



**FINAL INTERNAL AUDIT REPORT
CHIEF EXECUTIVE'S DEPARTMENT**

MAIN ACCOUNTING SYSTEM AND GENERAL LEDGER 2019/20

Issued to: Tracey Pearson, Chief Accountant
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Reviewed by: Head of Audit and Assurance

Date of Issue: 31 January 2020

Report No.: CEX/08/2019/AU

MAIN ACCOUNTING SYSTEM AND GENERAL LEDGER

INTRODUCTION

1. This report sets out the results of our internal audit (audit) of the Council's Main Accounting System and General Ledger. The audit was carried out as part of the work specified in the 2019-20 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee. The controls we expect to see in place are designed to minimise the Council's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be addressed by management.
2. The Council utilises the Oracle system to administer accounting processes, including all journal transactions and to provide sufficient management information to enable effective monitoring of the Council's accounts. Audit coverage included examination of: compliance with legislation and regulations; roles and responsibilities; completeness and accuracy of records; processing of journal entries; processing and approval of virements; clearance of suspense items; reconciliations with feeder systems; management information and reporting and governance.
3. We would like to thank all staff contacted during this review for their help and co-operation.

AUDIT SCOPE

4. The original scope of the audit was outlined in the Terms of Reference issued on 27 September 2019.
5. The following were considered to be the key risk areas inherent to the Council's main accounting system / general ledger:
 - Where staff do not act in compliance with policies and procedures, there is an increased risk that financial transactions may not be administered in accordance with legal, regulatory and accepted policy requirements.
 - If staff are not aware of their roles and responsibilities, there may be overlap and unnecessary duplication in some roles, and conversely there may be gaps or insufficient coverage of some areas. Staff may develop inconsistent working practices.
 - Where the collection of transactions is incomplete and inaccurate, or where insufficient coding arrangements exist, there is an increased risk that the accounts may become materially misstated or become inconsistent with accounting policies. The full cost of each service may therefore not be reflected accurately. Cost centres may be set up, amended or deleted without sufficient authorisation.
 - Where journals are not processed correctly, then the accounts may become materially misstated and may lead to incorrect management actions being taken in response to poor management of financial information.

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- Where transactions are allowed to sit in the suspense account without being allocated to the correct account code there may be income not appropriately allocated leading to inappropriate recovery action being taken. Where access to the suspense account is not controlled, there is an increased risk that inappropriate movements may be made without identification.
- Where regular reconciliations do not take place between the general ledger and income collection systems, bank accounts etc. there is an increased risk that general ledger will not be accurate thus leading to inaccurate financial reporting.
- Without timely and relevant information, managers and members will not be able to make informed decisions which could result in decisions being taken that are not the most appropriate or involve the Council taking on additional costs.
- Where governance is weak, there may be problems in long-term delivery and the service may not achieve best value.

AUDIT OPINION

6. Our overall audit opinion, number and rating of recommendations are as follows.

AUDIT OPINION		
Reasonable Assurance		(Definitions of the audit assurance level and recommendation ratings can be found in Appendix B)
Number of recommendations by risk rating		
Priority 1	Priority 2	Priority 3
0	1	2

SUMMARY OF FINDINGS

7. Controls noted to be in place and working effectively, based on the audit testing conducted, included:
- The Council’s Finance staff have access to several local procedure documents including expected processes for enacting journals and the timetable for the annual budget setting process.

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- Responsibility for the completion of specific tasks, including the processing of new journals, the approval for setting up subjective account codes and determining access to the Oracle system, is clearly assigned to individuals and teams.
 - For new cost centres to be set up, a form is required to be completed and submitted to the Council's Financial Systems Team. For a sample selected, in all cases a form was completed and the details evidenced as reviewed by the Council's Financial Systems Team.
 - In order for new account codes to be created, forms are required to be completed and then submitted to the Financial Systems Team, which are then routed to the Senior Accountant for approval. Sample testing confirmed this process was followed.
 - Only balanced journals are permitted to be posted onto the Oracle system.
 - Sample testing of 10 budget virements showed that, in all cases examined, the virement was supported by documentation and had been authorised in accordance with the Council's Financial Regulations and Procedures.
 - The Council's Error Code Suspense account is cleared consistently on a monthly basis.
 - The Full Budget Monitoring (FBM) system enables budget managers to perform monthly monitoring.
 - A quarterly review of the Council's budget is presented at meetings of the Council's Executive and PDS committees.
8. We would however like to bring to management attention the following issues:
- The Council's Financial Regulations and Procedures are dated November 2015, but are required to be reviewed every three years. Evidence of a 2018 review could not be demonstrated.
 - A summary is not maintained detailing the results of the quarterly journal testing undertaken by senior management within the Finance teams.
 - The Finance Team does not maintain a log of their control account reconciliations. The Financial Information System (FIS) team maintains a log of their control account reconciliation however the FIS team's log was not reviewed as part of the audit. There was no independent review or oversight of the reconciliations performed of the control accounts.

In addition to the above matters raised within this report, as part of the Creditors and Starters and Leavers audits undertaken as part of the 2018/19 audit plan, issues were identified in respect of password control and access to the Oracle system. Recommendations were raised, and agreed by management, including that new Oracle users or changes to user accounts

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should only be set up and processed in accordance with the authorised signatory listing. These recommendations were under review and will be followed up by Internal Audit. At the time of writing this report, these recommendations were yet to be fully implemented and have been considered in determining the assurance rating provided.

