



To: Milan Joshi, Accountancy Services Manager
Simon Bridge, IT Technical Manager

For Information: Clare Fletcher, Head of Finance

Date Final Report Issued: 29th May 2008

1. Introduction

An audit of Main Accounting has been carried out as part of the 2007-08 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 to this memo. A Management Action Plan is attached as Appendix B and is intended to be completed by the officers responsible, as identified on the plan.

3. Conclusions

There continues to be effective controls in the operation of the Main Accounting System. Four new recommendations have been made to improve and to minimise the residual risks to achieving service objectives. They relate to the following areas, Financial Regulations, Journals, Petty Cash and IT Back Ups.

Therefore, based on our audit findings, Internal Audit has assigned **Substantial Assurance**¹ to the systems and procedures which underpin the Main Accounting System.

¹ See Appendix C for definition of Assurance Levels

Main Accounting 2007-08

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. Accounting procedures manual does not exist.
- b. Financial Regulations do not include detailed accounting procedures.
- c. No procedure or process is in place to identify and implement relevant legislative and accounting-standard changes.
- d. Codes are not listed in a financial code book.
- e. Some items are incorrectly routed using wrong codes.
- f. Invalid codes are not identified and investigated.
- g. No training and Continuing Professional Development (CPD) plans are available for staff.
- h. Aims and objectives of the accounting function have not been formally identified, documented or reviewed.
- i. Risk mapping is not established for the accounting function.
- j. The annual budget cycle and responsibility for budgetary control has not been identified.
- k. Opening balances are brought forward incorrectly.
- l. Debits and credits on the Main Accounting System do not net to zero.
- m. Final accounts procedures are not documented.
- n. Year end closure timetable is not established or distributed for departmental information.
- o. Controls, designed to ensure that unidentified or miscoded items are posted to suspense accounts, are inadequate.
- p. Bank Reconciliation not completed.
- q. Feeder systems are not properly controlled or reconciled.
- r. There is no Capital Accounting policy in existence.
- s. Accountancy processes and procedures are not compliant with the Data Protection Act 1998.
- t. Access to the Main Accounting Systems is not controlled.
- u. Backup and data storage facilities are inadequate or non-existent.
- v. There are no plans in place for business continuity (DRP) if systems are destroyed.

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

Based on our audit findings, Internal Audit has assigned **Substantial Assurance** to the systems and procedures which underpin the Main Accounting system.

3. PREVIOUS RECOMMENDATIONS (2006-07)

- 3.1 The previous audit made 15 recommendations. One recommendation remains unimplemented, see below.
- 3.2 No process map has yet been produced for Accountancy. Internal Audit was informed that a report would be produced for the September 2008 Audit Committee meeting.
- 3.3 **We further recommend that** risks in the processes/controls be identified to produce a process map for Accountancy for the Audit Committee meeting of September 2008.

4. CURRENT RECOMMENDATIONS

4.1 Financial Regulations

- 4.1.1 Financial Regulations have been subject to change in recent months, however they still lack depth in a number of areas.
- 4.1.2 **It is recommended that** a comprehensive review of the Financial Regulations is undertaken and changes are communicated to appropriate staff.

4.2 SBC Journals

- 4.2.1 Results of journal testing (sample of 10) SBC JE type showed that eight out of ten were satisfactorily completed. However, one journal did not show the input or authorising officer names; and the other journal omitted the input officer's identity.
- 4.2.2 In addition, only three out of the ten journals were processed on official SBC journal forms.
- 4.2.3 **It is recommended that** all journal vouchers should show clearly the name of the inputting officer and the certifying officer in accordance with financial regulations. Wherever practicable, the official SBC journal form should be used instead of a substitute note; the official form is designed for the purpose and contains all the detail required to ensure that a complete auditable trail exists.

4.3 Petty Cash

- 4.3.1 Internal Audit examined the list of Petty Cash holdings that are centrally monitored by Accountancy and noted the following changes or anomalies from the list held last year:
- In two cases, the old balance sheet codes had been used;
 - In three instances, the centres holding the floats had closed;
 - In two cases, the float was not being used; and
 - One Petty Cash Certificate was not yet received and was overdue.

4.3.2 **It is recommended that** the Accountant responsible for Petty Cash revises the list of petty cash accounts; investigates where anomalies exist between certificates and general ledger; and to ensure that all certificates are received on time by issuing an urgent reminder for those outstanding.

4.4 IT Back Up Arrangement

4.4.1 Daily, weekly and monthly IT backs ups of the General Ledger are undertaken. However, full IT system back up restoration testing is not undertaken. The IT Technical Manager informed Internal Audit that partial system back up restoration has been successful in instances when system users have made specific requests.

