



**INTERNAL AUDIT
FINAL REPORT**

Title: Financial Management Systems

Report Distribution

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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 2009/10. The objective of our audit was to review the controls in place in relation to the general ledger and feeder system reconciliations.

The system utilised by the Council is Agresso, which has been in place since April 2006. The Council has a number of feeder systems (debtors, creditors and payroll), which are reconciled on a regular basis to ensure the accuracy of data transfer.

Access to Agresso is restricted to authorised staff only and access rights are routinely reviewed. Access is restricted through password protection where passwords have to be changed periodically.

Key performance indicators are continually monitored and reported to SMT and Cabinet on a quarterly basis. Quarterly Budget Monitoring, Performance Digest and Virement Reports are reviewed with the last review being on 28th July 2009 for Quarter 1. Any significant variances in performance are identified and explanations given.

A previous audit review of the Financial Management System was undertaken in January 2009. The audit provided substantial assurance with one low risk recommendation made. A review of this recommendation highlighted that the recommendation has been partially implemented and therefore 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 purpose of the audit review was to evaluate the adequacy of control in the areas under review and the extent to which controls have been applied, with a view to providing an opinion to the extent with which risks in this area are managed.

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;
- Losses due to fraud and error, inefficient processing or inappropriate activity;
- Control account reconciliations are not undertaken / feeder systems are not reconciled;
- Suspense accounts are not cleared/reviewed;
- Inaccurate data posted due to inadequate use of journals and journals not being reviewed;
- The Management Accounts are not produced, not produced on time and distributed;
- Poor decision making, due to poor quality or timeliness of information provided to management; and
- Financial information reported internally or externally is unreliable.

The areas covered as part of our review included:

- Financial Regulations and procedures;
- Training on the financial management system;
- Budget coding manual;
- Control account reconciliations;
- Suspense accounts;
- Journal posting;
- Access to the system / Audit trail;
- Management accounts;
- Cost centre reporting; and
- Feeder systems.

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

- Testing is on a sample basis only and therefore we cannot provide absolute assurance that fraud does not exist;
- We will not cover budgetary control activities;
- We will not review any associated/feeder systems other than control totals and the reconciliations of these; and
- 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. 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>Payroll Reconciliations are performed monthly. All reconciliations since April had been performed, signed and dated by both the preparer and the reviewer. However, we noted that the reconciliations for April, May and June had not been prepared until July.</p> <p>Creditors Reconciliations are performed weekly. A sample of 20 weeks reconciliations were tested. 19/20 reconciliations had been performed, signed and dated by both the preparer and the reviewer. For week 22 (payment run 2), we noted that the reconciliation had been signed by the preparer and not by the reviewer.</p>	<p>There is a risk that errors or variances may not be investigated if reconciliations are not independently reviewed or prepared in a timely manner resulting in a potential loss to the Council.</p>	<p>Control account reconciliations should be prepared in a timely manner after the month end and should be independently reviewed.</p> <p>Action: Sue Healey – Principal Accountant</p>	<p>Management Comment: SH 24/11 - Essential payroll balancing takes place monthly in order to pay over tax and NI. For every month where resources allow, the exercise is then completed, signed and verified as close to the month-end as possible. During closedown this final tidying exercise is expected to slip to July, and it is not considered that this poses any real risk.</p> <p>Creditors is reconciled after every run, but as it is cumulative any discrepancy would be picked up within the week. Where a signature was missing, this was due to the manager covering the Run.</p> <p>Planned Corrective Action: Already agreed informally with auditor</p>

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<p>Debtors Reconciliations are performed by Rushcliffe Borough Council.</p>			<p>that a countersignature will be sought on every occasion.</p> <p>Timescale: Immediately.</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 Corporate Services, Audit Commission and, where applicable, the relevant Heads of Service.

A synopsis of the audit report is provided to the authority's Audit 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 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 of Audit & Risk Services on telephone number 0115 9013850 or via e-mail to vince.rimmington@gedling.gov.uk