	All Sections	All

1. Reason for the Audit

- 1.1. The audit of the Main Accounting System and Budgetary Control was undertaken as part of the agreed Audit Plan for 2006/07 and forms part of the annual schedule of mandatory material system reviews.
- 1.2. For 2006/07, the agreed audit approach was as follows:
- Follow up the agreed recommendations arising from the 2005/06 audit review,
 - Undertake system review and testing on the main system controls,
 - Ensure that the System Description Notes produced during the 2005/06 audit are current and complete.

2. Background Information / Summary of the Audit Area

- 2.1. The Radius Financials accountancy package incorporates the General Ledger and 3 subsidiary systems - Debtors, Creditors and Purchasing. ICON Bank Reconciliation and Cash Receipting are also fundamental to the main accounting system and processes.
- 2.2. As the General Ledger along with Creditors, ICON Bank Reconciliation and Cash Receipting went live on 1st April 2004, 2006/2007 was the third full year of usage, including the close-down of accounts.
- 2.3. It should be noted that as it was necessary to start this audit in December 2006 to meet the programme of material audits for the year, unless otherwise stated, samples have been restricted to the period April to December 2006.

3. Scope of the Audit

- 3.1. Audit testing and verification has been carried out to form an opinion over the adequacy of systems and controls in place relating to the risks identified. Key areas for review are:

Matters Arising – Section of Report	Area Examined
1.	Follow up of Agreed Recommendations from 2005/06
2.	Policies and Procedures
3.	Financial Information Systems and Security of Data
4.	Coding Structure
5.	Budgetary Monitoring and Control
6.	Capital Monitoring
7.	Feeders
8.	Suspense Accounts
9.	Journals
10.	Bank Reconciliation
11.	System Procedures.

4. Associated Risks of Providing this Service/Function

4.1. Examination of the Risk Registers noted the following identified risks:

Strategic Risks

Ref	Risk Description	Risk Score
1	<p><u>Financial Management Information provided must be accurate, robust & future-proof for Heads of Service to manage</u>, failure leads to:-</p> <ul style="list-style-type: none"> • Poor Management Decisions; • Loss of credibility in information provided; • Heads of Service fail to focus on key objectives not linked to performance; • Not linked to performance management; • Failure to adopt best practices and achieve value for money. 	9
2	<p><u>Medium-Term financial planning and maintaining asset values</u>, failure leads to:-</p> <ul style="list-style-type: none"> • Risk of systems and procedures failing to address the Medium Term Financial Plan objectives. • Risk that expenditure not linked to key objectives and priorities; • Fails to be forward looking and programmed; • Lack of corporate ownership; • Failure to achieve balanced budget through the budgetary process; • Failure to match future commitments and aspirations compared to funding available; • Maintaining asset values. 	8
12	<p><u>Financial Reporting</u>.</p> <ul style="list-style-type: none"> • Failure to improve the standard of all working papers in line with Audit Commission requirements. <p>Failure will lead to reputational damage, have an impact on the overall CPA Assessment and form a poor relationship with the Audit Commission.</p>	9

Operational Risks:

Ref	Risk Description	Risk Score
3	<p><u>Qualified Opinion on Annual Statement of Accounts.</u></p> <ul style="list-style-type: none"> Annual Accounts need to be complete by the 30th June and certified without qualification by the 30th September. There is a risk that the above may not be carried out in accordance with the required deadline and to an acceptable standard. This risk is financial and reputational. It applies to all stakeholders and Directorates. 	6
4	<p><u>Reporting of Financial Implications.</u></p> <ul style="list-style-type: none"> There is a risk that reports are not received for comment in time to enable appropriate financial comments to be included prior to the distribution deadline. There is a risk that the report goes to the wrong person for comment. There is a risk that the information produced is not accurate. The risk could be financial and reputational and over any period of time. The report content will determine which stakeholders it affects. 	4
5	<p><u>Provision of Advice and Information</u></p> <ul style="list-style-type: none"> There is a risk that this will not be provided within the specified timescale or to the accuracy and quality that is required. Risks affects all stakeholders dependant on subject matter. 	4
8	<p><u>Financial Information Systems.</u></p> <ul style="list-style-type: none"> There is a risk that the current Financial Information System (FIS) is not maintained effectively and does not provide accurate financial information. There is a risk that the FIS does not provide information that Services need – as needs change. Risk that Government initiatives are not implemented. Risk that the system does not meet user's needs. 	4
9	<p><u>Service Charging Methodology.</u></p> <ul style="list-style-type: none"> There is a risk that the methods used by Services to recharge their service costs are un-meaningful and contradict regulations that certain codes set out 	4

