



GEDLING BOROUGH COUNCIL

INTERNAL AUDIT REPORT

MAIN FINANCIAL SYSTEMS
MARCH 2022

LEVEL OF ASSURANCE	
Design	Operational Effectiveness
Substantial	Substantial

IDEAS | PEOPLE | TRUST



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REPORT STATUS LIST

Auditors:	Azra Patel
Dates work performed:	17 January - 11 February 2022
Draft report issued:	22 February 2022
Final report issued:	2 March 2022

EXECUTIVE SUMMARY

LEVEL OF ASSURANCE: (SEE APPENDIX I FOR DEFINITIONS)

Design	Substantial	Generally, a sound system of internal control designed to achieve system objectives with some exceptions
Effectiveness	Substantial	The controls that are in place are being consistently applied.

SUMMARY OF RECOMMENDATIONS

High	0
Medium	0
Low	3

TOTAL NUMBER OF RECOMMENDATIONS: 3

CRR REFERENCE

Risk 2: Failure to meet financial integrity.

BACKGROUND

Local authorities are required to maintain sufficient controls over their main financial systems to support effective management of resources. Financial controls play an important role in ensuring the accuracy of reporting, eliminating fraud and protecting the organisation's resources, both physical and intangible. These internal control procedures reduce process variation, leading to more predictable outcomes.

Gedling Borough Council's (the Council) main financial system is Agresso - Unit 4. The Finance team are responsible for setting out the chart of accounts including setting up and amending cost centre and accounts codes on Agresso and processing and reviewing journals. The Finance team also manage user access and authorisations within Agresso, ensuring that officers are provided with access that is required and relevant to their role.

As part of its financial controls, the Finance team are responsible for reconciling the general ledger system (Agresso) to the feeder systems, ie payroll, standing orders, cash receipting system, revenues & benefits systems, etc. These are completed electronically and subject to a review by a separate officer.

The Council operate a finance business partner model with finance officers providing oversight of their allocated budget codes and departments. Variances between actual performance and budgets are communicated with budget holders via the finance business partners.

We undertook a main financial systems review at the Council in 2020/21 which focused on payroll, accounts receivable and accounts payable arrangement where substantial assurance was provided for the control design and control effectiveness. This audit has the same scope. These areas, as well as treasury management, will be reviewed in 2022/23 and 2023/24.

GOOD PRACTICE

The following areas of good practice were identified:

- The finance business partner reviews all manual journals on a weekly basis to confirm they have been processed correctly, because journals do not require authorisation on Agresso. We noted from our sample of 25 journals that all were reviewed by the Finance team, although there was one journal that was reviewed significantly after it was processed (see Observations)
- Agresso can only be accessed through the Council's server which maintains the security of the system. There was a robust Password Policy and password requirements for officers to access the server
- We reviewed a sample of five new users to Agresso and confirmed that in each case the user was provided with appropriate access and authorisations based on their role
- We reviewed a sample of five leavers and confirmed that the users' Agresso access was terminated on the date they left the Council. Additionally, as users can only access Agresso via the Council's server, IT deactivating their desktop access would restrict access to Agresso
- The Council's monthly income is reported to the Senior Leadership Team (SLT), although this has recently been amended to quarterly. Additionally, a monthly exception report is generated and shared with finance business partners who are responsible for discussing variances against budgets with budget holders
- Variances to budgets are reported quarterly to Cabinet which provides adequate oversight of performance and supports strategic decision making. Furthermore, we reviewed the Q1-Q3 2021/22 financial information from Agresso and identified that the data in the Cabinet reports was accurate for the same time period
- The Budget and Closedown Timetable highlights key financial dates and deadlines to support effective forward planning for key finance activities throughout the year.

KEY FINDINGS

We have not identified any key findings, however, have reported three low priority findings:

- We reviewed 18 reconciliations between Agresso and its feeder systems and noted that in three cases the preparer and reviewer were not recorded. Additionally, the preparer, reviewer and date the reconciliation was reviewed were not recorded on all four investment/loan reconciliations we reviewed (Finding 1 - Low)
- Two of the four reconciliations between Agresso and bank accounts were reviewed by the Principal Accountant over a month after they were completed (Finding 1 - Low)
- The Council's Agresso guidance notes have not been reviewed in the past four years and do not reference who they were reviewed by (Finding 2 - Low)
- There was one sub analysis code where the Council were unable to provide the email trail supporting a separation of duties between the requester of the code and the officer from the Finance team that set the code up (Finding 3 - Low).

