KEY FINANCIAL SYSTEMS	
REPORT TITLE:	**FINANCIAL SYSTEMS SUMMARY FOR THE PERIOD APRIL TO OCTOBER 2011**
OBJECTIVE AND SCOPE OF THE WORK:	To assess the effectiveness of and compliance with the key controls contained within the Main Accounting, Accounts Receivable (Sundry Debtors), Accounts Payable (Creditors), and Payroll Systems operated during this period. Initially, a broad evaluation was completed of the adequacy and effectiveness of the system design for each of the financial systems under review. This focused on: • confirming the adequacy of the documented processes and procedures the service has in place to support staff in performing their day to day duties • confirming that all relevant staff are fully aware of and understand procedures that enable an effective and efficient service to be provided • assessing whether there any duplicate or superfluous procedures or controls, or whether there is scope for the service to change current practices to achieve the same outcomes in a more efficient or effective way • giving assurance that there no expected controls missing and that existing controls mitigate potential risks • confirming that appropriate management controls are in place to enable assurance to be provided in regard to the integrity of the data within each of the financial systems. The audit then went on to consider how well key management controls were operating to mitigate the potential risks that information in the financial systems were not accurate, complete, authorised, substantiated, recorded in a timely manner and secure.
STATUS:	**COMPLETE JANUARY 2012**
CONTROL ENVIRONMENT:	**LIMITED ASSURANCE** FOR MAIN ACCOUNTING, ACCOUNTS RECEIVABLE (SUNDRY DEBTORS), ACCOUNTS PAYABLE (CREDITORS), AND PAYROLL SYSTEMS
REPORTING:	As these systems all ceased to operate at some point during 2011/12, an action plan has not been produced. The report issued just provided a summary of the key issues that supported each system opinion, which is reflected below. ***This summary progress report does not give a balanced view covering all the work completed***.

FINANCIAL SYSTEM:	MAIN ACCOUNTING SYSTEM
KEY CONTROL WEAKNESSES IDENTIFIED	**Reconciliations** The Council's bank accounts had still not been regularly reconciled in a timely manner with the main accounting system due to the long term absence of a member of staff. As at October 2011 reconciliations had been completed up to June 2011. In addition, it was not possible to confirm that data from the payroll system had transferred completely and accurately to the main accounting system as: • evidence was not consistently available to substantiate that exception reports of rejected items had been examined and resolved. In addition, this process was not subject to management supervision and review • the reconciliation of the general ledger payroll control account back to payroll source data and the bank account had not been regularly undertaken. This has been due to long term absence of a member of staff. **System Integrity** It was not possible to confirm whether the controls over the allocation of access permissions operated as designed during this period because all users' access rights were changed to "read only" when Cedar ceased to be the Council's main accounting system. It was not possible to generate an audit trail of actions showing what permissions staff had prior to changing to "read only" to confirm retrospectively whether: • new starters set up on the system were assigned appropriate access permissions • existing staff permissions were not amended to give inappropriate access. **Journals and Virements** A key activity undertaken by accountancy staff is the input of journals and / or virements into the main accounting system to amend and / or correct financial accounting information. To ensure the validity of such activities, it is good practice, and required of Accountancy staff, to ensure different people raise, input and then authorise these journals and virements. Cedar's configuration did not force a separation of these duties. There was no compensating independent, manual check of journals to confirm whether there had been the required separation of duties. Instances were identified where virements were not authorised in accordance with the Council's Financial Regulations. In addition to this, it was not clear what the arrangements are to take a virement to Cabinet when its approval is required.

FINANCIAL SYSTEM:	ACCOUNTS RECEIVABLE (DEBTORS)
KEY CONTROL WEAKNESSES IDENTIFIED	**Authorisation** The process for validating the accuracy and completeness of the whole Authorised Signatories List had not been consistently applied therefore it was not up to date, complete and accurate. As a result, a number of occasions were identified where refunds, debit and credit notes had been authorised by Council officers who were either: • not included on the List of Authorised Signatories; or • authorising payments outside of their formal delegated authority e.g. a credit note for £239k was authorised by an officer whose delegated authority threshold was £100k. **Management Review of Debt Recovery Processes** Effective debt recovery relies on staff making decisions / judgements in line with Council policy / procedure. To gain assurance that these processes are applied consistently and accurately, regular independent management review is required. Due to resourcing issues, these management checks had not been consistently completed throughout the period, in a number of areas, including when: • debt collection had been suppressed • recovery instalment plans were agreed with debtors • a decision was made over the most appropriate route to follow to recover debt e.g. whether reminder letters should be issued, the debt should be referred to the Debt Collection Agency or the Council's Legal Team. *Social Care debt*, which accounted for 63% of the Council's total debt in August 2011 and is a separate system, will be audited during quarter 1 of 2012/13. **Debt Collection Agency** The Council changed its debt collection agency provider during the year after going through a proper tender exercise. However, whilst contract arrangements were being finalised which took approximately five months, management took the decision to not forward any arrears to an agency. This has increased the risk that not all debt has been recovered in a timely manner.

