

Internal Audit

Key Financial Controls

December 2014

Distributed to:

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1. Executive Summary

Introduction

The review of key financial controls has been agreed in the Internal Audit, CAFT and Risk Management Plan 2014-15. This review focused on key controls in place across a number of financial systems that are integral to the Council's day to day operation.

Background & context

As part of this review we identified the key controls operating within Barnet's key financial systems and devised an overarching programme of testing across the different systems and processes to give assurance on the effectiveness of these key controls.

In the 2014/15 year we have refreshed our approach to this work by bringing a number of systems together under one test programme for which we have identified and agreed key controls to be tested. We confirmed and updated our understanding of the key controls in place through a number of planning workshops with Customer Support Group (CSG) to ensure our work is up to date and relevant.

This report summarises the key financial controls audit work undertaken covering the period from 1 April 2014 to 30 September 2014 for the following areas:

- Treasury Management
- Pensions administration
- Payroll
- Cash & Bank
- Income and Debt Management
- Accounts Payable
- General Ledger

Our work has now been completed in line with the Terms of Reference dated 8th October 2014 and this report sets out the findings of our work.

This report consists of the following sections:

- Part 1 Executive summary sets summarises the scope of our work, approach and key themes;
- Parts 2&3 Summary of Results and Summary of Issues sets out an overview of the findings for the period tested;

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- Part 4 Detailed Operating Effectiveness Results explains in detail the exceptions we found for each test area where we found non-compliance with the intended controls;
- Part 5 Control Design Findings where we set out in detail issues where controls were not in existence or designed adequately to mitigate the risk identified. Our findings here include recommendations to management; and
- Part 6 Follow-up sets out the results of our follow up of the previous years' audits of Key Financial Systems.

Key Themes

In April 2014 the SAP system was replaced with three alternative systems:

- Integra for the Council's general ledger, accounts payable, accounts receivable and fixed assets
- Core for the Council's payroll and HR
- Resource Link for Schools payroll and HR

The majority of the issues identified in this report are believed to be a direct or indirect result of the move from SAP to these alternative systems and changes in personnel and staff structures as responsibilities were moved from the Council to CSG. These moves represented a significant change to the control environment and staff having competing demands on their time due to the introduction of the new system; a period of bedding down of the new systems and responsibilities and establishment of the new control environment through the early part of this year has led to a number of findings largely centred on two recurring themes:

- **Reconciliations**

At the commencement of the audit Capita Management made us aware that there had been a delay in reconciliations as a result of significant new system implementation during 2014 and steps were being put in place to resolve this. At the request of management we intend to follow up our finding on reconciliations at the beginning of January 2015.

We found a lack of adequate reconciliation between Integra, subledgers within the system and other systems which interface into the general ledger. These had not been performed adequately across the year due to the migration of data from SAP to Integra and data available from other source systems, also the responsibility for some reconciliations was moved from the Revenues and Benefits team to the CSG Finance team which caused a delay in reconciliations being completed.

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For the first 6 months of operation reconciliations were not adequately performed, or were done informally whilst data migration and system issues were resolved and the control environment fully understood. Management recognise this is a financial control which needs to be put in place.

- ***Embedding of new system***

Integra is a new system and during the audit it was evident that not all staff are fully comfortable with the system functionality. Therefore there were some delays in the requested information being provided and some audit trails had not been retained. We understand that further training on Integra is planned for those who need it.

We have discussed our findings at length with management who are aware of all the issues and have committed to resolve them and to improve the control environment across these key financial systems through to the end of the financial year.

Two key areas were also identified through the re-scoping of the key financials work and testing which are not in line with good practice. We recommend the Council consider their risk appetite in these areas and subsequently CSG Finance consider a change in the operational process:

- **Raising invoices** – invoice requests are not currently reviewed and approved prior to invoices being raised which could lead to errors in invoicing not being identified and thus over or under charging by the Council.
- **New supplier checks** - there is currently no independent check over new suppliers to ensure information contained on new supplier request forms are valid and accurate.