CONCLUSION

Overall, the Council have robust financial management controls in place and through our testing there was evidence these are generally followed with some minor exceptions noted. This leads us to conclude that both the design and operational effectiveness of the controls in place is substantial.

DETAILED FINDINGS

RISK: LEDGER ACCOUNTS CONTAIN DISCREPANCIES AND THEREFORE MAY BE INACCURATE, LEADING TO FINANCIAL INFORMATION USED FOR DECISION-MAKING BEING INCORRECT

Ref	Significance	Finding
1	Low	<p>The Council perform reconciliations between Agresso and various feeder systems and investment/loan bank accounts. The feeder system reconciliations are performed weekly and the investment/loan bank account reconciliations are performed monthly by the Finance team.</p> <p>We reviewed 18 reconciliations between Agresso and the feeder systems undertaken from August to November 2021 and found:</p> <ul style="list-style-type: none"> • Three of the reconciliations were missing the name of the preparer and date of preparation. <p>We reviewed four monthly investment/loan account reconciliations between April and November 2021 and found:</p> <ul style="list-style-type: none"> • In all four cases the reconciliations, the name of the reviewer and date the reconciliation was reviewed were not recorded, suggesting these reconciliations may not have been reviewed. <p>Additionally, the Council complete monthly reconciliations between Agresso and the bank accounts. We tested four of the bank account reconciliations between August and November 2021 and found:</p> <ul style="list-style-type: none"> • In two cases there was a significant delay between the preparation and review of the reconciliations. These two reconciliations were reviewed 85 and 63 days after they were prepared. <p>There is a risk of discrepancies between the ledger systems (Agresso) and the feeder systems/bank balances if reconciliations are not completed and reviewed in a timely manner leading to inaccurate records.</p>

RECOMMENDATION

- a) A reconciliation schedule should be created stating the date by which each reconciliation should be performed each month. Actual dates of reconciliations should be recorded on the schedule.
- b) The Finance team should be reminded that reconciliations should be prepared and reviewed within a month of the month-end.

MANAGEMENT RESPONSE

A reconciliation schedule will be created setting out the title of the reconciliation, its purpose, who is responsible for undertaking it, who should review it and the date by which this process should be completed.

The Financial Services Manager will examine the reconciliation schedule each month and send reminders to those individuals who have yet to either complete or review a reconciliation.

Responsible Officer: Financial Services Manager

Implementation Date: 30 June 2022

RISK: THERE IS INADEQUATE OVERSIGHT TO ENSURE THERE ARE SEPARATE PERSONNEL FOR SETTING UP AND AUTHORISING NEW COST CENTRES AND ACCOUNT CODES, LEADING TO POSSIBLE DUPLICATION OR ERROR IN FINANCIAL INFORMATION AT THE COUNCIL

Ref	Significance	Finding
2	Low	<p>Agresso guidance notes have been prepared to outline a step-by-step process for completing tasks on the system. For example, the guidance notes state how to set up a new cost centre, add/remove users and creating sub-analysis codes, etc.</p> <p>We reviewed the Agresso guidance notes and found:</p> <ul style="list-style-type: none"> • The officer that reviewed/approved and the date of review/approval of the guidance notes is not recorded • We were informed by the Finance team that the guidance notes have not been reviewed in the past four years. However, much of the content remains relevant to current processes. It should be noted that these guidance notes are due to be reviewed in the coming year as part of the annual review of processes. <p>If guidance notes are not reviewed at least annually, there is a risk they do not reflect changes in processes and may result in new members of staff not completing procedures correctly.</p>

RECOMMENDATION

The Agresso guidance notes should be reviewed and updated as planned.

A version control page should be added to the front of the Agresso guidance notes and when amendments are made this should be updated to reflect this. We have provided an example of a version control page which the Council could use in the Added Value section of this report.

