

Financial Systems Key Controls Review

Final Assignment Report

Allerdale Borough Council

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1. Introduction, Background and Objective

The 2020-21 Internal Audit Plan approved by the Audit Committee includes coverage of core financial systems.

This audit focused on the key controls within financial systems and involves review of the most significant controls within: General Ledger, Accounts Payable, Accounts Receivable, Treasury Management and Budgetary Control.

The overall objective of the review was to provide assurance that the most significant key controls in the areas detailed in the scope below are appropriately designed and operating effectively in practice.

2. Executive Summary

The following provides a summary of the assurance opinions for each area reviewed as defined in Appendix B.

Scope Area	Assurance Opinion
General Ledger	Substantial Assurance
Accounts Payable	High Assurance
Accounts Receivable	High Assurance
Treasury Management	High Assurance
Budgetary Control	High Assurance
Payroll	Substantial Assurance
Capital	Substantial Assurance

The following provides a summary of the key themes:

Sub Objective	Key Themes
General Ledger	<p>We confirmed that the Authority has in place a central control schedule which confirms the status of each key control account reconciliation, including a deadline for completion and signature requirement.</p> <p>Review of the control account schedule highlighted 10 reconciliations that had been completed later than the expected deadline and the reasons for this were not documented. General Income and Council Tax reconciliations that were due to be completed in December and January were not completed until February.</p> <p>It is noted that this was due to resource pressures as the responsible staff members were required to undertake emergency duties as a result of COVID-19. All reconciliations were completed in time with the quarterly reporting schedule. (Recommendation 1 – Medium)</p>

	<p>The control schedule has a section to be completed by the Head of Financial Services, however, this was incomplete for the three months that were reviewed.</p> <p>We reviewed a sample of key control reconciliations and confirmed that all included detailed and accurate workings. As above, there was no evidence to demonstrate that each reconciliation had been appropriately reviewed by an individual other than the preparer.</p> <p>Discussions highlighted that the templates used are currently outdate and require refreshing. (Recommendation 2 – Medium)</p> <p>Discussions highlighted that journal postings are restricted to 11 members of the Finance Team and require separate approval by an individual other than the creator.</p> <p>We confirmed that ‘super user’ access is limited to a small number of staff and the ledger is backed up on a daily basis.</p>
Accounts Payable	<p>Testing on a sample of invoices with a purchase order identified that all were supported by an appropriately approved requisition. In addition, there was segregation of duties between the requestor and approver. All payments were only made once the goods had been receipted with the exception of one case which related to start-up costs of a council subsidiary.</p> <p>Sample testing on invoices without a purchase order identified that all invoices were approved in line with the Authority’s signatory hierarchy.</p> <p>The organisation has in place standard operating procedures for adding new suppliers and making amendments to supplier bank details on the system.</p> <p>Sample testing confirmed that all supplier changes had been completed accurately and in a timely manner following suitable validation checks. It was identified that the Authority do not complete a periodic review of amendments to supplier bank detail changes due to restrictions with the functionality of the Total System. (Recommendation 5 - Low)</p>
Accounts Receivable	<p>The Authority has in place a Debt Recovery Policy which clearly outlines staff responsibilities and the processes in place for debt recovery.</p> <p>The policy is supported by a number of specific procedure notes and a set of Key Performance Indicators that are recorded on a monthly basis.</p> <p>A monthly aged debt report is produced outlining the customer, amount owed and how long overdue the debt has become. We completed sample testing on 6 long outstanding debts and confirmed that all had either been referred to the legal team or had an active recovery plan in place.</p>