	<ul style="list-style-type: none"> <i>Risk that services are not accurately costed/recorded and do not include accurate support services recharges.</i> 	
11	<p><u>Meeting Requirements of Existing and New Legislation & Guidance.</u></p> <ul style="list-style-type: none"> <i>Risk that changes to legislation regarding a relevant work area are not implemented.</i> <i>Risks that current guidelines, best practice and regulations are not followed (Audit & Accounts).</i> <i>Stakeholders affected will depend on issue.</i> <i>Financial & Reputational.</i> <i>Could be long-term.</i> <i>The risk recognised here is the failure to meet with the above requirements and hence receiving adverse commentary from the Audit Commission.</i> 	4

4.2. Other risks identified by Audit Services as part of this audit are considered to be:

- Information Security.*

Please note that on conclusion of the audit, any critical risks outline at 4.2. should be assessed by the relevant Director for incorporation into the Directorate's Risk Register or, if considered to be a strategic risk, for discussion at the Risk Management Group.

5. Overall Conclusion of the Audit Review

- 5.1. The issues concerning the Bank Reconciliation system, which were previously reported in 2005/06 have now been fully resolved with the system being monitored on a daily basis to prevent any problems recurring.
- 5.2. General recommendations have been made throughout the audit which are intended to improve on current procedures and strengthen existing internal controls.

Financial Services, Corporate Services Directorate

The **Head of Financial Services** should complete the shaded areas below.

Please ensure this includes the officer responsible for overseeing the implementation, the perceived level of risk attached to the issue and the target date in order to fully address the recommendation. For further details on how to respond to audit reports please refer to the guidance notes attached as Appendix A.

<u>Ref</u>	<u>Issue</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Action to be Taken (including responsible officer for overseeing the implementation)</u>	<u>Level of Risk (H, M or L)</u>	<u>Target Date</u>
1a.	Although all recommendations made in the 2005/06 audit review have been considered, time and resource implications have meant that not all were actioned at the time of the 2006/07 review.	That Financial Services staff continue to update Audit Service on the progress of these agreed recommendations	B	<p>The outstanding recommendations from the 05/06 audit will be implemented. (Actions taken may not be exactly as agreed due to progress made during the 06/07 review).</p> <p>It should be noted that retention is now a corporate issue that is subject to a People, Policy and Performance review.</p>	<p>M</p> <p>M</p>	<p>Apr 07</p> <p>N/A</p>
4a.	The 'Request for a New Ledger Code' sheet created by the Finance Officer has never been implemented. The current audit-trail available for reviewing code creations/deletions or amendments is insufficient.	The 'Request for a New Ledger Code' sheet should be introduced as standard. It should also be utilised for code amendments and deletions. Where appropriate, the budget holder (or designated deputy) should authorise the creation/amendment/deletion. All sheets should be filed to ensure that there is a proper audit trail.	C	To reintroduce this procedure would not be beneficial and the previous audit trail produced was never reviewed. Comments will be added into the General Ledger to provide further information regarding the reason for the code creation/amendment/deletion.	L	30.06.07