FINANCIAL SYSTEM:	ACCOUNTS RECEIVABLE (DEBTORS) CONTINUED
KEY CONTROL WEAKNESSES IDENTIFIED	**System Integrity** It is necessary to limit the number of staff who can undertake certain functions within the system in order to maintain separation of duties and therefore the integrity of the system data. Weak access controls were identified within the system with regard to the following areas: • the ability to amend recovery periods for different debts types could not be restricted • the member of staff responsible for checking the validity of write offs could also write off debts from the system • staff were able to authorise debit / credit notes they had raised themselves • the ability to add new users to the system was not restricted to the Systems Administrator

FINANCIAL SYSTEM:	ACCOUNTS PAYABLE (CREDITORS)
KEY CONTROL WEAKNESSES IDENTIFIED	**Authorisation** A key control within the system is that orders are raised before payments are made and that both are approved by officers with appropriate delegated authority to do so in line with Council procedures. It is important that there is proper segregation of duties within these functions and that there is confirmation that a proper procurement process has been followed before the order is authorised. It was identified that 52% of orders raised on the Council's E-Procurement system (Market Place) for the period April to September 2011 were "confirmation orders". This, in effect, means orders were raised at the point the invoice needed processing for payment without prior formal authorisation. As such there has been an increased risk that the Council has been committed to the purchase of inappropriate goods and services and may not be procuring cost effectively.

FINANCIAL SYSTEM:	ACCOUNTS PAYABLE (CREDITORS) CONTINUED
KEY CONTROL WEAKNESSES IDENTIFIED	The appropriate approval of orders and invoices, whether via the E-Procurement system (Market Place) or manually, relies on the accuracy and completeness of the Council's List of Authorised Signatories. The Accounts Payable Team referred to the Authorised Signatories List to confirm that hard copy invoices were appropriately authorised. The Corporate Procurement Team used the list to both set up new approvers and confirm whether the authorisation levels for approvers already set up still remained appropriate. <u>However concerns have already been reported that the List it not up to date, complete and accurate.</u> This limits the reliance that can be placed on the system controls to ensure that only appropriate and properly authorised payments have been made. **Management Review** Before an order is approved, authorising officers should confirm that proper procurement practices have been undertaken as set out in the Council's Contract Procedural Rules (CPRs). Officers were required to confirm on Market Place that they had complied with these procedures when making purchases, but there were no management controls in place to confirm this was the case or to identify the level of compliance. During 2010/11, a random sample of 50 invoices were selected across three directorates and examined for compliance with CPRs when purchasing goods and services below the EU Procurement Threshold. A 38% non compliance rate was identified. The results of this work has already been reported to the Audit Committee. <u>Management review of some key aspects of the system had not been in place for the period, i.e.:</u> • <u>an independent check to ensure the daily reconciliation of the "aged creditors balance" to the balance on the main accounting system (Cedar) maintained by the Accounts Payable team has been completed properly so that errors between the two systems are identified and rectified on a timely basis</u> • <u>independent checks to verify the validity of supplier details set up on the e-procurement system and the changes to supplier details actioned on the Cedar Accounts Payable system.</u>

FINANCIAL SYSTEM:	**PAYROLL**

KEY CONTROL WEAKNESSES IDENTIFIED	**Authorisation**
	
	A key control within the system is that instructions to pay staff e.g. setting up new employees, payment of overtime, are approved by officers with appropriate delegated authority to do so in line with Council procedures. The Payroll team referred to the Authorised Signatories List to confirm that the relevant documentation had been appropriately authorised. <u>However concerns have already been reported that the List it not up to date, complete and accurate.</u>
	
	System Integrity
	
	Reconciling payroll to HR system records is a key control in ensuring the integrity of payroll data and should be undertaken regularly throughout the year however, <u>this exercise has only been undertaken annually.</u>
	
	The expertise and knowledge about how to manage access to the system was lost when senior payroll staff left the Council in February 2011. So for example, when users require passwords to be reset, they had to be set up as new users and access to leavers could not be rescinded. In addition, periodic checks on whether current users still had appropriate system access rights had not been undertaken.
	