	<p>All debts are referred to the Legal Team once the Finance Team have exhausted their options. Our testing confirmed that the Legal Team was promptly notified when required. There are processes in place to ensure that the Finance Team are notified once a debt chased by the Legal Team is recovered or written off.</p> <p>Write offs are completed on a quarterly basis and we confirmed that the write off schedule for Quarter 2 had received appropriate approval by the Head of Finance.</p>
Treasury Management	<p>A Treasury Management Activity summary is presented to the Council on a quarterly basis as part of the Finance Report. This outlines investment and borrowing activity for the year to date.</p> <p>We confirmed that the Authority has in place a bank mandate with Barclays and that all individuals included as signatories are current employees.</p> <p>Due to the limited number of signatories, the Authority only review the account signatories when an amendment is required such as a new starter or leaver.</p>
Budgetary Control	<p>The Budget was originally presented to the Executive Team and Council in February and March 2020 respectively. The report demonstrated the consideration of contract offers and the completion of a public consultation exercise.</p> <p>A revised budget was presented to the Executive Team in November 2020 and Council in December 2020 which recommended an increase in planned revenue expenditure and use of earmarked reserves due to budget pressures.</p> <p>The Executive Team receive a quarterly update with regards to the organisations performance against the budget. This includes a budgeted vs actual analysis, net expenditure on services analysis and earmarked reserves budget.</p> <p>On the last day of each month, budget holders are provided with access to the Total financial system for a limited period of time to review their current budget position and update the forecasted position.</p> <p>Budget forecasts are exported onto a spreadsheet, at which point the Finance Team are able to review submissions for completeness and accuracy. A quarterly review is produced for the Executive Team focusing on areas with significant variances of £30k and above.</p> <p>There are procedure notes in place to support budget holders through the process and the Finance Business Partner is currently in the process of developing a formal training package.</p>
Payroll	<p>We confirmed that a payroll reconciliation is completed on a monthly basis. As identified during General Ledger testing, the</p>

	<p>reconciliations are not signed off by an approver independent of the preparer. (See Recommendation 2)</p> <p>We completed sample testing on 15 starters, leavers and contractual changes and identified the following:</p> <ul style="list-style-type: none"> • All requests were processed in an accurate and timely manner by the HR Department; • All requests were processed in an accurate and timely manner by the Finance Department; • Initial and final payments had been accurately completed for starters and leavers respectively (accounting for owed annual leave etc.); <p>We requested further evidence around management approval of leavers and contractual changes, however, this was unavailable as supporting documents are not retained centrally by the Authority. (Recommendation 3 – Medium)</p> <p>We completed a walkthrough of the overtime and expenses processes and confirmed that there are suitable controls in place to ensure that payments are accurately managed following authorised instruction.</p> <p>We confirmed that access to the payroll system is limited to 5 members of the Finance Team and the system is backed up as part of the wider nightly process completed by the IT Team.</p>
Capital	<p>We confirmed that the Asset Register is reconciled to the General Ledger on an annual basis. We reviewed the reconciliation completed in April 2020 and confirmed that it was accurate. Access to the Asset Register is restricted to the Finance Team and can only be accessed when using the Authority's network servers.</p> <p>Sample testing on 10 assets confirmed that depreciation had been calculated accurately. Review of the Asset Register also confirmed that all assets had been revalued within the last 3 years where required.</p> <p>We confirmed that there had been 5 disposals within the financial year. On request of supporting evidence, it was identified that the Finance Department are not routinely notified and provided with supporting evidence of disposals. (Recommendation 4 – Medium)</p> <p>The Capital Plan was presented to the Executive Team in February 2020 and Full Council in March 2020 as part of the wider proposed Budget.</p> <p>A revised plan was presented to the Executive Team in November 2020 and Council in December 2020 with the capital budget forecast to be underspent by £9.086m. The proposal was to reduce this by re-profiling to subsequent financial years.</p>

3. Findings, Recommendations and Action Plan

The review findings are provided on a prioritised, exception basis, identifying the management responses to address issues raised through the review.

To aid management focus in respect of addressing findings and related recommendations, the classifications provided in Appendix B have been applied. The table below summarises the prioritisation of recommendations in respect of this review.

Critical	High	Medium	Low	Total
0	0	4	1	5

Our detailed findings and recommendations are set out below.