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Summary of Agreed Actions

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	Senior Accountant Assistants are able to link codes and change descriptions, but ideally the Systems sections should be able to monitor all creations/amendments. Whilst it is appreciated that that facility to print off an audit report to flag up code creations/deletions/amendments is not yet available, there is no procedure in place so that the Principal Finance and Systems Officer can review the same.	When the report is available following testing on the update, the Principal Finance and Systems Officer should utilise the report on a monthly basis to reconcile the original requests and to ensure that all creations/deletions and amendments are authorised and valid.		It should be noted that the D&S section still maintain the Cost Centres. The reporting facility will be developed as part of the ledger development plan. This, however, is a resource intensive exercise and there are other pressures on the section.	L	31.12.07
4b.	At present, code creations/amendments and deletions are communicated to the budget holders through the monthly Financial Information System (FIS) reports but are not highlighted or are easily recognisable.	The dissemination of coding information alongside the FIS reports should be considered.	C	This matter will be discussed with the users/budget holders to determine their specific requirements.	L	30.06.07
5a.	True virements have not been actioned in compliance with Financial Procedure Rules. Virement forms have been	Financial Services Staff should be reminded of the Financial Procedure Rules regarding the signing and authorisation of virements and the importance of applying them in each instance. The Financial Procedure Rules	A	The specific instances identified by Audit Services will be investigated and any changes necessary will be included as part of the review process.	L	30.04.07

	signed by an unauthorised officer.	state that it is the responsibility of <i>Directors</i> to authorise virements. It was identified that other senior officers were authorising virements on occasion. If this is to be the position due to resource reasons, then the virement form should be amended and the Financial Procedure Rules duly updated to reflect this decision, otherwise, all forms should be signed by the relevant Director.				
5b.	There are no formal agendas or minutes of Budget Holders Meetings maintained. Therefore any decisions reached are not recorded and agreed as a true record.	To decrease the risk of contention over budgeting issues, it is advised to formalise and record the monthly meetings between Financial Services and Budget Holders	B	To formalise the existing practice it is proposed that bullet points of each budget monitoring meeting should be produced and issues will be followed up.	L	31.08.07
9a.	Hard copy journals are not being manually authorised on a regular basis. Hard copy supporting documentation is not always attached to journals. Although it is appreciated that there is limited space on the K Drive, the facility within Radius to attach electronic supporting documentation is not being utilised.	Daily procedures should be introduced to authorise all hard copy journals. Wherever possible, documentation should always be attached to journals to provide a full audit trail. Wherever possible (especially in the absence of hard copy information), documentation should always be attached to journals electronically to provide a full audit trail.	B	The authorisation process for journals will be considered and reviewed as part of the financial guide update. Any changes to current practices will be provided to all relevant Financial services staff and audit services. In the meantime, staff will be reminded of current procedures to attach supporting evidence wherever possible. Any changes following the review will be communicated to all relevant staff	L	30.04.07

	Whilst it is acknowledged that standard journal sheets are not always required (e.g. in the case of spreadsheet uploads), journals references were not always noted on the documentation which leaves an insufficient audit trail.	Journal references should always be clearly stated on the hard copy, especially in the absence of a standard journal sheet cover. However, the standard journal sheets should be used wherever possible				
10b.	There is a material difference between the bank General Ledger figure on the traditional reconciliation and the bank General Ledger figure on the systems analysis section of the movement reconciliation. It was identified that this was due to the fact that the 2005/06 movement figure has not yet been brought forward into the current accounts.	The 2005/06 movement figure should be brought forward into the accounts as soon as possible.	B	2005/06 has now been closed and rolled over therefore no further action is required.	L	Immediate
11a	System policies and procedures are outdated.	<p>Directorate Management Team (DMT) should overview the regular review and updating of system procedures and ensure that they are maintained. The issues highlighted in Section 11 of this report should be actioned as soon as resources allow.</p> <p>Financial Services staff should ensure that there is provision in</p>	B	<p>This will be completed by 30.04.07 when the Technical accountant has summarised the current position.</p> <p>Relevant personnel have been requested to update their sections by 31/03/2007.</p>	L	31.03.08

		the 2007/08 work plan to update the current Financial Guide. These amendments should include the changes to the reporting of the Statement of Accounts.				
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IT Services, Corporate Services Directorate.

The **Head of IT Services** should complete the shaded areas below.

Please ensure this includes the officer responsible for overseeing the implementation, the perceived level of risk attached to the issue and the target date in order to fully address the recommendation. For further details on how to respond to audit reports please refer to the guidance notes attached as Appendix A.

