FINAL INTERNAL AUDIT REPORT

CHIEF EXECUTIVES DEPARTMENT

MAIN ACCOUNTING SYSTEM AND BUDGETARY CONTROL AUDIT FOR 2013-14

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MAIN ACCOUNTING SYSTEM AND BUDGETARY CONTROL - AUDIT FOR 2013-14

INTRODUCTION

1. This report sets out the results of our systems based audit of the Main Accounting System and Budgetary Control. The audit was carried out in quarter 4 as part of the programmed work specified in the 2013-14 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee.

2. The controls we expect to see in place are designed to minimise the department's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be corrected to assist overall effective operations.

3. The original scope of the audit was outlined in the Terms of Reference issued on 10th January 2014. The period covered by this report is from April 2013 onwards.

AUDIT SCOPE

4. The scope of the audit is detailed in the Terms of Reference.

AUDIT OPINION

5. Overall, the conclusion of this audit was that substantial assurance can be placed on the effectiveness of the overall controls. Definitions of the audit opinions can be found in Appendix C.

MANAGEMENT SUMMARY

6. The audit reviewed controls in the following areas: Policies, procedures and training, IT security, reliability and integrity of transactions, feeder system interfaces and authorisation of journal entries, year end procedures, revenue budget preparation and forecasting.

7. This audit did not include testing on the controls over new system users and disabling of user rights for leavers as this was incorporated within the recently completed Creditors audit which identified a need to review disabling of user rights for leavers.

8. **Budgetary Control** – Control arrangements were satisfactory with no significant unknown budget variance identified. However, further work is required to ensure that the new budget monitoring arrangements, Full Budget Monitoring (FBM) and Employee Budget Monitoring (EBM), are fully embedded within the Council, see below:

    - Budget monitoring and forecasting procedures are not being adhered to in a timely manner, and
    - The new FBM system has not been fully embedded with only just over half of Budget Managers using it on a regular basis.

9. **Main Accounting System** – The overall system reconciliations were satisfactorily completed within agreed timescales with no significant unexplained variances. Some areas for improvement were identified to aid ongoing compliance and to reduce the possibility or adverse impact upon the integrity of the main accounting system, see below:

    - Outdated procedure notes found online, and
    - The disaster recovery plan does not fully consider how a financial system failure would affect the authority.

SIGNIFICANT FINDINGS (PRIORITY 1)

10. A significant numbers of budget managers are failing to review their monthly budgets on FBM within the timescales specified within the FBM User Guide (refer "Key Dates for Completion" page 32) in a timely manner and a discrepancy exists between the budget monitoring procedures and the actual budget monitoring process that takes place.

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

11. The findings of this report, together with an assessment of the risk associated with any control weaknesses identified, are detailed in Appendix A. Any recommendations to management are raised and prioritised at Appendix B.

ACKNOWLEDGEMENT

12.   Internal Audit would like to thank all staff contacted during this review for their help and co-operation.

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
1	**Budget Forecasting**: To enhance budget monitoring and to make forecasting more effective a Full Budget Monitoring system (FBM) was introduced in 2011. The FBM procedure notes state that Budget Holders should be submitting their forecasts between days 1-5 of the month with their line managers, the Reviewer, confirming the budget holders' submission on days 6-7. Although several reminders have been circulated recently, significant numbers of budget holders do not appear to be using FBM to evidence their review/forecast as an aid to effective budget management. Audit testing for January 2014 revealed that as at 25/02/14 (day 25) from a sample of 97 budget codes budget monitoring review had only been completed for 23 budget codes (24%). The submission/budget monitoring review rates for the past five months were 45% (Sept), 26% (Oct), 30% (Nov), 49% (Dec) and 64% (Jan), see details at Appendix D. The increased submission rate for January was achieved as at 12/03/14, 6 weeks after the January month end.	Where forecasts are not reviewed in a timely manner and submitted on a regular basis, there is a risk of decisions being taken on incomplete or outdated financial data.	**Ensure that all budget holders fully embrace and utilise FBM to forecast on a monthly basis and that forecasts are submitted in a timely manner as per the established procedure. [Priority 1]**

Priority 1
Required to address major weaknesses and should be implemented as soon as possible

Priority 2
Required to address issues which do not represent good practice

Priority 3
Identification of suggested areas for improvement

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
	For some budget holders where base data comes from systems such as Carefirst and Confirm, budget approval is completed at Assistant Director level. For January 2014 this accounted for a further 37 budgets being authorised raising the percentage to 70%.		
	Through discussion it was revealed that for some of where budget forecasts had been submitted, these had been prepared/ entered by the Accountant and not by the service budget manager. It is important that budget holders are encouraged to engage in the process of reviewing their budgets as they should best placed to know of emerging/ previously unforeseen pressures and trends that could affect expenditure.	Where budget managers do not undertake their own forecasts, a layer of scrutiny is lost from the process.	

