GEDLING
BOROUGH COUNCIL

INTERNAL AUDIT
Report

The Financial Management Audit
(FMS)
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January 2005

Final Audit Report

GEDLING BOROUGH COUNCIL

INTERNAL AUDIT REPORT

KEY FINANCIAL SYSTEM AUDIT
Financial Management System (FMS) and Budget monitoring processes

C O N T E N T S

1. INTRODUCTION

1.1 An audit of the Authority's main Financial Management System (FMS) has recently been undertaken in accordance with the 2004/05 Audit Plan.

1.2 The audit assessed the procedures and controls in place and evaluated their adequacy and effectiveness in ensuring the control objectives, listed below, are achieved.

1.3 The control objectives of the audit were:

- Accounting balances at the end of the previous financial year are brought forward into the following year's accounts in the correct amounts and to correct accounts

- All transactions recorded in the feeder systems are complete and accurately transferred to the main accounting system (FMS)

- Transactions within the main accounting system are correctly coded and calculated

- Budgetary controls operate throughout the year on income and expenditure budget heads

- The security and integrity of the system is maintained and supportive of the organisation's needs

1.4 There have not been significant changes in the setting and monitoring of budgets across all departments in the authority since the last audit review. Budget monitoring reports are produced monthly for Senior Management Team and a quarterly monitoring report collated for the cabinet. These quarterly reports once approved by the cabinet, form the basis for the next budget revision. This requires up-to-date and accurate information to be produced hence demanding budget officers and finance staff to provide explanations that justify reasons for variances or re-profiling of the budget where necessary on a monthly basis.

1.5 To ensure that errors are minimised, departmental codes are accessible to both accountants in the financial services and budget officers in individual departments. These codes are regularly reviewed and errors easily identified where applicable. Procedures are in place whereby finance system ensures that valid codes are used and where they are wrong, Senior Creditors assistant checks with individual departments for correct codes. This system has replaced the use of departmental suspense accounts, which used to exist.

1.6 The audit examined the current procedures and internal controls in place and evaluated their effectiveness at satisfying the control objectives highlighted.

2.   **CONDUCT OF AUDIT**

2.1   The audit ascertained and evaluated the system controls for Financial Management Systems (FMS) and the budget monitoring processes across various departments within the authority.
Various officers in the Finance section, the Leisure, Legal and Democratic Administration, Information Technology, Personnel and the Engineering departments were interviewed/consulted to establish the control procedures in operation (compliance testing).

2.2   The compliance testing was substantiated by tests of individual transactions to confirm occurrence, existence and validity. Checks were also made on transactions to ensure that they were properly recorded in the Councils Accounts and any (suspense account) errors in the recording system identified and correctly recorded to appropriate accounts.

2.3   System procedures have been documented, and are recorded in the Working Papers.

2.4   **ACKNOWLEDGEMENTS**

The Audit section would like to thank all staff of the Financial Services, Leisure, Information Technology, Personnel, Legal & Democratic Administration, Direct Services departments and all other auditees who are not specifically mentioned in this report for their help and co-operation given during the course of this audit.

3.   **EXECUTIVE SUMMARY**

3.1   As a result of the work undertaken during this audit, it was concluded that the FMS and Budget monitoring systems are in the main operating satisfactorily as expected.

The audit however highlighted some weaknesses. The Internal Audit section considers the potential risks of these weaknesses to be of either "Low" or "Medium" level to the authority.

ACTION PLAN

Cntrl ref	Audit recommendation	Agreed (Y/N)	Implementati on date	Responsible officer	Priority (L/M/H)	Client comments
4.9	• The Finance section should ensure that all responsible officers indicate dates when virements are approved on each approved virement form prior to processing.	Yes	2-3 Weeks following issue of final audit report	Principal Accountant (Financial planning)	**Low**	Will advise signatories that dates should be entered on each virement form on the date of approval.
	• Where changes are made to financial codes relating to virements after approval, authorising staff should be informed and adequate audit trail of the changes retained on the file.	N/A	N/A	N/A	**Low**	When changes are made, budget officers are informed. It is not necessary to inform authorising senior management details of "FMS codes" as this will be less meaningful to them. Changes to FMS codes are noted on the Virement request form.
4.14	• Departments to be reminded that they have a responsibility/duty to provide accountancy section with necessary explanations/information within the agreed timescales.	Yes	April 2005	Principal Accountant (Financial Planning)	**Medium**	Financial Services department are developing budget monitoring procedure notes setting out what is required of budget officers. This will be sent out to all budget officers together with a note, reminding them of the importance of budget monitoring on an ongoing basis and their responsibility towards this.

5.2	• There should be a maximum set period for retaining details of system users who do not use the FMS and/or are not employed any longer by the council. This should be aligned with the council's published document retention policy, which takes into account the requirements of the Data Protection Act 1998 and the FOI Act.	Yes	Effective with implementation of new Financial system	Principal Accountant (Financial Planning)	**Medium**	The Principal Accountant (system owner) would prefer an immediate deletion of users who do not use the system and are known to have left the council. The IT keeps a paper record of the system users, which can be referred to if required for any use. Details of dormant system users should be retained on the system for a maximum period of THREE years before deletion.
5.9	• There should be a structured formal training of the system to users across all departments.	Yes	January - March 2006	Senior Assistant Accountant (Projects & Budgets)	**Medium**	Training needs will be assessed and developed in line with the requirements of the new system.
	• System' user manuals or basic guides should be made more accessible to all users across the departments to enable them carry out their functions efficiently.	Yes	January – March 2006	Principal Accountant (Financial Planning)	**Medium**	A Principal Accountant (Financial planning) to ensure that system user manual is obtained from the vendor and where necessary customised to suit user needs. (No FMS user manual was available from the vendor). Training is however provided as a one off basis to new users of the current system when required. *(Journal user manuals were*

						made available to all departments when the system was initially implemented however copies will be made available immediately to Leisure and Legal & Democratic Services following conclusion of the audit)
	• Accountancy section should consider how the FMS or future main accounting systems will provide integration with other financial systems i.e. NNDR, CT, Creditors/Debtors, Cash receipting etc.	Yes	On-going	Principal Accountant (Financial Planning)	**Medium**	The new system due to be acquired will consider complete integration of the Journals, Creditor, Debtors and Payroll systems. Specific training for Creditor, Debtor and Payroll systems will have to be provided by respective system owners. It is unclear at present time which feeders will remain operating as a stand alone system (i.e. stores, vehicles & plant)