2. Summary of results

Assurance rating and summary of issues

System		Summary of Issues	
Treasury Management		Satisfactory Assurance	<p><u>Operation of controls</u></p> <p>1/25 exceptions found where a deal sheet was not signed to authorise the release of payment.</p> <p>The reconciliation between Integra and Logotech has only been performed once for the 6 months up to September as the reconciliations were not performed on a monthly basis in the first 6 months of the go live of the Integra accounting system</p> <p><u>Design of controls</u></p> <p>One Priority 3 control design issue noted where bank account access is not reviewed on a regular basis.</p>
Pensions administration		Substantial Assurance	No issues noted for the period.

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System		Summary of Issues	
Payroll		Satisfactory Assurance	<p><u>Design of controls</u></p> <p>The general ledger reconciliation has only been performed once for the 6 month period and has not been reviewed and authorised. The reconciliation has been seen to be performed correctly, but due to the format of the reconciliation, there is no evidence provided to show that unreconciling items discovered are being investigated.</p> <p><u>Operation of controls</u></p> <p>1/20 exceptions found where the starter form had been completed and authorised after the employee commenced work at the Council.</p> <p>4/20 exceptions found where although the leaving date and process has performed correctly, the leaver form could not be evidenced or no backing evidence could be provided to show the leaver had been authorised to be removed from the payroll system by their line manager.</p>
Cash & Bank		Satisfactory Assurance	<p><u>Operation of controls</u></p> <p>Bank Reconciliations:</p> <ul style="list-style-type: none"> • 1/5 exceptions found where the reconciliation was not performed in timely manner. The reconciliation was performed two months after it was due. • 4/5 exceptions found where the reconciliation had not been reviewed and authorised. This was due to unreconciling items that could not be cleared in the period. The reconciliation can be seen to be performed but it was not authorised by way of signature or electronic sign off as the unreconciling items were still being investigated. • For all samples tested, the reconciliations were not signed or dated as prepared on the reconciliation documentation.

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System		Summary of Issues	
<p>Income and Debt Management</p>		<p>Limited Assurance</p>	<p><u>Design of controls</u></p> <p>Invoices can be raised by members of the individual services across the Council with no limits or restrictions on amounts and are not required to be authorised.</p> <p><u>Operation of controls</u></p> <p>Reconciliation</p> <ul style="list-style-type: none"> No reconciliation has been performed from April 2014 to October 2014 between the General ledger system and its sub ledger for Accounts Receivable. <p>Credit notes</p> <ul style="list-style-type: none"> 8/25 exceptions noted where no supporting information as to why the credit note was raised by the department was provided. <p>Write offs</p> <ul style="list-style-type: none"> 4/25 exceptions were noted where the proposed write off documentation did not show the date on which the write off was prepared. However, other than this the write off was authorised correctly.

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System		Summary of Issues	
<p>Accounts Payable</p>		<p>Limited Assurance</p>	<p><u>Design of controls</u></p> <p>No control was seen to be operating where the BACs runs are reviewed and authorised before payments are made.</p> <p>New supplier forms do not record if the new supplier has been validated to an external source.</p> <p><u>Operation of controls</u></p> <p>Reconciliations</p> <ul style="list-style-type: none"> No reconciliation has been performed from April 2014 to October 2014 between the General ledger system and its sub ledger for Accounts Payable. <p>New Suppliers:</p> <ul style="list-style-type: none"> 1/25 exception was noted where a new supplier form was not evidenced for a new supplier as a signed invoice was used in its place due to non-compliance with the purchase order process. <p>Supplier Amendments:</p> <ul style="list-style-type: none"> 1/25 exception where evidence was provided that was not deemed valid to lead to the supplier amendment.

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System		Summary of Issues	
General Ledger		Limited Assurance	<p><u>Design of controls</u></p> <p>No evidence is recorded to show that the suspense accounts are investigated on a monthly basis. These are also not signed to demonstrate review by a senior member of the finance team.</p> <p><u>Operation of controls</u></p> <p>Control accounts:</p> <ul style="list-style-type: none"> • 2/5 exceptions were found where no evidence of review of the reconciliation of the control account had been recorded. • 3/5 exceptions were noted where the reconciliation of the control account had not been returned to the Management Accountant for review for the month. <p>Journals:</p> <ul style="list-style-type: none"> • 5/25 exceptions were noted where there was no evidence that the journal had been authorised and backing documentation to evidence the purpose of the journal was not provided. <p>User Access:</p> <ul style="list-style-type: none"> • 9/20 exceptions were noted where no evidence of a new user form and/or authorisation email could be provided.