MANAGEMENT RESPONSE

The Agresso guidance notes will be reviewed and updated by the Assistant Finance Business Partner once this vacant post has been successfully filled.

A version control page will be added to the front of the guidance notes based on the example provided in this report.

Responsible Officer: Finance Business Partner (Systems and Business Development)

Implementation Date: 31 July 2022

RISK: AUTHORISATION LEVELS HAVE NOT BEEN COMMUNICATED, LEADING TO ABILITY TO SET UP COST CENTRE AND ACCOUNT CODES WITHOUT ADEQUATE OVERSIGHT, RESULTING IN INCREASED RISK OF ERROR

Ref	Significance	Finding
3	Low	<p>The Council's cost centre structure is consistent with the portfolios within Cabinet. Under each portfolio there are cost centres, account codes and sub-analysis codes. Spending/income is allocated to each sub-analysis code which feeds into the financial reporting. Cost centres and sub-analysis codes are created, updated and closed down as and when required.</p> <p>To set up a new cost centre or sub-analysis code within Agresso, a finance business partner will email the officer responsible for adding new codes to request the new code be set up and where it should be in the chart of accounts, ie which cost centre a sub-analysis code should fall under. Only officers in the Finance team with super user access to Agresso are able to add/close codes.</p> <p>We reviewed five cost centres and five sub-analysis codes which were added between April and December 2021 and found:</p> <ul style="list-style-type: none"> • There was one instance where the email request for a new sub-analysis code for the Kick Start Scheme could not be located. <p>There is a risk that cost centres are not added appropriately if there is no separation of duties.</p>

RECOMMENDATION

Email trails should be retained in the Finance team's shared drive to support the adding/removing of cost centres and sub-analysis codes. Alternatively, the Finance team should investigate whether they are able to attach the emails to the cost centre on Agresso.

MANAGEMENT RESPONSE

A new in box will be set up within the Accountancy folder to capture and administer requests to add/delete cost centres and analysis codes in a prompt manner.

Responsible Officer: Finance Business Partner (Systems and Business Development)

Implementation Date: 31 March 2022

OBSERVATIONS

THERE WAS ONE JOURNAL THAT WAS NOT REVIEWED BY FINANCE IN A TIMELY MANNER

Journals can be processed by any Agresso user with the requisite access. They are usually processed by departments when required. We were informed that departments generally have one officer that will process its journals however, other Agresso users in the team can do so too. Agresso does not have the functionality to require journals to be authorised when they are processed so a finance business partner reviews all manual journals each week to confirm they are accurate.

We identified one case within our sample of 25 manual journals between April and December 2021 where the review of the journal by the Finance Business Partner was undertaken 96 days after the journal was processed. We were informed that this may have been caused by the journal being missed on the weekly review schedule. However, this was an isolated case and in the remaining 24 cases the journal was reviewed in the same week that it was prepared.

ADDED VALUE

WE HAVE PROVIDED AN EXAMPLE OF A VERSION CONTROL PAGE WHICH COULD BE INSERTED INTO THE AGRESSO GUIDANCE NOTES AND UPDATED TO REFLECT CHANGES TO THE DOCUMENT



Document Name/Version	Agresso Guidance Notes v1
Policy/Procedure Owner	Head of Finance
Applicable to	Finance team
Reviewed by	
Date Reviewed	
Date Next Review Due	

Version Control

Version	Date	Contents Amended

STAFF INTERVIEWED

BDO LLP APPRECIATES THE TIME PROVIDED BY ALL THE INDIVIDUALS INVOLVED IN THIS REVIEW AND WOULD LIKE TO THANK THEM FOR THEIR ASSISTANCE AND COOPERATION.

Clare Spencer	Finance Business Partner (Systems and Business Development)
Paul Adcock	Head of Finance & IT
Sue Healey	Principal Accountant

APPENDIX I - DEFINITIONS				
LEVEL OF ASSURANCE	DESIGN OF INTERNAL CONTROL FRAMEWORK		OPERATIONAL EFFECTIVENESS OF CONTROLS	
	FINDINGS FROM REVIEW	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

RECOMMENDATION SIGNIFICANCE	
High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

APPENDIX II - TERMS OF REFERENCE

PURPOSE OF REVIEW

To consider the design and effectiveness of the controls in place around the main financial systems to highlight any areas where the controls could be improved.

