



INTERNAL AUDIT
FINAL REPORT

Title: Review of Financial Management System

Report Distribution

For Action: Roger Downing Principal Accountant
 Sue Healey Principal Accountant

For Information: Alison Ball Financial Services Manager
 Mark Kimberley Head of Corporate Services
 Sally Smith Audit Commission

Prepared By: Claire Adams – Bentley Jennison Internal Auditor
 Amit Panchal – Bentley Jennison Internal Auditor

Draft Issued: 5th February 2009

Final Issued: 19th February 2009

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EXECUTIVE SUMMARY

Introduction

An audit of the Financial Management System was undertaken as part of the approved internal audit periodic plan for 2008/09.

The system utilised by the Council is the Agresso system, which has been in place since April 2006.

Testing on the current audit reviewed reports and data between April 2008 and December 2008.

A previous audit review of the Financial Management System was undertaken in February 2008. The audit provided substantial assurance with four low risk recommendations made. A review of these recommendations highlighted that three had been fully implemented. The remaining recommendation had been partially implemented and is reiterated in this report.

Principal Findings

	High	Medium	Low
Number of recommendations	0	0	1

The detailed findings and associated recommendations are provided in the second part of this report. There were no high/medium recommendations made.

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.

INTRODUCTION

Objective & Scope

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 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, resulting in system error/ mis-reporting.
- Data is amended/changed without adequate documentation and authorisation.
- Poor decision making, due to poor quality or timeliness of information provided to management.
- 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.
- We will not form an opinion on the financial state of affairs of the Authority.

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.

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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>Recommendation 1 - Control Account Reconciliations Level of Risk - Low</p>			
<p>Testing of the main Control Account Reconciliations found;</p> <p>Bank All reconciliations performed this financial year were tested. It was found that seven of seven reconciliations had no evidence of independent review having taken place. It was also noted that one reconciliation had not been signed by the preparer.</p> <p>Payroll Reconciliations are performed monthly. All reconciliations since April had been performed, signed and dated by both the preparer and the reviewer.</p>	<p>There is a risk that if the bank account reconciliations are not independently reviewed on a monthly basis any errors or variances may not be noted and investigated.</p>	<p>Finance should ensure that all the main control account reconciliations are produced on a monthly basis, signed and dated by the preparer and the reviewer.</p> <p>Action: Sue Healey – Principal Accountant (Treasury)</p>	<p>Management Comment: Despite delays with bank statement allocation, Bank Rec preparation has been maintained, and informal monthly management enquiries are made to ensure that the reconciliation has no variances, however, formal sign off has fallen rather behind.</p> <p>Planned Corrective Action: As no discrepancies have arisen for some considerable time, formal sign off will in future involve a short monthly check and signature, with a more vigorous review quarterly. This approach has been agreed with Audit as reasonable.</p> <p>Timescale: Full sign off will be completed for 0809 by 30 April and as above from 0910.</p>

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<p>Debtors Reconciliations are performed by Rushcliffe Borough Council.</p> <p>Creditors A sample of eight weeks reconciliations were tested as part of the Creditors audit (Nov 08). All were found to have been performed, signed and reviewed.</p>			
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ANNEX A

Risk & Assurance – Standard DefinitionsAudit Recommendations

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

Level	Category	Definition
1	High	Action is essential to manage exposure to fundamental risks.
2	Medium	Action is necessary to manage exposure to significant risks.
3	Low	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
No	The majority of the significant risks relating to the area reviewed are not effectively managed.
Limited	There are one or more significant risks relating to the area reviewed that are not effectively managed.
Substantial	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, Manager Audit & Risk Services on telephone number 0115 9013850 or via e-mail to vince.rimmington@gedling.gov.uk