4.4.2 The Council is currently working on a Business Continuity plan. Two new technologies are currently being implemented to assist with this, VMware Virtualisation and Lefthand San/IQ replicated storage. The long term plan is to have the data-centre split over 2 sites (both sites replicated), with each site capable of running all core systems in the event of a site failure.

4.4.3 Management informed Internal Audit that a disaster recovery plan will also be produced as part of the above work detailing how to get the systems back in the event of different failures and the testing of these plans periodically.

4.4.4 **It is recommended that** full IT system back up restoration testing is undertaken on a periodic basis.

MANAGEMENT ACTION PLAN
Main Accounting System 2007-08

Appendix/ Para	Recommendation	Significance L Low M Med H High	Agreed/ Not agreed	Officer Responsible	Officer Comments	Implement'n date
PREVIOUS RECOMMENDATIONS						
3.3	We further recommend that risks in the processes/controls be identified to produce a process map for Accountancy for the Audit Committee meeting of September 2008. <i>A similar recommendation was made in 2006-07.</i>	M	Agreed	Milan Joshi (MJ)	MJ will produce procedure notes.	September 2008
CURRENT RECOMMENDATIONS						
4.1.2	It is recommended that a comprehensive review of the Financial Regulations is undertaken and changes are communicated to appropriate staff.	M	Agreed	MJ	Will provide review of those Regs specifically relevant to Accountancy e.g. Virements, Budgets, Journals etc	September 2008

MANAGEMENT ACTION PLAN
Main Accounting System 2007-08

Appendix/ Para	Recommendation	Significance L Low M Med H High	Agreed/ Not agreed	Officer Responsible	Officer Comments	Implement'n date
4.2.3	It is recommended that all journal vouchers should show clearly the name of the inputting officer and the certifying officer in accordance with financial regulations. Wherever practicable, the official SBC journal form should be used instead of a substitute note; the official form is designed for the purpose and contains all the detail required to ensure that a complete auditable trail exists.	M	Agreed	MJ	Special exercise carried out in 07/08 on journals, to identify and addressed, where inadequate explanation is given and also inadequate separation of duties exist. The substitute notes are old stock of stationery being used until they run out to save money.	Immediate
4.3.2	It is recommended that the Accountant responsible for Petty Cash revises the list of petty cash accounts; investigates where anomalies exist between certificates and general ledger; and to ensure that all certificates are received on time by issuing an urgent reminder for those outstanding.	M	Agreed	MJ	Anomalies are investigated and resolved. Any unresolved anomalies may be written off in conjunction with Internal Audit.	September 2008

MANAGEMENT ACTION PLAN
Main Accounting System 2007-08

Appendix/ Para	Recommendation	Significance L Low M Med H High	Agreed/ Not agreed	Officer Responsible	Officer Comments	Implement'n date
4.4.4	It is recommended that full IT system back up restoration testing is undertaken on a periodic basis.	H	Agreed	Simon Bridge	IT restoration testing has been built into the current work that is being undertaken on the Business Continuity Plan and Disaster Recovery Plan.	March 2008

ASSURANCE, PRIORITY AND RISK DEFINITIONS**Assurance Levels**

Assurance Level	General Definitions
Full	<p>Evaluation opinion: there is sound system of control designed to achieve the system objectives; and</p> <p>Testing opinion: the controls are being consistently applied.</p> <p>Full Assurance will be attributed to a system where no recommendations are made or where in the auditor's judgement the recommendations relate to actions that are considered desirable and which should result in enhanced control or better value for money.</p>
Substantial	<p>Evaluation opinion: basically a sound system but there are weaknesses which put some of the control objectives at risk, and/or;</p> <p>Testing opinion: there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.</p> <p>Substantial Assurance will be attributed to a system where in the auditor's judgement the recommendations relate to actions that are considered necessary to avoid exposure to significant risks.</p>
Limited	<p>Evaluation opinion: weakness in the system of controls are such as to put the system objectives at risk, and/or;</p> <p>Testing opinion: the level of non-compliance puts the system objectives at risk.</p> <p>Limited Assurance will be attributed to a system where in the auditor's judgement the recommendations relate to actions that are considered imperative to ensure that the Council is not exposed to high risks.</p>
No	<p>Evaluation opinion: control is generally weak leaving the system open to significant error or abuse, and/or;</p> <p>Testing opinion: significant non-compliance with basic controls leaves the system open to error or abuse.</p> <p>No Assurance will be attributed to a system where in the auditor's judgement they can place no reliance of the controls and procedures in operation either because they do not exist or because they are weak leaving the system open to abuse or error.</p>