3. Summary of issues identified

System	Number of controls tested	Number of controls where exceptions were found	Number of control design improvements
Treasury Management	6	1	1
Pensions administration	5	0	0
Payroll	7	2	1
Cash & Bank	3	1	0
Income and Debt Management	7	3	1
Accounts Payable	5	3	2
General Ledger	4	3	1
TOTAL	37	13	6

Analysis

35% of controls tested had instances of control operation failure and 16% of controls tested had instances of control design failure.

Follow up

We reviewed 13 P2 recommendations and found that 9 have now been implemented, 3 have been partially implemented and 1 has not been implemented. The recommendation that has not yet been implemented relates to there being no evidence that HR/Payroll risks were formally recorded in a risk log for their on-going management.

We reviewed 3 P3 recommendations and found that they were all partially implemented.

4. Detailed operating effectiveness results

1) Treasury Management

Control Ref	Control Tested	Exceptions	Exception details
TM1	<p>Budgets and cash flow are monitored each month</p> <p>A meeting is held each month to digest the budget monitoring report and to discuss any changes in the period that could affect the treasury management and cash flow going forward. Actions are then decided upon to address any issues raised which should be followed up at the next meeting.</p>	<p>0</p> <p>0%</p>	No Exceptions
TM2	<p>Restricted access to the Treasury management systems</p> <p>The electronic banking system can only be accessed via user log-in details and passwords which are unique to each member of staff granted access to electronic banking. Access to the system is monitored and staff that no longer require access are removed as soon as access is no longer necessary.</p>	<p>0</p> <p>0%</p>	<p>No Exceptions</p> <p>Control design issue noted: see recommendation TM1.</p>
TM3	<p>Treasury dealing and Emergency CHAPS transactions</p> <p>Emergency Chaps transactions should be requested by an individual as per the signatory listing and within their authorisation limits. The payment should then be checked/ validated and authorized by the Deputy/Head of Treasury/ Authorised secondary bank releaser before payment.</p>	<p>1</p> <p>4%</p>	Out of a sample of 25 items reviewed, one exception was noted whereby a deal sheet was not signed to authorise the release of payment by someone with the authority to release the bank payments as per the bank mandate.

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Control Ref	Control Tested	Exceptions	Exception details
TM4	<p>Dealing activities</p> <p>All transfers require authorisation on the deal sheet in line with the scheme of delegation with supporting documentation reviewed and retained on file.</p>	<p>0</p> <p>0%</p>	No Exceptions
TM5	<p>Broker listing</p> <p>The broker used for the deal is to be selected from the authorised broker listing. If a new broker is required to be used then it must be authorised by the Head of Treasury.</p>	<p>0</p> <p>0%</p>	No Exceptions
TM6	<p>System reconciliations</p> <p>A monthly reconciliation is performed between the amounts recorded in the treasury management system and the amounts recorded in the general ledger.</p>	<p>0</p> <p>0%</p>	<p>No Exceptions</p> <p>However, the reconciliation has only been performed once for the 6 months up to September as the reconciliations were not performed in the first 6 months of the go live of the Integra accounting system.</p>

2) Pension Administration

Control Ref	Control Tested	Exceptions	Exception details
PA1	<p>Contribution rates</p> <p>The contributions / pensionable pay are received monthly from the admitted bodies and this is compared to the previous submission to identify issues on an exception basis. The timeliness of payments is also monitored.</p>	<p>0</p> <p>0%</p>	No Exceptions
PA2	<p>Final Salary</p> <p>Pension benefits are calculated automatically on the administration system, Hartlink. The final salary is calculated at the time of calculation, since it is required for the final pension figures.</p> <p>All calculations are calculated and then checked and authorised by a different administrator.</p>	<p>0</p> <p>0%</p>	No Exceptions

