



INTERNAL AUDIT  
FINAL REPORT

**Title: Financial Management Systems**

**Report Distribution**

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## EXECUTIVE SUMMARY

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### Introduction

An audit of the Financial Management System (Agresso) was undertaken as part of the approved internal audit periodic plan for 2007/08.

The Agresso system has now been in place since April 2006 and the previous audit review undertaken in January 2007 found this system to have a number of problems and a limited assurance was given.

This review has seen a significant improvement from the previous audit and substantial assurance has now been given.

A review of the recommendations made in the previous review was undertaken. It was found that eight of the twelve recommendations have been fully implemented, with the remaining four having been partially implemented. It was noted that implementation of recommendations was restricted in some instances due to staff absences.

### Principal Findings

|                           | High | Medium | Low |
|---------------------------|------|--------|-----|
| Number of recommendations | 0    | 0      | 4   |

The detailed findings and associated recommendations are provided in the second part of this report. There were no high or medium recommendations arising from this audit.

### Assurance Statement

Internal Audit can provide **substantial assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed.

The previous audit had found that a number of controls were not performed properly due to the change in the finance system to Agresso. The new system has now had time to embed and has seen an improvement in the control environment.

## INTRODUCTION

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### Objective & Scope

The objective of the review 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 key risks associated with the system objectives are:

- Staff do not know what they are responsible for or how they should carry out their duties, leading to non-compliance with legislation, laws or organisational policy and procedures;
- Failure to maintain financial control;
- Losses due to fraud and error, inefficient processing or inappropriate activity;
- Inaccurate data;
- Data is amended/changed without adequate documentation and authorisation;
- Poor decision making, due to poor quality or timeliness of information provided to management; and
- Financial information reported internally or externally is unreliable.

The control areas included within the scope of the review are:

- Financial Regulations and procedures;
- System training;
- Budget coding manual;
- Control account reconciliations;
- Suspense accounts;
- Journal posting;
- Accessing and monitoring;
- Management accounts;
- Cost centre reporting; and
- Feeder systems.

The following limitations to the scope of the audit were agreed when planning the audit:

- We will not actively seek to detect fraud;
- We will not review the system for budgetary control;
- We will not review any associated/feeder systems other than control totals and the input/transfer of these; and
- We will not form an opinion on the financial state of affairs of the Authority.

## Confidential

This audit report is presented on an exception basis. The detailed findings include only those areas where controls should be enhanced to improve their effectiveness and mitigate the risks that affect the authority's objectives for the system reviewed. Controls and risks identified in the scope that are not mentioned in the detailed findings were considered to be adequate and operating effectively.

### **Acknowledgement**

A number of staff gave their time and co-operation during the course of this review. We would like to record our thanks and appreciation to all the individuals concerned.

## DETAILED FINDINGS

| Observation  | Risks  | Recommendation  | Management's Response  |
|--|--|---|--|
| <p><b>Recommendation 1 - Finance Documented Procedures</b><br/> <b>Level of Risk - Low</b></p>   |  |   |  |
| <p>The finance procedure notes were obtained and reviewed and it was found that these are not formally documented. It was confirmed by finance staff that procedure notes are updated on an on-going basis.</p> <p>It was noted that a formalised set of procedure notes was recommended in the previous audit. This has not yet been fully implemented.</p> | <p>There is a risk that staff, especially new members of staff are not fully aware of how tasks are performed.</p> | <p>Finance should ensure that a formalised set of full procedure notes are documented and made available to staff.</p> <p><b>Action: Roger Downing – Principal Accountant</b></p> | <p><b>Management Comment:</b><br/> Procedure notes have been produced for all individual tasks &amp; Finance staff are made aware of how to perform the tasks as they relate to their specific duties.</p> <p>As Agresso is continually being developed, new procedures are being undertaken &amp; documentation is produced as required.</p> <p><b>Planned Corrective Action:</b><br/> It is planned to include all the detailed tasks into one formal document when workload &amp; staffing levels permit.</p> <p><b>Timescale:</b><br/> Ongoing</p> |

| Observation   | Risks  | Recommendation   | Management's Response   |
|---|--|--|---|
| <p><b>Recommendation 2 - Year End Closing Balances</b><br/> <b>Level of Risk - Low</b></p>  |  |  |   |
| <p>The year-end closing balances were brought forward in October 2007 following certification by the Audit Commission. It was confirmed that year-end closing balances are brought forward by a member of the finance team and reviewed and authorised by the Principal Accountant, however, there was no evidence of review.</p> | <p>There is a risk that financial reports may be incorrectly stated with no brought forward figures being in place at the start of the year.</p> | <p>Finance should ensure that the year-end closing balances are brought forward in a timely basis and evidence is shown of an independent review having taken place to agree the figures brought forward.</p> <p><b>Action: Roger Downing – Principal Accountant</b></p> | <p><b>Management Comment:</b><br/> The year-end balances were brought forward as soon as possible after the 2006/2007 accounts were signed off at the end of September 2007. The reconciliation was completed by the Assistant Accountant &amp; checked by the Principal Accountant.</p> <p><b>Planned Corrective Action:</b><br/> Principal Accountant to evidence that they were reviewed.</p> <p><b>Timescale:</b><br/> October 2008 (for the 2007/2008 accounts).</p> |

