



INTERNAL AUDIT

FINAL REPORT

Title: Financial Management System (FMS)

Report Distribution

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EXECUTIVE SUMMARY

Introduction

An audit of the Financial Management System (FMS) was undertaken as part of the approved internal audit periodic plan for 2010/11.

The Financial Management System used by the Council is Agresso. The Financial Services Team responsible for the management of the FMS consists of seven members of staff. For the year to date a total of 14,214 manual journals and 11,228 spreadsheet journals have been processed through the nominal ledger, equating to an average of 2,313 journals processed in a month.

The Agresso system is currently being upgraded to version 5.5. The upgraded version of Agresso is due to go live on 1st April 2011. The new system is currently being tested and training is being provided to all users of the system in preparation for the go live date.

There are several systems that feed into the FMS and the feeds are performed via batch input. The debtor system feeds into the general ledger on a weekly basis and payroll is fed into the general ledger on a monthly basis. As the creditors system is part of Agresso, the feed from the accounts payable ledger to the general ledger is live. The general ledger is updated with the balances from the rents, revenues and benefits systems and the fixed asset register as part of the year end procedures.

To ensure that the closing balances from the 2009/10 financial year are appropriately carried forward into 2010/11, a reconciliation exercise of the brought forward to the carried forward balances was undertaken by Finance.

All journals put through Agresso are independently checked after input so ensure appropriate postings are made.

Additions and changes to the chart of accounts are requested on a standardised form to ensure that all information is obtained prior to a new code being setup on the system or an existing being amended. Once a new code has been created or an existing code amended, the details are independently reviewed. Amendments can only be carried out by employees that have System Administrator access to Agresso.

As part of the month end procedures, the Trial Balance, Coding Errors Report, Unbalanced Transactions Report and Error Transactions Report are produced. The task of producing these reports is included on the period-end checklist. Feeder systems and control account reconciliations are not included within the month-end Finance timetable as these are carried out by the individual departments.

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/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.

Areas of good practice include:

- Access rights to the Agresso system remain up-to-date with starters and leavers and are appropriate to each user's role.
- Journals are independently checked.
- The month-end timetable ensures that all reports are produced in a timely manner following the end of the month.

INTRODUCTION

Objective & Scope

The purpose of the audit review was to evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion.

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 or error, inefficient processing or inappropriate activity.
- Inaccurate, inappropriate or unauthorised journals are posted to the financial management system.
- The general ledger is not appropriately updated with data from feeder systems.
- Opening balances are not appropriately brought forward from the previous financial year.
- Poor decision-making, due to poor quality or timeliness or information provided to management.
- Month-end procedures are not carried out in a timely manner.

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

- Financial regulations;
- Policies, procedures and user guides;
- Access to the finance system;
- Staff training;
- Data input;
- Data verification;
- Trial balances.

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

- This review covers the maintenance of the general (nominal) ledger and does not provide assurance on the management of and transactions within other financial modules and feeder systems.
- We will not substantively re-perform reconciliations.
- Testing will be completed on a sample basis only, based on transactions from the current financial year.
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