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Control Ref	Control Tested	Exceptions	Exception details
PA3	<p>Payments</p> <p>Payments to retirees are processed once the Pensions team become aware of an employee's impending retirement.</p> <p>The Pensions team then send the standard retirement forms to the employee for them to complete.</p> <p>A pensionable pay calculation pro-forma is completed for all new retirees - this is a standard form to ensure consistency in the process.</p> <p>This form is reviewed by a senior officer in the Pensions Team, whereby the salary input data is verified and the accuracy of the calculation is confirmed.</p>	<p>0</p> <p>0%</p>	No Exceptions
PA4	<p>Transfers in</p> <p>Transfers in to the scheme require consent from the member. A check of the transfer value information is performed to ensure it can be accepted.</p> <p>System records for the member are checked – updates are processed where required and authorisation separately by the Senior Administrator or Assistant Manager.</p>	<p>0</p> <p>0%</p>	No Exceptions

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Control Ref	Control Tested	Exceptions	Exception details
PA5	<p>Transfers out Transfers out require written consent from the member.</p> <p>Correspondence is prepared and authorised prior to being sent to the new provider.</p> <p>Transfers out of the scheme require a cash equivalent transfer value (CETV) to be calculated. This is referred to an actuary unless a transfer value has been provided within the last 12 months.</p>	<p>0</p> <p>0%</p>	<p>No Exceptions</p> <p>No testing performed in this period as the control was not used within the designated testing period as there were no transfers out of the pension scheme.</p>

3) Payroll

Control Ref	Control Tested	Exceptions	Exception details
P1	<p>Payroll reconciliation between payroll and GL</p> <p>Reconciliations are performed on a monthly basis. They are performed by an appropriate member of the finance team and reviewed by a senior member of the finance team.</p>	<p>Control design issue noted – not possible to test</p>	<p>Control design issue noted: control not currently in place. See control design recommendation P1 below.</p>
P2	<p>Reconciliation of payment runs to BACS listings</p> <p>Each payment run is reconciled to the BACS / cheque listings and is authorised. The Payroll Supervisor then authorises release of the BACS transmission.</p>	<p>0</p> <p>0%</p>	<p>No Exceptions</p>
P3	<p>Starter form</p> <p>Starter forms with relevant information are fully completed and authorised by an appropriate member of staff (as per the scheme of delegation) who is different to the preparer.</p>	<p>1</p> <p>5%</p>	<p>Out of a sample of 20 tested, one exception was noted where the starter form had been completed and authorised after the employee had started work at the Council.</p>
P4	<p>Leaver form</p> <p>Leaver forms have adequate backing information and are checked and authorised by the HR manager before being received by payroll and processed in the payroll.</p>	<p>4</p> <p>16%</p>	<p>Out of a sample of 25 items tested, four exceptions were noted as follows:</p> <ul style="list-style-type: none"> • 3 exceptions where the leaving form was authorised after the leaving date of the employee. • 1 exception found where although the leaving date and process has performed correctly, the leaver form could not be evidenced or no backing evidence could be provided to show the authorisation of the leaver.

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Control Ref	Control Tested	Exceptions	Exception details
P5	<p>Standing data form</p> <p>Modifications to standing data are reviewed for completeness, accuracy and authorisation by an appropriate level of management.</p>	<p>0</p> <p>0%</p>	No Exceptions
P6	<p>System access</p> <p>Payroll system access is reviewed on a regular basis and access is only granted to appropriate members of staff.</p>	<p>0</p> <p>0%</p>	No Exceptions
P7	<p>Exception reports</p> <p>The system generated exception report indicating unusual payments (i.e. excessively large payments, multiple payments made to the same employee, etc.) is investigated and resolved prior to payment distribution on a monthly basis.</p>	<p>0</p> <p>0%</p>	No Exceptions

