

 <p>Stevenage BOROUGH COUNCIL</p>	<p>Audit Assurance & Consultancy Service Final Internal Audit Report Main Accounting 2006/07</p>
---	---

To: Milan Joshi, Accountancy Services Manager

For Information: Pauline Coletta, Head of Finance

1. Introduction

An audit of Main Accounting has been carried out as part of the 2006/07 Audit Plan. Detailed testing has been carried out on the systems of control and the management of risk within this area.

2. Findings and Recommendations

The detailed findings and recommendations are set out in the report attached as Appendix A. A Management Action Plan as completed by the officers responsible is attached as Appendix B. A satisfaction survey is also attached for completion.

3. Conclusions

We identified that key systems of control are in place and are complied with. However, we identified several weaknesses relating to journals, virements, and petty cash balances that may place some systems objectives at risk.

Raphael Atoyebi,
Deputy Audit Manager
Sept. 2007

Appendix A

Main Accounting 2006/07

1. AREAS COVERED DURING THE AUDIT

- 1.1 The key areas of **possible** risk identified at the planning stage of the audit were as follows:
- a. Financial Regulations do not detail accounting procedures.
 - b. No accounting procedures manual has been established.
 - c. There is no code book listing all financial codes.
 - d. The accounting system does not ensure that all items are correctly routed via a financial code.
 - e. No procedures are in place to ensure that invalid codes are identified and investigated
 - f. There are no training or Continuing Professional Development plans for staff.
 - g. The aims and objectives of the function have not been formally identified.
 - h. The aims and objectives of the accounting function are not regularly reviewed
 - i. No risk mapping has been established for the function
 - j. The annual budget cycle has not been identified
 - k. Responsibility for budgetary control has not been identified
 - l. Opening balances have not been correctly brought forward.
 - m. Debits and Credits on the Main Accounting System do not net to zero.
 - n. Controls do not ensure that unidentified/miscoded items are posted to suspense accounts
 - o. Bank Reconciliations are not completed.
 - p. Feeder systems are not properly controlled or reconciled.
 - q. Final accounts procedures for close down have not been documented.
 - r. There is no Capital Accounting policy
 - s. Procedures and processes are not in place to identify and implement relevant legislative and accounting standard changes.
 - t. Failure to adhere to the Data Protection Act 1998
 - u. Access to the Main Accounting Systems is not controlled
 - v. There is no adequate back up and storage of Data.
 - w. There are no plans in place for business continuity should I.T. fail.
- 1.2 The methodology stated in the terms of reference document was used to establish and test the controls that management have in place for mitigating or reducing the above risks to an acceptable level.

2. OVERALL AUDIT OPINION

We identified that key systems of control are in place and are complied with. However, we identified several weaknesses relating to journals, virements, and petty cash balances that may place some systems objectives at risk.

3. PREVIOUS RECOMMENDATIONS 2005/06

- 3.1 The previous audit made 9 recommendations, 4 of these related to documented procedures in various areas and remain unimplemented but superseded in this report. The recommendations and related findings from this present audit are as follows:

4. CURRENT RECOMMENDATIONS

4.1 Accounting Manual

Whilst reference is made to the Financial Regulations, no procedure manual has been established, although through discussion it was established that desk procedures exist in some areas of accountancy activities.

We recommend that, that an accounting manual be established. This document should detail processes and should refer to the system documentation for Integra where appropriate.

4.2 Process / Risk Map

Whilst we acknowledge the existence of a Strategic Risk Register and Operational Risk Register, Process maps are yet to be completed.

We recommend that, risks in the processes be identified to produce a process map for Accountancy.

4.3 Journals

- 4.3.1 There are three types of Journals (JV, JE and JA). Journals with the prefix JE are electronic journal and those with the JV prefix are manual journals. Test undertaken on the JE Journals were found to be satisfactory.

- 4.3.2 JV Journals require signatures for preparation of journal, input, Authorisation and Accountancy Authorisation. From the sample of 30 JV journals examined we found the following:

- 9 Nine did not state who input the journal although noted on the system.
- 13 did not have any supporting documentation.
- 4 were found to have been prepared and input by the same member of staff, however they were appropriately authorised by another officer.
- 1 journal was input and authorised by the same person.

We recommend that,

(a) Journals clearly identify the appropriate and different officers involved, thereby providing evidence of separation of duties.