4. Detailed Recommendations

1. Timeliness of Reconciliations	Risk Rating: MEDIUM
<p>Operating Effectiveness</p> <p>Issue Identified – Review of the control account schedule highlighted 10 reconciliations that had been completed later than the expected deadline and the reasons for this were not documented. General Income and Council Tax reconciliations that were due to be completed in December and January were not completed until February.</p> <p>It is noted that this was due to resource pressures as the responsible staff members were required to undertake emergency duties related to COVID-19. All reconciliations were completed in time with the quarterly reporting schedule.</p> <p>Specific Risk – Non-reconciling items are not identified and investigated in a timely manner.</p> <p>Recommendation – The Authority should ensure that reconciliations are completed in line with agreed deadlines. If the deadline is unable to be met, then a reason for this should be provided on the control account schedule.</p> <p>Management Response (Remedial Action Agreed) – The template has been amended to require an explanation for missed deadlines.</p> <p>Responsibility for Action – Financial Services Manager</p> <p>Deadline for Action – Complete</p>	

2. Review of Reconciliations	Risk Rating: MEDIUM
<p>Operating Effectiveness</p> <p>Issue Identified – The control schedule has a section to be completed by the Head of Financial Services, however, this was incomplete for the three months that were reviewed.</p> <p>We reviewed a sample of key control reconciliations and confirmed that all included detailed and accurate workings. As above, there was no evidence to demonstrate that each reconciliation had been appropriately reviewed by an individual other than the preparer.</p> <p>Discussions highlighted that the templates used are currently outdate and require refreshing.</p> <p>Specific Risk – Key control accounts are not scrutinised by an appropriate officer. The completion of key control account reconciliations is documented on outdated templates.</p> <p>Recommendation – The Authority should ensure that key control account reconciliations are recorded on an up to date template and that controls are in place to ensure that the Financial Services Manager is satisfied with the completion of the reconciliations.</p>	

Management Response (Remedial Action Agreed) – The template has been updated to remove the section requiring completion by the Head of Service

Responsibility for Action – Financial Services Manager

Deadline for Action – Complete

3. Payroll Audit Trail	Risk Rating: MEDIUM
<p>Operating Effectiveness</p> <p>Issue Identified – We requested further evidence around management approval of leavers and contractual changes, however, this was unavailable as supporting documents are not retained centrally by the Authority.</p> <p>Specific Risk – The Authority cannot demonstrate that all leavers and contract changes were appropriately approved by the relevant department due to single points of failure.</p> <p>Recommendation – All new starter, contract changes and leaver requests received by HR from the relevant department should be stored centrally, ensuring that evidence of appropriate approval can be demonstrated when required.</p> <p>Management Response (Remedial Action Agreed) – In future we will save a copy of the email from the manager requesting contract changes and all emails in regards to resignations.</p> <p>Responsibility for Action – Human Resource Manager</p> <p>Deadline for Action – April 2021</p>	

4. Disposals	Risk Rating: MEDIUM
<p>Operating Effectiveness</p> <p>Issue Identified – We confirmed that there had been 5 disposals within the financial year. On request of supporting evidence, it was identified that the Finance Department are not routinely notified and provided with supporting evidence of disposals.</p> <p>Specific Risk – Increased likelihood of incorrect accounting for disposals due to notification not being timely or including insufficient information.</p> <p>Recommendation – The Authority should ensure that suitable processes are in place to allow the Finance Department to be notified of all disposals including relevant documents in a timely manner by the responsible department.</p> <p>Management Response (Remedial Action Agreed) – The authority will create a spreadsheet which representatives from Legal, Estates and Projects can access to enter disposal or</p>	

acquisition information as it is received, allowing the Finance Team to have access to the required information centrally.