4) Cash

Control Ref	Control Tested	Exceptions	Exception details
C1	<p>Cash Collections Cash deposits made by collection agent are reconciled to records of cash takings on a regular basis.</p>	<p>0 0%</p>	No Exceptions
C2	<p>Daily reconciliation between sub ledger and GL Reconciliations are performed on a daily basis. They are performed by an appropriate member of the finance team and reviewed by a senior member of the finance team.</p>	<p>Mitigating control in place</p>	<p>The AIMS cash management system automatically feeds into the Integra GL. As cash is also received to AIMS in line with what is received in the bank, the mitigating control is the bank reconciliation whereby the amount in Integra is reconciled to the Bank statements directly. If any amounts were to be found to be unreconciling that are not identified as being cash in transit, then this would be seen to be due to the AIMS system not correctly allocating the cash into Integra and so this would be investigated then.</p>
C3	<p>Bank Reconciliations Reconciliations are performed on a monthly basis. They are performed by an appropriate member of the finance team and reviewed by a senior member of the finance team.</p>	<p>5 100%</p>	<p>Out of a sample of five tested, five exceptions were found. These are as follows:</p> <ul style="list-style-type: none"> • One exception found where the reconciliation was not performed in a timely manner. • Four exceptions found where the reconciliation had not been signed as authorised. • For all samples tested, the reconciliations were not signed or dated as prepared on the reconciliation documentation.

5) Income and Debt Management

Control Ref	Control Tested	Exceptions	Exception details
ID1	<p>Reconciliation Between Accounts Receivable (AR) and the General Ledger (GL). Reconciliations are performed on a regular basis. They are performed by an appropriate member of the finance team and reviewed by a senior member of the finance team.</p>	<p>Control was not in operation 100%</p>	<p>No reconciliation has been performed from April 2014 to October 2014 between the General ledger system and its sub ledger for Accounts Receivable. This is due to the implementation of the INTEGRA system which had a go live date of April 2014.</p>
ID2	<p>Invoice request forms Invoices are only raised upon receipt of an authorised request form which includes an order requisition reference and accurate customer details. Segregation of duties between invoicing and recording payments.</p>	<p>Control design issue noted – not possible to test</p>	<p>Control design issue noted: control not currently in place. See control design recommendation ID1 below.</p>
ID3	<p>Unallocated receipts account Unallocated money received is placed in an account and investigated on a timely basis.</p>	<p>0 0%</p>	<p>No Exceptions</p>
ID4	<p>Refund Refund requests should be agreed to the original transaction and then reviewed and authorised in line with the allocated limits.</p>	<p>0 0%</p>	<p>No Exceptions</p>

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Control Ref	Control Tested	Exceptions	Exception details
ID5	<p>Credit notes</p> <p>Credit note requests should be agreed to the original transaction and then authorised in line with the allocated limits.</p>	<p>8</p> <p>32%</p>	<p>Out of a sample of 25 tested, eight exceptions were noted where we were unable to evidence the supporting information confirming why the credit note was raised by the department.</p>
ID6	<p>Aged debt chasing</p> <p>An aged accounts receivable report is generated on a regular basis. Overdue debts are investigated and follow the set chasing method dictated by the type of debt and the age of the debt.</p>	<p>0</p> <p>0%</p>	<p>No Exceptions</p>
ID7	<p>Authorisation of write offs</p> <p>Debts are written off following appropriate review and authorisation with reference to the organisation's write off policy.</p>	<p>4</p> <p>16%</p>	<p>Out of a sample of 25 tested, four exceptions were noted where the write off documentation did not note the date upon which the write off was prepared.</p>

6) Accounts Payable

Control Ref	Control Tested	Exceptions	Exception details
AP1	<p>Reconciliation between Accounts Payable (AP) and General Ledger (GL) Reconciliations are performed between AP and GL which are reviewed and authorised.</p>	<p>Control was not in operation 100%</p>	<p>No reconciliation has been performed from April 2014 to October 2014 between the General ledger system and its sub ledger for Accounts Payable. This is due to the implementation of the INTEGRA system which had a go live date of April 2014.</p>
AP2	<p>Three way match is performed Automated three way match, between Purchase Order (PO), goods receipt and invoice is completed before payment is made.</p>	<p>0 0%</p>	<p>No Exceptions</p>
AP3	<p>New supplier form A new suppliers form is completed which is signed by an appropriate individual. Access to supplier standing data is restricted controlled and monitored to ensure only limited people can add new suppliers and segregation is enforced.</p>	<p>1 4%</p>	<p>Out of the 25 samples tested one exception was noted where no new supplier form could be evidenced as an invoice was signed as authorisation on set up for the new supplier. This is not in line with the procedures as the Council would already have an obligation to the supplier by the point of invoice.</p> <p>Control design issue noted: control not currently in place. See control design recommendation AP2 below.</p>
AP4	<p>Supplier bank account amendments A supplier bank account changes form is completed with evidence of the new account details attached. Access to supplier standing data is restricted, controlled and monitored to ensure only limited people can amend supplier standing data and segregation is enforced</p>	<p>1 5%</p>	<p>Out of the 20 samples tested three exceptions were noted as follows:</p> <ul style="list-style-type: none"> One exception found where the evidence provided for the validity in the change in supplier details was not sufficient. A non-headed supplier invoice was provided as evidence for the change in details.

