GEDLING
BOROUGH COUNCIL

INTERNAL AUDIT
Report
2005-2006

FINANCIAL MANAGEMENT SYSTEM
Bentley Jennison
Internal Audit and Risk Management
June 2006

GEDLING BOROUGH COUNCIL

INTERNAL AUDIT REPORT

RISK BASED AUDIT

FINANCIAL MANAGEMENT SYSTEM

C O N T E N T S

Debrief meeting:	31 March 2006	**Auditors:**	Chris Williams, Partner
Draft report issued:	4 May 2006		Mike Riley, Client Manager
			Iain Daire, Semi Senior Auditor
Responses received:	June 2006		David Giddings, Auditor
Final report issued:	**22nd June 2006**	**Client sponsor:**	Mark Kimberley, Head of Finance

1. INTRODUCTION

1.1 An audit of the Financial Management System was undertaken as part of the approved internal audit periodic plan for 2005/06.

1.2 The objective of our audit was to evaluate the auditable area with a view to delivering reasonable assurance as to the adequacy of the design of the internal control system and its application in practice. The control system is put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively. The following limitations to the scope of the audit were agreed when planning the audit:

- We will not review the system for budgetary control.

- We will not seek to identify fraud.

- We will not form an opinion on the financial state of affairs of the authority.

2. CONDUCT OF AUDIT

2.1 The audit considered the organisation's objectives for the area under review and the risks to the achievement of those objectives.

2.2 In determining the audit approach, we took into account;
- the assessed risk of the auditable area;
- any material changes in systems or the control environment;
- the outcome of any other form of assurance review, either internal or external.

2.3 A systematic risk based audit was carried out so that every aspect and stage of the audited subject is considered, within the agreed scope of the audit. It includes review of both the design and operation of controls.

2.4 The conduct of this audit complied with the standards set out in GIAS.

2.5 The assistance and co-operation of all staff involved in this audit assignment is acknowledged and appreciated.

3.   EXECUTIVE SUMMARY

3.1   Based on the evidence obtained, we have concluded that the design of the system of control, if complied with, is sufficiently robust to provide assurance that the activities and procedures in place will achieve the objectives for the system.

3.2   Based on the evidence obtained from our testing, we have concluded that the application of established controls is adequate. However from an overall control aspect there would appear to be weaknesses surrounding the following areas;

- Financial regulations and standing orders have not been reviewed since October 2004;
- Procedure notes for the financial systems have not been reviewed since 2001-02;
- The access restrictions for the computer system does not comply with best practise as defined by BS ISO/IEC 17799 2000;
- Procedure notes for the backup process of the financial systems have yet to be formulated;
- Staff access levels should be removed as soon as a member of staff leaves the employment of the authority;
- Control account reconciliations for the Payroll department are not signed off to evidence who has input or reviewed them;
- Budget monitoring statements have not been produced for the previous 3 months due to staff shortages.

AUDIT ASSURANCE.

Taking into account the issues above, in our opinion the control framework for the area under review, as currently laid down and operated, provides **adequate assurance** that risks material to the achievement of the organisation's objectives for this area are adequately managed and controlled.

IMPLEMENTATION PLAN

REC (Risk)	RECOMMENDATION	RESPONSIBLE OFFICER	MANAGEMENT COMMENT	IMPLEMENTATION DATE
4.2.1 Low	It is best practice for the Financial Regulations and Standing Orders to be reviewed and updated where required on an annual basis.	Head of Finance / Head of Legal & Democratic Services	The Standing Orders are currently being reviewed.	Ongoing
4.2.2 Low	Financial procedures should be reviewed on an annual basis and updated where necessary.	Financial Services Manager	New financial systems have been implemented and this has meant that all processes have been reviewed. Audit review of revised procedures will be undertaken in 2006-07.	Implemented
4.2.3 Medium	Management should consider amending password policy settings in line with best practice recommendations Best practice for password use is defined by section 9.3.1 of BS ISO/IEC 17799 2000 Information Technology - Code of Practice for Information Security Management recommends: • Passwords history set to 12; • Maximum password age set to 30 days; • Minimum password length set to 6 characters and; Lockout threshold is set 3 attempts, and that the user is locked out forever until unlocked by an Administrator.	Principal Accountant (Financial Planning)	The new system prompts automatic updates. System parameters for this are set by the 3rd party supplier and meet best practice requirements.	Implemented
4.2.4 Low	Documented procedures should be formulated for each of the financial system backup processes.	IT Technical Manager	Documented back up procedures have been developed for the new system.	Implemented

4.2.5 **Low**	It is recommended that staff access levels are removed as soon as an employee leaves that Council.	Principal Accountant (Financial Planning)	Recommendation agreed. Action as required.	01/04/06
4.2.6 **Low**	The person preparing the payroll control account reconciliation should sign them off to evidence who has prepared / reviewed the reconciliations.	Senior Accountant (Financial Services)	Recommendation agreed. Reconciliation's will be evidenced.	Implemented
4.2.7 **Low**	Budget monitoring statements should be produced on a monthly basis and passed to all necessary staff.	Principal Accountant (Financial Planning)	Full monthly statements are produced centrally except for October, April, May and November due to operational priorities and practicality. For October basic reports are supplied to Departments.	Implemented