| Observation   | Risks  | Recommendation  | Management's Response  |
|---|--|---|--|
| <p><b>Recommendation 3 - Control Account Reconciliations</b><br/> <b>Level of Risk - Low</b></p>  |  |   |  |
| <p>The monthly bank reconciliations had not been signed by the preparer. It was also found that seven out of the eight months were not signed or dated to confirm review.</p> <p>The creditor's reconciliations were reconciled twice a week. A review of these reconciliations found that the key reconciliation to the General Ledger Account had been subject to evidenced review, however the secondary creditor reconciliations for BACs and Cheque payments were not subject to evidenced review.</p> | <p>There is a risk that with the control accounts not being reviewed independently on a monthly basis any errors or variances may not be noted and investigated.</p> | <p>Finance should continue efforts to produce reconciliations on a monthly basis and should ensure all reconciliations are signed and dated by the preparer and the reviewer.</p> <p><b>Action: Sue Healey – Principal Accountant</b></p> | <p><b>Management Comment:</b><br/> The bank reconciliations were prepared &amp; balanced on time. However owing to maternity leave for 2 Accountants &amp; long-term sickness of another, they were not subject to review.</p> <p>The creditors General Ledger reconciliations are reviewed &amp; signed. This approach will extended to the secondary creditor reconciliations.</p> <p><b>Planned Corrective Action:</b><br/> All bank and creditor reconciliations to be reviewed by Principal Accountant &amp; signed by the preparer.</p> <p><b>Timescale:</b><br/> 31<sup>st</sup> March 2008</p> |

| Observation  | Risks   | Recommendation  | Management's Response  |
|--|---|---|--|
| <p><b>Recommendation 4 - Feeder System Control Sheets</b><br/> <b>Level of Risk - Low</b></p>  |   |   |  |
| <p>There are two Agresso control sheets in place within Finance for feeder systems, one for debtors and payroll and one for cash, bank and other feeder systems.</p> <p>A review of the feeder systems control sheets and supporting documentation found that debtors and payroll were completed, signed and reviewed.</p> <p>Review of the cash, bank and other feeder control sheets found that there was no evidence of review.</p> <p>It was later confirmed that a check sheet system was implemented to review the control feeder sheets during the week of the audit.</p> | <p>There is a risk that errors or mis-postings when posting the feeder systems amounts may go undetected.</p> | <p>Finance should continue efforts to ensure that checks are being performed of the postings.</p> <p><b>Action: Sue Healey – Principal Accountant</b></p> | <p><b>Management Comment:</b><br/>                     Income feeders were reconciled but had not been subject to evidenced review.</p> <p><b>Planned Corrective Action:</b><br/>                     Review now in place and appropriately evidenced.</p> <p><b>Timescale:</b><br/>                     Implemented</p> |

**ANNEX A**

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**Risk & Assurance – Standard Definitions**Audit Recommendations

Audit recommendations are categorised, depending upon the level of associated risk, as follows:

| Level | Category      | Definition   |
|-------|---------------|--|
| 1     | <b>High</b>   | Action is essential to manage exposure to fundamental risks.                         |
| 2     | <b>Medium</b> | Action is necessary to manage exposure to significant risks.                         |
| 3     | <b>Low</b>    | Action is desirable and should result in enhanced control or better value for money. |

Assurance Statement

Each report will provide an opinion on the level of assurance that is provided with respect the risk emanating from the controls reviewed. The categories of assurance are as follows:

| Category           | Definition   |
|--------------------|--|
| <b>No</b>          | The majority of the significant risks relating to the area reviewed are not effectively managed.                       |
| <b>Limited</b>     | There are a number of significant risks relating to the area reviewed that are not effectively managed.                |
| <b>Substantial</b> | The risks relating to the objectives of the areas reviewed are reasonably managed and are not cause for major concern. |

### **What Happens Now?**

The final report is distributed to those involved with discharging the recommended action, the Head of Finance, Audit Commission and, where applicable, the relevant Heads of Service.

A synopsis of the audit report is provided to the authority's Audit Sub-Committee. Internal Audit will carry out a follow-up exercise approximately six months after the issue of the final audit report. The on-going progress in implementing each recommendation is reported by Internal Audit to each meeting of the Audit Sub-Committee.

### **Any Questions?**

If you have any questions about the audit report or any aspect of the audit process please contact the auditor responsible for the review or Vince Rimmington, Resource Services Manager on telephone number 0115 9013850 or via e-mail to [vince.rimmington@gedling.gov.uk](mailto:vince.rimmington@gedling.gov.uk)