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Control Ref	Control Tested	Exceptions	Exception details
AP5	BACs Reconciliation BACs files authorised for payment have been checked to ensure that the BACs run being paid is the same as the BACs run raised from the AP system.	Control design issue noted – not possible to test	Control design issue noted: control not currently in place. See control design recommendation AP1 below.

7) General Ledger

Control Ref	Control Tested	Exceptions	Exception details
GL1	<p>Control accounts Control accounts are reconciled and reviewed to ensure they are complete and accurate. This takes place on a timely manner and by a responsible individual.</p>	<p>5 100%</p>	<p>Out of the 5 samples tested five exceptions were noted. These are as follows:</p> <ul style="list-style-type: none"> • Two exceptions were found where no evidence of review of the reconciliation of the control account had been recorded. • Three exceptions were noted where the reconciliation of the control account had not been returned to the Management Accountant for review for the month.
GL2	<p>Suspense Accounts Suspense accounts are cleared down and reviewed on a monthly basis. This takes place on a timely manner and by a responsible individual.</p>	<p>Control design issue noted – not possible to test</p>	<p>Control design issue noted: control not currently in place. See control design recommendation GL1 below.</p>
GL3	<p>Journals All Journal authorisation documents are complete and are kept on file. Journals are checked and signed off by an appropriate finance officer in a timely manner.</p>	<p>5 20%</p>	<p>Out of the 5 samples tested five exceptions were noted where supporting documentation and evidence of authorisation could not be located.</p>
GL4	<p>System Access System Access is reviewed on a regular basis to ensure it is correct. System access should be granted by an appropriate individual and access should be in line with their role.</p>	<p>9 45%</p>	<p>Out of the 20 new users sampled, 9 exceptions were found. . These are as follows:</p> <ul style="list-style-type: none"> • 2 new users did not have an authorisation email stored on file • 7 new users had neither an authorisation email or new user form stored on file

5. Control Design Recommendations

TM1 – Review of access to the electronic banking system

P	Detailed finding	Risk	Recommendation	
3	<p>Access to the electronic banking system is not currently reviewed on a regular basis.</p> <p>We understand that the banking system is updated when a user leaves or joins the organisation. The Cash team is not informed by HR of the leaver or joiner, but the list of individuals who use the system is small and they work in the same department, the team believe they are usually aware of who has left or is joining. However, there are users with access that are not based in the Council's main offices with the finance department, thus not all joiners and leavers may be captured</p>	<p>Leavers could leave the organisation and still retain access to the banking system as they have not been recognised on a timely basis. This could lead to unauthorised and fraudulent transactions being made by individuals who have access to the banking system but have left.</p>	<p>A periodic review of the users of the electronic banking should be performed. Individual user access should be reviewed to ensure it is correct and confirmed against HR information to ensure they are still active members of staff.</p>	
Management Response			Responsible Officer	Deadline
<p>The Council is currently transitioning from its current bank provider to the new provider through which a review of all users who access the system will be completed. With the new arrangement the schools that use the Council's banking contract will also be provided with online access.</p> <p>Under the new banking arrangements we shall complete a six monthly audit of users of the system to ensure all officers are active and cross reference this with HR information as well as e-mailing directly schedules to the appropriate managers for review and sign off.</p>			Head of Treasury	February 2015