<u>Ref</u>	<u>Issue</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Action to be Taken (including responsible officer for overseeing the implementation)</u>	<u>Level of Risk (H, M or L)</u>	<u>Timescale</u>
3a.	The IT Security Policy does not presently deal with the security arrangements for officers who are required to take work home.	The Head of IT Services should ensure that these security arrangements are incorporated into the IT Policy.	B	The (draft) IT Security Policy now incorporates these security issues. It is estimated that the final policy may not be available for at least six months.	M	30.09.07
3b.	The IT Security Policy does not include the instructions regarding the treatment of transferred staff.	The Head of IT Services should ensure that procedures are implemented that ensure that Personnel instructs all system administrators of any leavers/starters or transferees that require access to the system. <i>N.B - This is an outstanding recommendation from the Debtors 2005/06 review.</i>	B	A meeting has been scheduled for April 2007 between Audit Services, the Head of IT Services and the Infrastructure and Network Manager to discuss these issues.	M	30.09.07

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Follow up Schedule of 05/06 Agreed Actions

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Financial Services, Corporate Services Directorate

Date Follow up Audit completed 15/11/06

Key Officer responsible for implementing Agreed Actions: Head of Financial Services

Ref	Issue Raised	Agreed Audit Action to be Implemented	Grade	Target Date	Details of action taken to implement this Agreed Audit Action	Actual date	Is the responsible key officer satisfied that the Agreed Audit Action has been fully implemented? – <i>include any matters outstanding / concerns arising</i>
2(a)	Although some areas of the Financial Guide (issued April 2004) have been reviewed, the Guide is now out of date and requires updated.	The Central Procedures Manual and the Financial Guide should be monitored directly by the Head of Financial Services and progress reported directly to the Director of Corporate Services through regular DMT meetings. This progress should then feed into the Code of Corporate Governance Action Plan.	B	June 06 – April 07	An update to the Financial Guide is currently being co-ordinated by the Technical Accountant	April 2007	This matter has been given greater importance following the resolution of the Bank Rec.' programme. April 2007 is the anticipated date for completion.
2(b)	As above.	The management and update of the Financial Guide needs to be reviewed to ensure it reflects current financial, accounting and budgetary arrangements, that is written in non – financial Jargon so all managers can understand its contents and it is widely available to all who need to refer to it.	B	June 06 – April 07	See Above item 2(a)	April 2007	As above

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3(a)	Whilst a retention of records document is in place which forms the basis of a weeding policy, it is not up to date or generally referred to.	An up to date retention and weeding policy to cover both manual and electronic files should be created/updated. This would cover the archiving of documents from the Accountancy K: Drive. This should form part of the Financial Guide.	C	June 06 – April 07	The whole issue of data retention and records retention is currently part of a Corporate Information Audit, which PPP are implementing. Corporate Services will adhere to the recommendations of this report when published.	TBA	This matter has been raised at SMT and by the IEG.
5(a)	Procedure notes detailing the facility to uplift the previous years' budget directly in the Ledger (with the aid of a separate control spreadsheet) do not provide sufficient explanatory details of the process.	The agreed procedures to establishing budgets, calculating the necessary uplifts, the level of analysis within each Directorate and the format in which it should be presented needs to be agreed and documented.	C	June 06 – April 07	The Technical Accountant and Finance Officer are in the process of documenting this matter.	April 2007	See item 2(a) above.
5(b)	Whilst revised procedures concerning the treatment of virements have been drafted in response to an audit recommendation from the 2004/05 audit review, these revisions are still to be formally accepted by the Head of Financial Services and implemented. Any changes also need to be reflected in the Financial Guide.	The implementation of the revised procedures for virement should be progressed.	B	May 2006	<p>This matter has been referred to the Chief Accountant who has briefed staff on revised procedures.</p> <p>Additional amendments are now required to include Capital expenditure following internal Accountancy discussions.</p> <p>Revised procedures will be incorporated in the Financial guide</p>	Oct 06	
5(d)	It was evident that sometimes budget	Accountancy staff should be reminded that virement	B	May 2006	See item 5(b)	Oct 06	

