



Building a Better Bournemouth

Internal Audit

Final Report

Strategic Finance

**Main Accounting System, Bank Reconciliation and Control /
Suspense Account**

May 2015

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DISTRIBUTION LIST

Final Report to: Acting Executive Director, Finance
 Service Director, Strategic Finance
 Group Accountant

EXECUTIVE SUMMARY

AUDIT OPINION

Internal Audit can provide **Substantial Assurance** to Management. This means there is sound risk management, internal control and governance processes which are designed to achieve the service objectives, with key controls being consistently applied.

All audit conclusions will be signed off by the Head of Audit and Management Assurance to provide consistency and confirm that the opinion is appropriate given the issues identified in the audit.

SCOPE & DETAILED OPINION

The Internal Audit Review of the Main Accounting System, Bank Reconciliation and Control / Suspense Accounts has been carried out in accordance with the Internal Audit Plan for 2014/15. Key risks to the delivery of the Service's objectives were defined at the outset of the audit.

The following table records the gross risk (the risk of exposure with no controls in place) and the Auditor's assessment of the risk exposure after the control environment has been tested.

Risks	Gross Risk Assessment	Auditor's Assessment
1. The Accounting procedures in Financial Regulations are not being correctly followed.	High	Low
2. Transactions are not being posted to the correct account and budgets cannot be correctly monitored.	High	Low
3. Budgets are not set prior to the commencement of the Financial Year and service units are not aware of their budgets.	High	Low
4. Financial codes can be created which do not relate to a specific budget and cannot be adequately monitored.	High	Low
5. Fraudulent transactions can be made in the Main Accounting system.	High	Low
6. The amounts held in the Authority's bank accounts do not agree to the Main Accounting System.	High	Low
7. Suspense / Holding Accounts are not regularly reviewed and the amounts not posted to the correct accounts.	Medium	Low
8. Control accounts are not reconciled on a regular basis to ensure accuracy within the ledger.	High	Low

SUMMARY OF RECOMMENDATIONS AND PRIORITIES

Impact	Number	Action
High	0	High priority recommendations identify weaknesses which have serious implications for the effective delivery of objectives and which must be addressed by management immediately. Monitoring of the effectiveness of the actions agreed is essential.
Medium	0	Medium priority recommendations identify weaknesses which have implications for the effective delivery of objectives and which must be addressed by management within a reasonable timescale. Monitoring of the effectiveness of the actions agreed is necessary.
Low	2	Low priority recommendations identify weaknesses which may have implications for the effective delivery of objectives and which management should address. Monitoring of the effectiveness of the actions agreed should be carried out.

OVERVIEW AND AUDIT OBJECTIVES

OVERVIEW

The Internal Audit review of the Main Accounting, Bank Reconciliation and Control / Suspense Account systems has been carried out in accordance with the Internal Audit Plan for 2014/15.

The Council's main accounting system for the preparation of the Council's accounts and for the monitoring of all income and expenditure is Oracle. Oracle Fusion is currently being implemented to replace Oracle; the system is due to go live on 1st April 2015.

This report provides Management with a summary of the findings from this review.

Due reference was given throughout the review to the possible risks of fraud and corruption.

We would like to thank all staff for their assistance and co-operation throughout the course of this review.

CONTROL OBJECTIVES

The objectives of the audit are to seek assurance that controls and procedures put in place by managers are effective and ensure that:

- Previous recommendations have been fully implemented.
- Financial Regulations detail the accounting procedures to be followed and they are being adhered to.
- Carry forward and brought forward balances are able to be reconciled.
- New financial codes and amendments to existing financial codes have been appropriately setup and approved.
- Feeder uploads reconcile to source systems and the ledger.
- Journals are appropriately completed, authorised and input.
- Access to the Main Accounting system is restricted to appropriate personnel.
- The Bank Reconciliation is accurate and is complete and signed off on a weekly basis
- Suspense and holding accounts are in place, regularly reviewed and cleared.
- Control accounts are in place for key financial systems and reconciliations are undertaken on a regular basis in accordance with the reconciliation schedule.

This audit has been undertaken as part of a risk based Internal Audit plan. This means that:

- The objectives and risks have been discussed and agreed with managers prior to the start of the audit.
- The controls established to manage risks have been discussed with key staff and relevant documentation reviewed.
- The controls have been evaluated to assess whether they are proportionate to the risks and evidence sought to confirm controls are operating effectively.
- At the end of the audit review, findings have been discussed with managers at a close out meeting and suggestions for improvement have been agreed.