P1 – Authorisation of Payroll to General Ledger reconciliation

P	Detailed finding	Risk	Recommendation
2	The reconciliation has only been performed once since April 2014 rather than on a monthly basis. This is due to the implementation of the Integra system that occurred at this time. It was noted that the reconciliation performed has not been reviewed and authorised by a suitable member of staff.	<p>Reconciling items could be outstanding for a long period of time. This could make the reconciliation difficult to perform or unable to reconcile due to lack of information on differences found.</p> <p>Reconciliations may be incorrect due to a lack of review and authorisation, allowing fraud or mistakes due to human error go unnoticed.</p> <p>This could result in the General ledger figures being incorrect, leading to inaccurate budget monitoring and also financial reporting issues.</p>	Reconciliations should be performed on a monthly basis and should be authorised by a senior member of the finance team on a timely basis. Both preparer and authoriser should sign and date the reconciliation and archive it appropriately.
Management Response			Responsible Officer
The reconciliation of the payroll postings have been delayed following the implementation of Integra (new finance system) and Core and Resource Link (two new payroll systems) as well as the transfer of functions between non finance and finance personnel. The reconciliations are now in progress and being completed. These will be completed on a monthly basis by a member of the Closing and Monitoring team and reviewed and authorised by the Finance Manager.			Finance Manager – Closing and Monitoring
			Deadline
			February 2015

ID1- Invoice request forms

P	Detailed finding	Risk	Recommendation
1	Invoice request forms are not in operation and there is currently no requirement for invoice requests to be reviewed and authorised prior to invoices being raised.	Invoices could be raised incorrectly through fraud or human error. This could result in incorrectly overbilling clients, resulting in a degradation of relationships and credit notes needing to be issued.	Invoices requests should be implemented and authorised before being issued. Due to the large amount of invoices issued, a scheme of delegation of authority could be set up so that invoices could be authorised

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	<p>Invoices can be raised by members of the individual services with no limits or restrictions on amounts or checks to ensure these are accurate before they are raised.</p>		<p>on a hierarchal basis depending on value.</p>
<p>Management Response</p>			<p>Responsible Officer</p>
<p>The financial process in place within Integra is identical to the process in place within SAP, where by a 'Sales Order' request is placed on the system and then through an automated process this is turned into an invoice and sent to the customer. It should be noted that credit notes go through an approval loop and are approved by the respective budget manager/holder.</p> <p>In line with the recommendation from the Internal Auditor and in line with best practice, a system configuration change will be made to Integra to introduce a threshold for 'Sales Orders' which require approval. This threshold will be decided following a review of all debtors and credits notes raised in the period and then reviewed periodically and if necessary lowered.</p>			<p>Assistant Director of Finance</p> <p>March 2015</p>

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AP1- BACs request authorisation and reconciliation

P	Detailed finding	Risk	Recommendation	
1	<p>No evidence was provided to show that the BACs run was reviewed and authorised before being issued for payment.</p> <p>There is currently no auditable evidence of sign off from the AP team that shows that the BACs to be paid has been reviewed and sent off prior to payment.</p> <p>The AP team currently email the Capita payment team as confirmation of the payment, but this is not archived and does not state the amounts or details of the payments.</p> <p>We have been informed that the payments team reconcile the amounts per the INTEGRA system to the payment run, but no evidence was provided of the process or the segregation of duties involved.</p>	<p>Fraudulent changes to the BACs payment details could be made which could lead to financial loss to the council.</p> <p>The migration of the BACs payment could be corrupted in transfer from one system to the other, resulting in payments not being made or being made incorrectly. This could lead to the council not meeting the payment terms or overpaying suppliers.</p>	<p>The BACs run should be reviewed and authorised by the AP team to confirm that the payments to be made are accurate and valid.</p> <p>This should then be reconciled against the BACs payment made to ensure that no changes have been made in the migration of the BACs data from the AP system to the BACs system. Evidence of this process should then be archived.</p>	
Management Response			Responsible Officer	Deadline