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 - Suspense Accounts</p> <p>Level of Risk - Low</p>			
<p>We confirmed that any transactions posted to an incorrect code would appear on the Coding Errors Report which is run as part of the period-end process each month. We reviewed the report for the last four months. The report is passed to the appropriate Accountants for errors to be resolved.</p> <p>However there is no check within the Finance Team as to whether errors have been cleared by the Accountants until the end of the following month, which may be after the period has been closed.</p>	<p>There is a risk that coding errors are not cleared in a timely manner.</p>	<p>The Coding Errors Report should be checked a week after the Accountants have been notified of the errors in order to ensure that they are corrected in a timely fashion.</p> <p>Action: Roger Downing – Principal Accountant</p>	<p>Management Comment:</p> <p>This procedure is no longer applicable.</p> <p>Planned Corrective Action:</p> <p>Under 5.5 all incorrectly coded invoices will automatically be routed to Accountancy for the correct code to be input before invoice authorisation.</p> <p>Timescale:</p> <p>Immediate</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 2 - Unbalanced Transactions Level of Risk - Low</p>			
<p>The Unbalanced Transactions Report is run for the period to which it relates following the end of the month.</p> <p>The Council leaves the period open until the end of the following month in order to ensure that all transactions can be processed in the correct period.</p> <p>The Unbalanced Transactions report can therefore be run up to 31 days before the ledger is closed.</p>	<p>There is a risk that any inappropriate postings made after the report is run are not identified.</p>	<p>The Unbalanced Transactions Report should be run for the year to date to ensure any potential unbalanced transactions posted between the time the report is run and the Agresso period is closed can be identified and reviewed.</p> <p>Action: Roger Downing – Principal Accountant</p>	<p>Management Comment: There have never been any unbalanced transactions posted as all our procedures require double entry postings.</p> <p>Planned Corrective Action: Actioned as requested.</p> <p>Timescale: Immediate</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 3 - Chart of Accounts Level of Risk - Low</p>			
<p>A chart of accounts is in place and is accessible within the Agresso system. The chart of accounts is subject to ongoing review with amendments being requested on a New Code or Link Existing Code Request Form. The chart of accounts can be seen by all Assistant Accountants and Principal Accountants. Amendments are independently checked and evidence kept on the form.</p> <p>It is not possible to obtain a report detailing amendments to the chart of accounts from Agresso.</p> <p>We reviewed a sample of new codes and amendments from the paper file where all forms are kept. There were four instances where a system print had been kept in the file showing the amendments made in the system but there was no corresponding request form for these in the file. We could therefore not verify the amendments had been checked and authorised.</p>	<p>There is a risk that any error made when amending the chart of accounts is not identified in a timely manner.</p>	<p>The standard "New Code or Link Existing Code Request Form" for requesting, inputting and verifying amendments to the chart of accounts should be used in all instances. If a form has not been used, evidence of an independent review taking place should be retained on file.</p> <p>The Council should investigate whether a report detailing all amendments to the chart of accounts can be extracted from Agresso. If it is possible to produce such report, this should be independently reviewed before month-end together with the paper file.</p> <p>Action: Roger Downing – Principal Accountant</p>	<p>Management Comment:</p> <p>Access to change or set up new codes is restricted to 3 Accountants under 5.5.</p> <p>There is no standard report available from 5.5 that lists changes to Chart of Accounts.</p> <p>Planned Corrective Action:</p> <p>Email sent to all 3 reminding them that Request form must be completed for all changes.</p> <p>Timescale:</p> <p>Immediate</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 4 - Policies and Procedures</p> <p>Level of Risk - Low</p>			
<p>There are documented procedures in place for the majority of the general ledger routines such as system feeds, journals, budget setting and monitoring. These are all kept in a folder. However there are no procedures with regards to the chart of accounts.</p> <p>Due to an updated version of the Agresso system being currently implemented, procedures may need to be reviewed and updated.</p>	<p>Procedures in relation to the chart of accounts may not be followed properly.</p>	<p>As part of the upgrade of the Agresso system, procedures should be reviewed and updated to take account of any process changes. As part of this review, Financial Services should ensure that procedure notes for amending the chart of accounts are documented.</p> <p>Action: Roger Downing – Principal Accountant</p>	<p>Management Comment: Recommendation agreed.</p> <p>Planned Corrective Action: Procedure notes will be reviewed/ updated with 5.5 changes and produced for chart of accounts.</p> <p>Timescale: To be actioned after Closure of 2010/11 Accounts and by no later than 31/3/2012.</p>

ANNEX A**Risk & Assurance – Standard Definitions**Audit 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 a number of 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 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 Audit & Risk Services on telephone number 0115 9013850 or via e-mail to vince.rimmington@gedling.gov.uk