AUDIT FINDINGS

Risk	Assessment
The Accounting procedures in Financial Regulations are not being correctly followed.	Low

1.1 Financial Regulations

- 1.1.1 The Financial Regulations and Procurement Rules provide the governing framework for managing the Council's financial affairs. This document refers to the Financial Management, and Financial Planning and Budgeting requirements, along with the roles and responsibilities, of members and officers within the Authority.
- 1.1.2 There are detailed procedures notes that cover the different aspects of the Accountancy function and these reflect the requirements of the Financial Regulations. Review of the procedure notes found them to be adequate and observation and testing found them to be correctly followed by the Accountancy Team.
- 1.1.3 At present there is a project team which is in the process of implementing a new Financial System (Oracle Fusion); it is anticipated that this will be going live on 1st April 2015.

Risk	Assessment
Transactions are not being posted to the correct account and budgets cannot be correctly monitored.	Low

2.1 Journals

- 2.1.1 Where an amount is required to be transferred from one cost code to another a journal will be created, for example to correct a mis-posting. The Accountant will enter the detail of the proposed transfer onto an electronic journal (excel spreadsheet) which is then forwarded onto a journal transfer form (also held on an excel spreadsheet) and then processed by the System Administrator.
- 2.1.2 A random sample of 20 journals were tested and it was found that they had been processed correctly. However, it was noted that the Group Accountant will authorise the journal after it has been processed, in some instances up to 3 weeks later.
- 2.1.3 It was recommended in the 2013/14 audit that *'all journals are approved by a Group Accountant, and where created by a Group Accountant, approved by another Group Accountant, prior to the journal transfer to maintain an effective oversight control and adequate segregation of duties'*.
- 2.1.4 The above recommendation has only been partly implemented, as the approval process is happening after the journal has been processed. So if a journal has been raised or again mis-coded in error, a further journal will need to be created to correct this, which will again need to be approved by the Group Accountant. This would appear to be duplication of resources if the journal has been either raised in error or again mis-coded.
- 2.1.5 However, it should be noted that the Journal process will be changing as part of the implementation of Oracle Fusion and this will be discussed with the Head of Strategic Procurement and the Group Accountant prior to the system going live. The approval process in the new system will make it a requirement that there is prior approval before the journal is entered, so as a result a further recommendation has not been made to address this issue.
- 2.1.6 It was also recommended that *'an explanation as to why a journal entry has not been agreed by the Group Accountant should be recorded on the original journal.'* It was noted from the above testing that an explanation is now being added to the journal transfer sheet detailing why a journal entry should be reversed.

2.2 Feeder Systems

- 2.2.1 An e-mail is sent to the System Administrator on a daily basis from the Council's ICT Team which contains details of the feeder file that is ready to be imported. The files are then uploaded into the Oracle system to the relevant control accounts where a reconciliation is undertaken to ensure that the amounts have been correctly uploaded.
- 2.2.2 From the review no issues were identified and the process was found to be operating satisfactorily.

Risk	Assessment
Budgets are not set prior to the commencement of the Financial Year and service units are not aware of their budgets.	Low

3.1 Carried forward / Brought forward balances

- 3.1.1 Once the statement of accounts for 2013/14 has been audited and agreed by the Council's external auditors, the brought forward balances are uploaded to Oracle. A reconciliation is then undertaken between the amounts carried forward to the amounts brought forward.
- 3.1.2 During the 2013/14 audit, an imbalance was identified which was not resolved in a timely fashion, as a result it was recommended that '*any discrepancies between the balances carried forward to the balance brought forward are investigated on a timely basis*'. From the review of the reconciliation during this audit, all the carried forward balances have been correctly brought forward into the current financial year.
- 3.1.3 A sample of 20 cost codes were reviewed from the reconciliation to ensure that the balances brought forward were correct. No errors were identified and the system was found to be operating satisfactory.

3.2 Monitoring of budgets

- 3.2.1 Monitoring reports are produced on a monthly basis and issued to the relevant budget holders throughout the Authority. These are used to inform managers of their current budgets and if there could be any potential issues. Accountants will meet with budget holders throughout the year to discuss any potential budgetary pressures.
- 3.2.2 The process for monitoring of budgets with Service Units was found to be operating satisfactorily.