KEY RISKS

- Inaccurate or unauthorised journals are made, leading to an increased risk of fraud or error resulting in financial loss to the Council
- Ledger accounts contain discrepancies and therefore may be inaccurate, leading to financial information used for decision-making being incorrect
- Discrepancies in bank balances are not adequately highlighted and resolved in a timely manner, leading to financial loss to the Council not being identified
- Unauthorised access to general ledger records and stored data is possible leading to an increased risk of fraud and financial loss to the Council
- Password controls are not operating in line with the Council's password policies, leading to risk of unauthorised access resulting in misappropriation of Council funds
- Authorisation levels have not been communicated, leading to ability to set up cost centre and account codes without adequate oversight, resulting in increased risk of error
- There is inadequate oversight to ensure there are separate personnel for setting up and authorising new cost centres and account codes, leading to possible duplication or error in financial information at the Council
- Inaccurate financial reporting leading to misinformed strategic decision-making
- There is inadequate financial forward planning for the year, leading to poor financial management and foresight of financial activity at the Council.

SCOPE OF REVIEW

The following areas will be covered as part of this review:

Journals

- Review a sample of general ledger journals from the general ledger and ensure all have been appropriately authorised; confirm that there is appropriate separation of duties between inputter and reviewer.

Bank/General Ledger reconciliation

- Select a sample of accounts and months and confirm that reconciliations:
 - Have been carried out in a timely manner
 - Totals recorded on the reconciliation reconcile to the general ledger
 - Have adequate separation of duties between completer and reviewer
 - Discrepancies are identified and investigated.
- Verify that bank reconciliations have been completed and independently reviewed in the last three months.

Access controls

- Obtain a report of user access rights and confirm only appropriate members of staff within the finance function have write access to the general ledger

- Review a sample of new users to ensure that appropriate approval was obtained before being added to the system
- Review a sample of leavers from the system to ensure that system access has been appropriately revoked
- Obtain summarised lists of journal inputs to the general ledger by inputter and ensure only those with legitimate access appear
- Obtain evidence of the password requirements from the system administrator; confirm forgotten password process.

Cost Centre/Account Codes Set Up and Control

- Obtain a report of user access rights to set up cost centres and account codes
- For a sample of new cost codes set up, confirm only those with legitimate access appear.

Financial Reporting

- Review how financial reporting is collated for monitoring and oversight, for example reports that go to the Cabinet summarising progress against the Medium-Term Financial Plan (MTFP).

Annual Calendar of Financial Activity

- Confirm there is an appropriate and authorised annual calendar of financial activity in place.

However, Internal Audit will bring to the attention of management any points relating to other areas that come to their attention during the course of the audit. We assume for the purposes of estimating the number of days of audit work that there is one control environment, and that we will be providing assurance over controls in this environment. If this is not the case, our estimate of audit days may not be accurate.

APPROACH

We have agreed to review the following financial systems over the course of our three year audit plan. Per the agreed schedule, for this year we will be focussing on journals, access controls, financial reporting and financial planning. The risks and scope of the audit covered in these terms of reference therefore reflect these areas.

Year 1 (2021/22)	Year 2 (2022/23)	Year 3 (2023/24)
Journals	Payroll including policies and procedures, management information	General Ledger
Reconciliations - bank/GL	Treasury management	Accounts Payable
Access controls for GL and key financial systems		Accounts Receivable
Cost centre/account codes set up/approval		
Financial reporting packs to committees or management meetings inc. KPI reporting		
Annual calendar of financial activity		

The proposed focusses for Years 2 and 3 may be subject to change.

Our approach will be to conduct interviews to establish the controls in operation for each of our areas of audit work. We will then seek documentary evidence that these controls are designed as described. We will evaluate these controls to identify whether they adequately address the risks. We will seek to gain evidence of the satisfactory operation of the controls to verify the effectiveness of the control, which will involve sample testing to ensure compliance with the approved methodology. Where appropriate we will use data analytics to identify trends or anomalies.

FOR MORE INFORMATION:

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The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

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