(b) Journals should have supporting documentation or clearly referenced to supporting document to evidence the reason for the transaction.

(c) Accountancy Section should inform relevant outstations that, there must be a separation of duty in the process of preparing and input and authorisation of journals, particularly if raised outside Accountancy Section.

- (d) All journals must have the system journal number recorded on the face of the journal.
- (e) The manual JV journal should be standard to include the accountancy authorisation, which provides evidence of accountancy review.

4.4 Virement

Virements are requested and action taken for both revenue and capital budgets. Virement transactions examined were largely satisfactory. However, we noted the followings:

- Evidence of the approval from requesting budget holder is not always present.
- There were gaps in the numbering of the virement forms and clear reason was not provided.
- There are duplicate numbers on some virement forms, 0316/0326/323 0317/0327, etc.
- Given that virement transactions cannot be separately extracted off the integra, coupled with the missing forms and numbers we cannot confirm that all virements have / can be been accounted for.

We recommend that;

- (a) Virement forms are fully and appropriately completed with the clear reasons, supporting document of the approval and request form the spending sub committee and / or budget holder.
- (b) In the absence of a system report on virements, an index sheet should be introduced to record sequence of virement numbers generated and location of the corresponding forms completed. An electronic version could also be held on the local (Accountancy) drive.

4.5 Bank Reconciliation

- 4.5.1 Alliance & Leicester Acc:
Reconciliation was not undertaken in the first 3 months but has been promptly carried out since and is now up to date.
- 4.5.2 HSBC Acc:
Reconciliation exercise was not undertaken for the first 6 months of 06/07 but has been frequently carried out since and is now up to date.

The net figure of both previous and current period balances for total unidentified items is considered as the closing balance.

Whilst it is recognised that some of last period's unidentified items may reversed (clear) itself in the current period, there is no assurance that this would necessarily be case.

4.5.2 (cont'd)

It was therefore not possible to see how old each of the components of the unidentified balances was and recurring items could not be identified and escalated to management for action. It was subsequently explained that this was not possible due to the back log of reconciliation exercise in the beginning of the year. However, it is now possible to itemise each of transactions that make up the monthly net variance, as the reconciliation is now up to date and regularly undertaken. Therefore no recommendation made.

4.6 Opening & Closing Balances – Validation of Cash Balances

Year end balances 05/06 and opening balances 06/07 agreed and also agreed opening balances to current balance.

In relation to cash balances, we found weakness in the control process and year end certification, as outlined below;

- Only 9 out of /21 floats were self certified by the units at the end of 05/06.
- No floats were independently certified by a Senior Manager as true and correct. At the report stage of this audit this was found to have been addressed as a new certification form bearing both the preparer's and a senior manager's signature is now in place.
- No supporting evidence for receipts or vouchers was submitted.
- No reconciliation of over / under was provided.
- Adjustments have been made to the balance sheet and no evidence has been supplied to confirm if any overages were subsequently banked.

We recommend that;

- (a) The year end self certification form be amended to request copies of all vouchers and receipts held.
- (b) Prior to submission to Accountancy, SDUs should ensure certification forms are signed, name printed and dated by the person completing.
- (c) All SDUs holding floats must return the completed form within 10 days of year end.
- (d) Prior to submission to Accountancy, SDUs should ensure that any variances are fully explained, then signed by a senior manager other than the preparer.
- (e) Once reviewed and reconciled to the balance sheet – cash overages should be banked. Cash shortages once agreed and explained, a request in writing should be made to restore the float to its original value.

4.7 Systems Data Back Up

It was confirmed that there is no established plan to regularly test data back up tapes. Informal testing occurs when data back ups are used to test a software upgrade.

We recommend that, the IT section establish a plan that specifically details how and when data back ups will be tested for reliance.

4.8 Business Continuity / Contingency

It was confirmed that the process of establishing business continuity planning is under way. At the completion of this audit it was indicated and confirmed that that BCP has been submitted to Corporate Support for consideration and action.

Kevin Hartnett / Raphael Atoyebi
5th Sept. 2007.