Risk	Assessment
Financial codes can be created which do not relate to a specific budget and cannot be adequately monitored.	Low

4.1 Financial Codes

- 4.1.1 It was recommended in the 2013/14 audit that *‘a review is undertaken of the cost codes currently live on the system and their applicability to the current budgeted codes, with the disablement of those codes no longer applicable and against which costs, transactions and budgets should not be applied.’* A review of the coding structure and cost codes is currently being undertaken as part of the Oracle Fusion implementation project. The aim is to reduce the number of cost codes and to remove any duplicates. This will be implemented when the system goes live from 1st April 2015.
- 4.1.2 Requests to amend existing financial codes or to create new ones can only be actioned through the Accountancy Team. New financial codes or amendments to current financial codes are undertaken by the System Administrators on request from the Accountants. From the review, it was found that the arrangements in place to create new or to amend current financial codes are operating satisfactorily.

Risk	Assessment
Fraudulent transactions can be made in the Main Accounting system.	Low

5.1 Access to the Main Accounting System

5.1.1 At present there are 3 system administrators whose responsibilities include:

- The setting up and disabling of users
- Creation of new cost centres / codes
- Resetting of passwords
- Upload of data from the various feeder systems
- The production of ad-hoc reports from the Oracle System.

5.1.2 ICT are responsible for the administration of the main accounting system database. Access to the system requires a unique username and password. All users are required to complete a user set up form which needs to be authorised by the Service Director. This will detail the access requirements for the user and the codes they should have access to. A review was undertaken of the user set up process which was found to be operating satisfactorily.

5.1.3 As part of the corporate leaving process, Accountancy should be informed via ICT of staff leavers who have access to the Oracle system. However, there have been occasions where staff have left the Authority and Accountancy have not been informed. A control has therefore been put in place to mitigate any such notification failures; HR sends to the System Administrators a monthly leavers list which is checked and any still live access rights are disabled accordingly.

5.1.4 Also at the beginning of each month, a System Administrator will produce a list of all users from the Oracle system and will review when they last accessed the system. Where a user has not accessed the system in the previous 3 months, their access will either be disabled or an e-mail sent to confirm whether they still require access. The arrangements in place for disabling access or reviewing the access requirements were found to be satisfactory.

5.2 HSBC.net

5.2.1 As part of the 2013/14 audit a review was undertaken on the controls in place for the use of the HSBC.net system. The HSBC.net system has the following functions:

- Business Banking - used by schools for their banking purposes, and as a read only system for Accountancy.
- Net System - used by Accountancy to make BACs payments, look at bank balances, to process telegraphic transfers, to stop cheques and BACs payments, action loans and investment transactions. This is accessed by Accountancy staff, IT Staff and Systems Administrators.

5.2.2 Four recommendations were made as part of the 2013/14 audit and this review confirmed that they have been fully implemented.

Risk	Assessment
The amounts held in the Authority's bank accounts do not agree to the Main Accounting System.	Low

6.1 Bank Reconciliation

- 6.1.1 The bank reconciliation process for November 2014 was reviewed to ascertain that the process has been undertaken and reviewed and approved by the Group Accountant. Bank reconciliations are completed on a weekly basis, with a monthly reconciliation also being undertaken.
- 6.1.2 The following stages were reviewed and tested to confirm that the correct figures were being used as part of the weekly bank reconciliation:
- Closing balances on the HSBC bank statements
 - Direct debits as stated in the weekly bank summaries
 - Raised cheques as stated in the weekly bank summaries
 - Unpresented cheques as stated in the cash management spreadsheet
 - Income summary as stated on the Income Summary sheets
 - The amounts stated on the 5 Santander giro accounts
- 6.1.3 From the review and testing of the weekly reconciliation it was found that the arrangements in place were appropriate and are operating satisfactory.
- 6.1.4 The monthly reconciliation for November 2014 was reconciled against the weekly bank reconciliation summaries, HSBC and Santander Bank Statements and the income summary sheets and as such no issues were identified.
- 6.1.5 The current bank reconciliation is a manual process and requires a high degree of manual input. There is a risk that time could be spent by the Accounting Technician reconciling amounts that have been incorrectly inputted.

Recommendation 1:

It is recommended that the Group Accountant should explore the possible of using an automated bank reconciliation system.