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, together with management's responses and timescales for implementation. Appendix B details the definition of the audit assurance and priority ratings.

**REVIEW MAIN ACCOUNTING SYSTEM AND GENERAL LEDGER
DETAILED FINDINGS AND ACTION PLAN**

No	Finding	Risk	Recommendation and Priority *Raised in previous Audit	Management Response	Agreed timescale and responsible manager
1	<p><u>Financial Regulations and Procedures</u></p> <p>The Council has a Financial Regulations and Procedures document in place which are dated November 2015. As stipulated within the Financial Regulations, there is an expected requirement to review at least every three years (by November 2018). However, it was confirmed that no such review had been conducted. It was noted that a review of Financial Regulations is in Q4 of the 2019/20 Audit Plan.</p>	<p>There is an increased risk that staff may not act in accordance with management expectations and that inconsistent practices could be performed by staff. As a result, the Council could suffer long-term reputational and financial damage.</p>	<p>The Council should review the Financial Regulations and Procedures document, including a review over roles and responsibilities, to ensure these are up to date and reflect current procedures.</p> <p>Once updated and approved, these should be made available to staff and any other relevant parties that the Council considers to be appropriate.</p> <p style="text-align: center;">Priority 2</p>	<p>Agreed.</p> <p>A review of Financial Regulations is currently being facilitated by Internal Audit.</p> <p>The updates to the Financial Regulations will incorporate comments/feedback from the Financial Management Team and other relevant officers.</p> <p>Any changes required will be recommended to the Director of Finance.</p>	<p>Head of Audit and Assurance</p> <p>31 March 2020</p>
2	<p><u>Journals Testing</u></p> <p>It was confirmed with the Chief Accountant that journal testing was undertaken for quarter two of the 2019/20 financial year,</p>	<p>There is an increased risk that trends cannot be identified and incorporated into staff learning, if dip sample test results and not</p>	<p>A summary detailing the results of the quarterly journal testing performed by the Finance Team's Senior Management should be maintained and communicated as appropriate.</p>	<p>Agreed.</p>	<p>Financial Management Team</p> <p>Quarter 3 2019/20</p>

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No	Finding	Risk	Recommendation and Priority *Raised in previous Audit	Management Response	Agreed timescale and responsible manager
	<p>whereby the journals posted were subjected to review by Senior Management within the Council's Finance Team. Evidence was provided which showed that a sample of 10 journals, concerning different narratives and posted by different Accountants, was selected for review. Evidence was also provided to demonstrate testing undertaken for quarter one of the 2019/20 financial year by the Head of Children's and Young People's Service (CYPS) Finance. However, we were informed that no summary was subsequently maintained or communicated detailing the outcomes of the testing.</p>	<p>recorded and communicated. As a result, future journals may be posted which do not comply with financial regulations, leading to possible material misstatements.</p>	<p style="background-color: #d4edda; border: 1px solid #c3e6cb; padding: 2px; display: inline-block;">Priority 3</p>		<p>(December testing)</p>
3	<p><u>Control Account Reconciliation</u> At the time of the audit the Principal Accounting Assistant / VAT Officer informed that the Finance Team does not</p>	<p>There is an increased risk that errors remain undetected and the Council's accounts are misstated.</p>	<p>A log of the control account reconciliations should be developed and maintained by the Finance Team to indicate when reconciliations of the control accounts have been completed.</p>	<p>Agreed.</p>	<p>Head of Corporate Finance & Accounting and Head of Finance ASC Health & Housing</p>

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No	Finding	Risk	Recommendation and Priority *Raised in previous Audit	Management Response	Agreed timescale and responsible manager
	<p>maintain a log of their control account reconciliations.</p> <p>On enquiry, the Head of Finance ASC Health & Housing informed that the Financial Information System (FIS) team maintains a log of their control account reconciliation. However, this log is not independently reviewed.</p> <p>These are potential concerns as the control gap may lead to issues not being identified and resolved in a timely manner.</p>		<p>The logs of control account reconciliations completed by the Finance team and the FIS team should be subject to independent review on a periodic basis. The completion of this log should serve as a means of highlighting and addressing any future gaps.</p> <p>Priority 3</p>		<p>April 2020</p>

Assurance Level

Assurance Level	Definition
Substantial Assurance	There is a sound system of control in place to achieve the service or system objectives. Risks are being managed effectively and any issues identified are minor in nature.
Reasonable Assurance	There is generally a sound system of control in place but there are weaknesses which put some of the service or system objectives at risk. Management attention is required.
Limited Assurance	There are significant control weaknesses which put the service or system objectives at risk. If unresolved these may result in error, abuse, loss or reputational damage and therefore require urgent management attention.
No Assurance	There are major weaknesses in the control environment. The service or system is exposed to the risk of significant error, abuse, loss or reputational damage. Immediate action must be taken by management to resolve the issues identified.

Recommendation ratings

Risk rating	Definition
Priority 1	A high priority finding which indicates a fundamental weakness or failure in control which could lead to service or system objectives not being achieved. The Council is exposed to significant risk and management should address the recommendation urgently.
Priority 2	A medium priority finding which indicates a weakness in control that could lead to service or system objectives not being achieved. Timely management action is required to address the recommendation and mitigate the risk.
Priority 3	A low priority finding which has identified that the efficiency or effectiveness of the control environment could be improved. Management action is suggested to enhance existing controls.