

FINAL INTERNAL AUDIT REPORT
CHIEF EXECUTIVES DEPARTMENT

REVIEW OF MAIN ACCOUNTING SYSTEM AUDIT FOR 2017-18

Issued to: Tracey Pearson, Chief Accountant,
Claire Martin, Head of ECS and CEX Finance,
David Bradshaw, Head of ECHS Finance,
Claudine Douglas-Brown, Head of Exchequer Services,

Cc Peter Turner, Director of Finance,

Prepared by: Principal Auditor

Date of Issue: May 2nd 2018

Report No: CEX/09/2017/AU

REVIEW OF MAIN ACCOUNTING SYSTEM AUDIT 2017-18

INTRODUCTION

1. This report sets out the results of our systems based audit of the Main Accounting System for 2017-18. The audit was carried out in quarter 4 as part of the programmed work specified in the 2017/18 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. External Audit, within their report in 2016-17 dated 12/9/17, recommended that there should be a monthly process be put in place to check that journal transfers are confirmed as correct. This was highlighted to Audit Sub Committee in November 2017.

AUDIT SCOPE

4. The scope of the audit was outlined in the Terms of Reference issued on 31/01/2018. This review also included the follow up to the recommendations made within the 2016-17 audit.

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. Controls were in place and working well in respect of the supporting documentation, which was found to be readily available for the journals sampled.
7. Our testing identified the following issues which we would like to draw to management's attention:-
 - Journal transfers are processed by one authorised officer without any further approval process being in place. There is no regular management review of journals.
 - Supporting documentation was found not to be readily available in one case and when produced it contained an error, which was then corrected.
 - Five previous members of staff had since left employment at the Authority but remained on the list of current FIS users. Internal Audit were informed that managers are not always completing the leavers form correctly to ensure that access to Oracle is removed. Therefore, the FIS team are not being notified. Internal Audit were advised by the HR Support Services Team Leader on 2/5/18, that when a member of staff leaves the Authority, an end date is entered onto Resourcelink and that this starts a process whereby an email is generated which activates the suspension of the user's account on the last day of service. A finding has not been made within this report, but instead the process will be fully tested within the Starters and Leavers Audit for 2018-19.

SIGNIFICANT FINDINGS (PRIORITY 1)

8. There are no significant findings.

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

9. 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

10. 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	<p><u>Journal Transfer Approval</u></p> <p>A report was run detailing all journal transfers for the period April 2017 to January 31st 2018. Twenty, journal transfers were selected for review.</p> <p>Although journals are restricted to finance staff as detailed within the journal procedures, it was found that there is currently no approval of journal transfers undertaken and staff will self-approve journals.</p> <p>This was highlighted by External Audit in their 2016-17 report dated 12/9/17 and they recommended that a monthly process be put in place, whereby a sample of journals are checked to see if they are correct.</p> <p>Internal Audit agrees with External Audit, but recognises there are resource issues which have been highlighted to Internal Audit. Periodic sample checks could be undertaken to mitigate the risks identified, in the absence of separation of duties. These should ensure different types; levels and officers are reviewed as part of the sample checking. Reviews of these samples should determine whether there is a need for further</p>	<p>Incorrectly posted journals, duplicated journals, non-compliance with journal processing procedures.</p> <p>Ability to misstate the financial statements whether caused by fraud or error.</p>	<p>Adequate monitoring of journals transfers entered onto the financial systems should be in place.</p> <p>Journal transfers should be appropriately authorised. In the absence of individual approval, there should be periodic sample checks undertaken on journal transfers. (Reviews of the outcome of this should be considered to determine if further controls are required).</p> <p>[Priority 2]</p>

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
	<p>controls to be introduced. Journal approvals to be included in the sample are the manual journals undertaken and not automated system updates.</p>		
2	<p><u>Supporting Documentation</u></p> <p>A sample of journals was selected for review. One of the journals was processed by an authorised contractor. Supporting documentation was requested on 13/3/18 and again on the 26/3/18.</p> <p>This information was provided on 25/4/18. The Auditor was advised that the journal of £72,310 should have been for £74,210.00 and included an error of £1,900.</p> <p>This has subsequently been corrected.</p> <p>It should be noted that there are compensatory controls in place with checks are undertaken by the Finance staff of the contractors journals. However, these checks did not highlight this error.</p>	<p>Without supporting documentation, there is no audit trail to establish the reason for the journal.</p>	<p>Supporting documentation should be readily available to verify the reason for the journal transfer being made.</p> <p>[Priority 2]</p>

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

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
1	<p><u>Journal Transfer Approval</u></p> <p>Adequate monitoring of journals transfers entered onto the financial systems should be in place.</p> <p>Journal transfers should be appropriately authorised. In the absence of individual approval, there should be periodic sample checks undertaken on journal transfers. (Reviews of the outcome of this should be considered to determine if further controls are required).</p>	2	<p>Agreed.</p> <p>Quarterly sample checks will be undertaken by members of the Finance Management Team (FMT). This will include a sample of 20 journals each quarter. The sample will include a number of journals actioned by each finance team across a range of values.</p>	FMT	Effective from Qtr 1 2018/19

Project Code: CEX/09/2017/AU

Page 7 of 9

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

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
2	<p><u>Supporting Documentation</u></p> <p>Supporting documentation should be readily available to verify the reason for the journal transfer being made.</p>	2	Agreed – this is set out in current journal procedures	Senior Accountants	Immediate

Project Code: CEX/09/2017/AU

Page 8 of 9

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

OPINION DEFINITIONS

APPENDIX C

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.