APPENDIX B

MANAGEMENT ACTION PLAN [Name of Audit][Year]						
Appendix/ Para	Recommendation	Significance L Low M Med H High	Agreed/ Not agreed	Officer Responsible	Officer Comments	Implement'n date
4.1	We recommend that, that an accounting manual be established. This document should detail processes and should refer to the system documentation for Integra where appropriate.	L	Agreed	Milan Josh		Feb. 2008
4.2	We recommend that, risks in the processes be identified to produce a process map for Accountancy.	M	Agreed	Milan Josh		Feb. 2008

MANAGEMENT ACTION PLAN
[Name of Audit][Year]

Appendix/ Para	Recommendation	Significance L Low M Med H High	Agreed/ Not agreed	Officer Responsible	Officer Comments	Implement'n date
4.3.2	<p>We recommend that,</p> <p>(a) Journals clearly identify the appropriate and different officers involved, thereby providing evidence of separation of duties.</p> <p>(b) Journals should have supporting documentation or clearly referenced to supporting document to evidence the reason for the transaction.</p> <p>(c) Accountancy Section should inform relevant outstations that, there must be a separation of duty in the process of preparing and input and authorisation of journals, particularly if raised outside Accountancy Section.</p> <p>(d) All journals must have the system journal number recorded on the face of the journal.</p> <p>(e) The manual JV journal should be standard to include the accountancy authorisation, which provides evidence of accountancy review.</p>	M	Agreed	Milan Josh	Implemented (where practical)	
		M	Agreed	Milan Josh	Implemented (Where practical)	
		M	Agreed	Milan Josh	Implemented	
		M	Agreed	Milan Josh	Implemented	
		L	Agreed	Milan Josh	<p>Old stationary does not have "Accountancy" sign off book. These are being utilised first to save money.</p>	

MANAGEMENT ACTION PLAN
[Name of Audit][Year]

Appendix/ Para	Recommendation	Significance L Low M Med H High	Agreed/ Not agreed	Officer Responsible	Officer Comments	Implement'n date
4.4	<p>We recommend that;</p> <p>a) Virement forms are fully and appropriately completed with the clear reasons, supporting document of the approval and request form the spending sub committee and / or budget holder.</p> <p>b) In the absence of a system report on virements, an index sheet should be introduced to record sequence of virement numbers generated and location of the corresponding forms completed. An electronic version could also be held on the local (Accountancy) drive.</p>	<p>H</p> <p>L</p>	<p>Agreed</p> <p>Agreed</p>	<p>Milan Josh</p> <p>Milan Josh</p>	<p>Implemented</p> <p>No report currently exists on the system. Investigating alternative, possibly bespoke report.</p>	
4.5	Not applicable					

MANAGEMENT ACTION PLAN
[Name of Audit][Year]

Appendix/ Para	Recommendation	Significance L Low M Med H High	Agreed/ Not agreed	Officer Responsible	Officer Comments	Implement'n date
4.6	<p>We recommend that;</p> <p>(a) The year end self certification form be amended to request copies of all vouchers and receipts held.</p> <p>(b) Prior to submission to Accountancy, SDUs should ensure certification forms are signed, name printed and dated by the person completing.</p> <p>(c) All SDUs holding floats must return the completed form within 10 days of year end.</p> <p>(d) Prior to submission to Accountancy, SDUs should ensure that any variances are fully explained, then signed by a senior manager other than the preparer.</p> <p>(e) Once reviewed and reconciled to the balance sheet – cash overages should be banked. Cash shortages once agreed and explained a request in writing should be made to restore the float to its original value.</p>	<p>L</p> <p>L</p> <p>L</p> <p>M</p> <p>H</p>	<p>Agreed</p> <p>Agreed</p> <p>Agreed</p> <p>Agreed</p> <p>Agreed</p>	<p>Milan Josh</p> <p>Milan Josh</p> <p>Milan Josh</p> <p>Milan Josh</p> <p>Milan Josh</p>	<p>Implemented</p> <p>SDUs informed</p> <p>SDUs informed</p> <p>Implemented</p> <p>Implemented</p>	

MANAGEMENT ACTION PLAN
[Name of Audit][Year]

Appendix/ Para	Recommendation	Significance L Low M Med H High	Agreed/ Not agreed	Officer Responsible	Officer Comments	Implement'n date
4.7	We recommend that, the IT section establish a plan that specifically details how and when data back ups will be tested for reliance.	M	Agreed	Milan Josh	IT informed	

Completed by signature: _____ **print name:** _____

Job Title _____ **Date:** _____