6.2 Independent Review of the Bank Reconciliations

- 6.2.1 It was recommended in the previous audit that *'the weekly bank reconciliation process is updated to include sign off and review by a Group Accountant on a timely basis after the completion of the weekly reconciliation.'*
- 6.2.2 No testing was undertaken by Internal Audit to confirm that the weekly Bank Reconciliations were being reviewed by the Group Accountant, as it was noted that the last weekly Bank Reconciliation reviewed was dated 20th July 2014. As a result of this finding the Group Accountant has now reviewed and signed all the weekly Bank Reconciliations. However, it should be noted that if there were any major discrepancies the Accounting Technician would raise them with the Group Accountant rather than wait until the reconciliation has been

signed off. As such the same recommendation is being raised in this audit as was raised in 2013/14

Recommendation 2:

It is recommended that the weekly bank reconciliation process is updated to include sign off and review by a Group Accountant on a timely basis after the completion of the weekly reconciliation.

Risk	Assessment
Suspense / Holding Accounts are not regularly reviewed and the amounts not posted to the correct accounts.	Low

7.1 Accurate posting of suspense amounts

7.1.1 It was recommended in the 2013/14 audit that *'suspense accounts are cleared in a timely manner to ensure that the accuracy of the accounts and related records are maintained.'*

7.1.2 Internal Audit undertook a review of the following suspense accounts (or 'Dump Codes' as referred to by Accountancy):

- General Suspense Account
- Salaries & Wages
- Debtors
- Creditors
- NNDR

7.1.3 The Accounting Technician produces a discovery report from the Oracle system of the suspense codes for each service area which is then forwarded to the relevant accountant to review. It is the responsibility of that accountant to review and reallocate suspense items to the correct cost codes.

7.1.4 Testing was carried out to provide assurance that any suspense items notified to the relevant accountants are reviewed and correctly coded in a timely manner. No issues were identified and it was found that the arrangements in place are operating satisfactorily.

Risk	Assessment
Control accounts are not reconciled on a regular basis to ensure accuracy within the ledger.	Low

8.1 Reconciliation of Control Accounts

8.1.1 It was recommended in the 2013/14 audit that:

- *The process by which queries raised by control account reconciliations are resolved is reviewed to ensure it occurs in a timely manner.*
- *Reconciliations of control accounts are carried out within one month of the period under review, and that Group Accountants are satisfied with the explanations where this does not occur.*

8.1.2 A control account record has been produced which should be completed as and when the control account has been reconciled, either monthly, bi monthly, quarterly, etc. This control account record is located in Accountancy, and when the reconciliation has been completed the relevant Accountant dates and signs against the relevant control account

8.1.3 A sample of five control accounts were selected for review:

- Salaries & Wages
- Radius Refunds
- Main Debtors Control Account
- CTAX & NNDR Income
- Creditors Main Control Account

8.1.4 Confirmation was sought that a reconciliation is regularly completed and that it has been signed and agreed by both the Accountant and the Group Accountant, and where a difference had been highlighted, this had been raised and resolved on a timely basis.

8.1.5 No issues were identified and it was found that the arrangements in place are operating satisfactorily.

ACTION PLAN – Main Accounting system, Bank Reconciliation and Control / Suspense Acc 2014/15

Ref	Report Ref	Finding / Issue	Recommendation	Priority Rating	Management Response	Responsible Officer and Target Date
R1	6.1.5	Bank reconciliation is a manual process.	It is recommended that the Group Accountant should explore the possible of using an automated bank reconciliation system.	Low	We are looking at this and have requested that the bank provide us with a Fusion BA12 electronic statement which we aim to use from April 2015 in Oracle Fusion. This is still being tested.	Group Accountant May 2015
R2	6.2.2	Weekly bank reconciliations have not been reviewed by the Group Accountant.	It is recommended that the weekly bank reconciliation process is updated to include sign off and review by a Group Accountant on a timely basis after the completion of the weekly reconciliation.	Low	Is already signed so will get a box on for the signature and a date will also be included.	Group Accountant May 2015

EXPLANATION OF AUDIT OPINIONS

Audit Opinion

Substantial Assurance

There is sound risk management, internal control and governance processes which are designed to achieve the service objectives, with key controls being consistently applied.

Reasonable Assurance

Whilst there is basically sound risk management, internal control and governance processes, there are some weaknesses which may put service objectives at risk.

Partial Assurance

There are weaknesses in the risk management, internal control and governance processes which are putting service objectives at risk.

Minimal Assurance

The risk management, internal control and governance processes are generally poor and as such service objectives are at significant risk.