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	amendments and virements are being input to the Ledger before they are authorised.	form should be authorised before they are processed.					
6(a)	There have been a few meetings of the Capital Projects Board (CPB) from which some minutes are present. It was planned that the remit of the CPB was to be reviewed as part of stage 2 of the organisational restructure (February 2006).	The implementation of the CPB should be progressed – the Terms of Reference should be updated, officer attendance agreed, a chairperson should be nominated and regular meetings scheduled – <i>for further guidance see the points arising from the UoRs self assessment.</i> The work of the Capital Projects Board should formally report up to an appropriate Senior Management /Member forum.	B	from May 2006	The Capital Projects Board was created in August 2006. Revised Terms of Reference and reporting structures have been incorporated.	Aug 06	A new Board was created in August 2006 and reports to SMT via the Deputy Chief Executive.
6(b)	The CPB's role should be better established and feed in to the methodology to manage and monitor capital projects within the established Programme. The whole process should be examined with the view to making it more transparent and continuing compliance/ reference to FPRs (B53 – 66).	The methodology to manage and monitor capital projects within the established Programme should be reviewed by the Capital Projects Board / Accountancy Services and procedures fully documented.	C	from May 2006	A project manager has been appointed for each scheme utilising Prince 2 methodology. C Mitchell is co-ordinating all CPB workload. Finance staff will document further procedures.	Aug 06	See item 6 (a)
9(a)	In response to a recommendation arising from the 2004/05 audit review of this area, revised proposals had been	Drafted revised procedures concerning the management and control of journal and internal transfers arising from the	B	Aug 06	This matter has been referred to the Chief Accountant who has briefed staff on revised procedures.	Aug 06	

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	drafted to improve the administration of transfer invoices and journal entries, but these are yet to be formally approved and implemented. Amended practice needs to also be reflected in the Financial Guide.	agreed actions of the 2004/2005 core audit should be formally accepted and implemented for 2006/07.			Revised procedures will be incorporated in the Financial guide.		
9(b)	Through discussions it was noted that attempts have been made to store a lot of the supporting documentation electronically (see recommendation arising from the 2004/05 core audit of this area). However from the testing carried during the 2005/06 review it was concluded that this does not seem to have been widely implemented.	Consideration should be given to use, more widely, the facility within Ledger to attach documents to store supporting evidence with journals.	C	Mar 07	This procedure has been reiterated and discussed at team meetings with all Finance staff.	Nov 06	
9(c)	Findings from the testing undertaken suggest that general quality checks prior to filing should be made to ensure accuracy and completeness of processes.	All transfer invoices should be checked thoroughly before being entered and authorised on the system.	B	May 06	This procedure has been reiterated and discussed at team meetings with all Accountancy staff	Nov 06	
9(d)	As above.	Staff responsible for checking Transfer Invoices should have access to the Authorised Signatures List to ensure that receiving department signature is appropriate.	C	Mar 07	Signatories List is now available via the Accountancy K drive. Information previously provided in Creditors Audit.	Oct 06	This information has been provided in previous Audit responses. However, further updates will be necessary in the coming months as part of the E Procurement process.

Audit of Main Accounting System & Budgetary Control**Follow up Schedule of 05/06 Agreed Actions****APPENDIX C (i)**

10 (a)	With regards to the 2004/05 bank reconciliation, the Audit Commission raised concerns regarding the integrity and completeness of the data and process. As the bank reconciliation is a cumulative process it is difficult to progress and concentrate purely on 2005/06, as at the time the outcome of the 2004/05 accounts had not been determined.	Internal Audit should be kept informed of progress made to the year-end 2005/06 bank reconciliation.	B	Mar 07	Internal Audit have been made aware of progress with the 06/07 Bank Reconciliation and that the matter has since been resolved.	Jan 07	Bank Reconciliation for 2006/07 caused significant resource implications and we are now pleased to report that the revised procedures put in place are working adequately.
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