Responsibility for Action – Estates Manager

Deadline for Action – June 2021

5. Review of Supplier Amendment Log	Risk Rating: LOW
<p>Operating Effectiveness</p> <p>Issue Identified – It was identified that the Authority do not complete a periodic review of amendments to supplier bank detail changes due to restrictions with the functionality of the Total System.</p> <p>Specific Risk – Input errors many not be identified in a timely manner and lead to incorrect payments.</p> <p>Recommendation – The Authority should explore the functionality of the new financial system that is due to implemented to determine whether a report can be ran which details all additions and amendments to supplier details.</p> <p>If possible, the Authority should consider the implementation of a periodic review of new additions and bank detail changes by an individual other than the inputter to ensure that changes have been actioned accurately. This will ensure that any errors are identified in a timely manner.</p> <p>Management Response (Remedial Action Agreed) – Recommendation noted. This will be considered when implementing the new ERP system</p> <p>Responsibility for Action – Financial Services Manager</p> <p>Deadline for Action – April 2022</p>	

Follow-up

In light of the findings of this audit we would recommend that follow-up work to confirm the implementation of agreed management actions is conducted within the next 12 months.

Appendix A: Terms of Reference

The overall objective of the review was to provide assurance that the most significant key controls in the areas detailed in the scope below are appropriately designed and operating.

The review focused on the key controls within:

- General Ledger
- Accounts Payable
- Accounts Receivable
- Treasury Management
- Budgetary Control
- Payroll
- Capital

The controls reviewed related to the 2020-21 financial year to date.

Limitations inherent to the internal auditor's work

We have undertaken the review of the financial systems key controls process, subject to the following limitations.

Internal control

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

The assessment of controls relating to the financial systems key controls process is that at January 2021. Historic evaluation of effectiveness is not always relevant to future periods due to the risk that:

The design of controls may become inadequate because of changes in the operating environment, law, regulation or other; or

The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud.

Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We shall endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected. The organisation's Local Counter Fraud Officer should provide support for these processes

Appendix B: Assurance Definitions and Risk Classifications

Level of Assurance	Description
High	There is a strong system of internal control which has been effectively designed to meet the system objectives, and that controls are consistently applied in all areas reviewed.
Substantial	There is a good system of internal control designed to meet the system objectives, and that controls are generally being applied consistently.
Moderate	There is an adequate system of internal control, however, in some areas weaknesses in design and/or inconsistent application of controls puts the achievement of some aspects of the system objectives at risk.
Limited	There is a compromised system of internal control as weaknesses in the design and/or inconsistent application of controls puts the achievement of the system objectives at risk.
No	There is an inadequate system of internal control as weaknesses in control, and/or consistent non-compliance with controls could/has resulted in failure to achieve the system objectives.

Risk Rating	Assessment Rationale
Critical	Control weakness that could have a significant impact upon, not only the system, function or process objectives but also the achievement of the organisation's objectives in relation to: <ul style="list-style-type: none"> the efficient and effective use of resources the safeguarding of assets the preparation of reliable financial and operational information compliance with laws and regulations.
High	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall organisation objectives.
Medium	Control weakness that: <ul style="list-style-type: none"> has a low impact on the achievement of the key system, function or process objectives; has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.
Low	Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.

Appendix C: Report Distribution

Name	Title	Report Distribution
Paula McKenzie	Assurance, Risk & Audit Manager	Draft & Final

Review Completion

	Planned Date	Actual Date
Fieldwork Starts	November 2020	November 2020
Discussion Document to Client	January 2021	March 2021
Responses by Client	January 2021	May 2021
Final Report	January 2021	June 2021

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Acknowledgement and Further Information

MIAA would like to thank all staff for their co-operation and assistance in completing this review.

This report has been prepared as commissioned by the organisation, and is for your sole use. If you have any queries regarding this review please contact the Audit Manager. To discuss any other issues then please contact the Director.

MIAA would be grateful if you could complete a short survey using the link below to provide us with valuable feedback to support us in continuing to provide the best service to you.

https://www.surveymonkey.com/r/MIAA_Client_Feedback_Survey