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Priority 2
Required to address issues which do not represent good practice

Priority 3
Identification of suggested areas for improvement

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
2	**Procedure notes:** Procedure notes exist to support officers with completing tasks correctly. It is to ensure that published instructions/guidance (Procedure Notes) is accurate and current. In reviewing guidance available online it was noted that some of the available information was no longer current. For example, if officers searched online for closing of accounts procedure, they will only find the instructions for 2007/08. Testing confirmed that relevant up to date instructions are Circulated to key officers annually however the online availability of out of date guidance could result in unnecessary errors.	The on-line presence of out of date guidance increases the risk of incorrect or inconsistent working practices and potentially duplicated and or ineffective effort.	**Ensure that published procedure guides are up to date through regular review.** **[Priority 3]**

Priority 1	**Priority 2**	**Priority 3**
Required to address major weaknesses and should be implemented as soon as possible	**Required to address issues which do not represent good practice**	**Identification of suggested areas for improvement**

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
3	**Business continuity plan:** The Business Continuity Plan (BCP) provided for Financial Services was dated 16/4/09 and there is no evidence of review since then even though there have been changes since. The BCP is not fully completed. The 'Critical Activity Recovery Plans' (page 17) only makes reference to the BACs system and the 'Minimum Resource Requirement' (page 19) has not been completed. Whilst it is acknowledged that some aspects of IT Management has been outsourced; within a comprehensive BCP there is still a need to document how the business will operate following an incident and how it expects to return to 'business as usual' in the quickest possible time afterwards. Planning to reduce the impact of such incidents should include arrangements to address failures by any third parties who have input to supporting the integrity of the main accounting systems.	Where the effect of system loss has not been fully considered, there is a risk that should the system fail, the Council's ability to provide critical activities may be compromised. Where business continuity plans are not reviewed on a regular basis and evidenced as such, there is a risk of incorrect procedures being followed in the event of an incident.	**Ensure that business continuity plans are reviewed on a regular basis and evidenced with date and author/reviewer. [Priority 2]** Such reviews should ensure that the business continuity plan is complete with all key services included on the critical activity recovery plans.

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MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
1	Ensure that all budget holders fully embrace and utilise FBM to forecast on a monthly basis and that forecasts are submitted in a timely manner as per the established procedure.	Priority 1	Agreed. If the Budget Holder fails to sign off FBM each month then the Head of Finance will escalate to the Director of the relevant department to ensure compliance. The Director is able to check on the system each month that the budget holders have signed off FBM.	Budget Holder needs to ensure they sign off their Budget Monitoring each month. Directors need to ensure this is done.	July 2014 budget monitoring cycle
2	Ensure that published procedure guides are up to date through regular review, evidenced with date and author/reviewer.	Priority 3	Updates will be done depending on timescales. This is an issue across the board for all information published on the Council's intranet.	Data/procedure guide owners.	Ongoing.
3	Ensure that business continuity plans are reviewed on a regular basis and evidenced with date and author/reviewer.	Priority 2	This is kept up to date and the 2014/15 Business Continuity Plan has been sent to the Auditors.	Deputy Director of Finance	Already in place

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Required to address major weaknesses and should be implemented as soon as possible

Priority 2
Required to address issues which do not represent good practice

Priority 3
Identification of suggested areas for improvement

As a result of their audit work auditors should form an overall opinion on the extent that actual controls in existence provide assurance that significant risks are being managed. They grade the control system accordingly. Absolute assurance cannot be given as internal control systems, no matter how sophisticated, cannot prevent or detect all errors or irregularities.

Assurance Level	Definition
Full Assurance	There is a sound system of control designed to achieve all the objectives tested.
Substantial Assurance	While there is a basically sound systems and procedures in place, there are weaknesses, which put some of these objectives at risk. It is possible to give substantial assurance even in circumstances where there may be a priority one recommendation that is not considered to be a fundamental control system weakness. Fundamental control systems are considered to be crucial to the overall integrity of the system under review. Examples would include no regular bank reconciliation, non-compliance with legislation, substantial lack of documentation to support expenditure, inaccurate and untimely reporting to management, material income losses and material inaccurate data collection or recording.
Limited Assurance	Weaknesses in the system of controls and procedures are such as to put the objectives at risk. This opinion is given in circumstances where there are priority one recommendations considered to be fundamental control system weaknesses and/or several priority two recommendations relating to control and procedural weaknesses.
No Assurance	Control is generally weak leaving the systems and procedures open to significant error or abuse. There will be a number of fundamental control weaknesses highlighted.