	The calculation of correct salary payments relies significantly on the accuracy of standard data parameters within the system e.g. tax and national insurance thresholds. These parameters were updated annually via upgrades from the software supplier. <u>However evidence was not available to demonstrate that the system upgrade was adequately tested before it was accepted and went live.</u>
	
	Management Expectation and Review
	
	It was noted during the review that:
	
	• payroll procedural notes had not been kept up to date
	
	• some management checks had lapsed over the last year due to resourcing issues i.e. the independent review of:
	
	   • the monthly document summarising payroll activity, which was used to reconcile the payroll to the main accounting system
	
	   • the Exceptions and Deviances Report which lists all staff whose salary has changed by over 30% from the previous month.

SCHOOLS	
REPORT TITLE:	CYCLICAL BUSINESS HEALTH CHECK
STATUS:	REPORTS ISSUED, AWAITING COMPLETIONG OF ACTION PLANS
OBJECTIVE OF THE WORK:	For seven schools, to assess the robustness of their financial, management and governance controls against expected standards set out by OFSTED and the Audit Commission's document "Keeping Your Balance".
OUTCOME:	Overall, the schools' arrangements were satisfactory and action plans have been sent to all seven schools. There were no significant themes arising from this work.

GRANT CERTIFICATION WORK	
REPORT TITLE:	SAFETY AND MOBILITY FOR ELDERLY ROAD USERS GRANT
PURPOSE OF THE GRANT	To deliver innovative concepts and the sharing of best practice as regards the elderly (drivers and pedestrians) in a society with a constantly increasing life expectancy: making use of new technologies and the results of medical and sociological research to ensure safer mobility for the elderly.
STATUS:	COMPLETE MARCH 2012
OPINION:	AN AUDIT CERTIFICATE WAS ISSUED CERTIFYING THAT THE CLAIM COMPLIED WITH THE GRANT CLAIM CONDITIONS

AD HOC WORK	
TITLE:	MANAGING CASH IN THE CUSTOMER SERVICES CENTRE
STATUS:	COMPLETE JANUARY 2012
OBJECTIVE OF THE WORK:	To assess the effectiveness of arrangements to account for and secure cash received: • from the Council's bank for onward transfer to departments e.g. top up of petty cash floats • from outlying departments to be banked e.g. Central Library • for the operation of the Customer Services Centre petty cash float.
SUMMARY FINDINGS:	Opportunities were identified to improve arrangements and controls regarding the management of this cash which involved: • issuing documented procedures that give clear direction to staff around the security of cash, the records which need to be maintained, procedures for issuing and receiving cash and the independent management checks which need to be undertaken to ensure the controls are being consistently applied • maintaining an inventory recording monies in and out of the safe which is reconciled daily with the actual contents of the safe • agreeing a protocol with departments covering roles and expectations of staff who order monies from the Council's bank (the Customer Services Centre initially receive these monies then hand them over to the relevant departments) • periodically changing the combination number on a smaller wall safe used by staff • maintaining and agreeing records of sales made with regard to advantage cards and fishing licences (this is an interim arrangement whilst steps are taken to eliminate the receipt of cash by the Customer Services Centre). • maintaining a cash book for the Customer Services Centre petty cash float to allow easy reconciliation of monies held.
RECOMMENDATIONS:	HIGH: 4 MEDIUM: 2 TOTAL: 6

AD HOC WORK	
TITLE:	**BACS PAYMENT DIVERT FRAUD**
STATUS:	**COMPLETE JANUARY 2012**
OBJECTIVE OF THE WORK:	The Council was the victim of a fraud to divert legitimate payments owing to its municipal services[1] contractor (Cory Environmental) to a fraudulent bank account. This is a common and growing area of fraud. This was identified in correspondence between Cory and the Council's payment officers about the processing of a specific invoice. Prompt action was taken by senior management, who identified that there were three payments involved, one of £746.28 and two totalling £1.35m, all of which were valid payments to Cory for work done. As a result, only the small payment has been lost. As this is was a criminal offence, it was reported to the police and banks involved and we understand that action has been taken.
SUMMARY FINDINGS:	Subsequently, Internal Audit worked with the Accounts Payable team to further improve existing staff instruction notes which included recommending a number additional control actions covering: • management reporting and review of all changes made to supplier details to confirm their appropriateness • agreeing protocols with suppliers on how such changes will be made in future.
RECOMMENDATIONS:	**HIGH: 0**	**MEDIUM: 4**	**TOTAL: 4**