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<p>The BACs run is proposed, reviewed and authorised by one of three members of the AP team (Senior Accounts Payable Officer or Head of Exchequer Services) and this takes place within Integra. On authorisation the system produces a file which is output into an automated process through which the file cannot be changed and uploaded to the BACs Bureau which provides a gateway to the bank.</p> <p>Within Integra the value of the BACs run updates the 'Cashbook' register which is then matched with the expenditure on the bank statement. As part of the 'Cashbook' element of the audit, it was confirmed that reconciliations of the 'Cashbook' and bank accounts were in place and therefore any discrepancy between the authorised value and the amount physically paid would be highlighted through this latter process.</p> <p>During the audit, it was not possible to provide the Auditors within the timescale the evidence that supports that a member of the AP team propose, review and authorise the payment run due to complications in extracting the data from the audit tables within the system. However Management are able to confirm this control has been in place since the 1st April 2014 when the system went live.</p> <p>The necessary reports have now been generated to support the audit work moving forward.</p>	<p>Head of Exchequer Services</p>	<p>January 2015</p>
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AP2- New suppliers

P	Detailed finding	Risk	Recommendation		
1	<p>New supplier forms do not currently record the procedures performed to validate that the supplier is an authentic supplier. No companies house check or external check is performed and recorded on the form to show that due diligence has been performed on the creation of the new supplier.</p> <p>New supplier forms are also not stored appropriately. The forms are stored in a paper folder in an approximate date order.</p>	<p>False suppliers could be set up on the system allowing fraudulent payments to be made.</p>	<p>External validation checks should be performed and recorded on the new supplier form. Evidence of the validation should be as well as the new supplier form should be electronically attached to the supplier account to ensure that a supplier form has been performed for each supplier on the system.</p>		
Management Response			<table border="1"> <tr> <td data-bbox="1489 1369 1877 1423">Responsible Officer</td> <td data-bbox="1877 1369 2096 1423">Deadline</td> </tr> </table>	Responsible Officer	Deadline
Responsible Officer	Deadline				

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<p>On the setting up of new supplier appropriate checks are made back to the company to ensure the validity of information received, however this follow up correspondence is not included / noted on the paperwork retained by the service. Moving forward the correspondence and / or file note will be retained, including highlighting who completed the check and when.</p> <p>In addition, we shall begin to upload and scan the change correspondence into Integra and attach this to the supplier record to ensure ease of accessing the record. We shall also consider further whether appropriate segregation of duties are in place within the team or whether the approval of supplier changes should be made by a second team.</p> <p>At the same time it should be noted that any payments to a particular supplier for over £35k are separately approved by a member of staff outside of the Accounts Payable team to validate the bank account and ensure the invoice has been entered correctly into the system.</p>	<p>Head of Exchequer Services</p>	<p>January 2015</p>
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GL1- Suspense account monthly review

P	Detailed finding	Risk	Recommendation		
2	<p>There are currently two suspense accounts in operation for the Council. These are an Accounts Receivable suspense account (924119) and an unidentified income account (10814).</p> <p>The suspense accounts are reviewed and cleared on a monthly basis but this is done entirely on the general ledger system and so there is no evidence of review or sign off. As a result there was no audit trail or evidence that the review is performed and signed off on a monthly basis.</p>	<p>Financial data may be incorrect due to unidentified balances held within suspense, which are not allocated promptly to GL codes. This may cause information in the main accounting system to be incomplete and inaccurate.</p>	<p>Evidence that the suspense account is performed on a monthly basis should be recorded so as to ensure that it is being performed correctly on a regular basis.</p>		
Management Response			<table border="1"> <tr> <th data-bbox="1491 1307 1877 1358">Responsible Officer</th> <th data-bbox="1877 1307 2083 1358">Deadline</th> </tr> </table>	Responsible Officer	Deadline
Responsible Officer	Deadline				

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The suspense accounts are now being reconciled on a monthly basis and evidence put in place that these are being reviewed by a Senior Manager as necessary.	Finance Manager – Closing and Monitoring	January 2015
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Timetable	
Terms of reference issued	26 September 2014
Fieldwork completed	06 October 2014
Draft report issued	10 November 2014
Management responses received	23 December 2014
Final report issued	21 January 2015

6. Follow up

As part of the review we have also followed up issues raised in previous reviews performed for the Key Financial Systems. The results of this follow up are noted below.

6.1 Pension and Treasury Management audit – September 2013

Priority	Issue	Recommendation	Management Response	Responsible Officer	Dead line	Audit findings November 2014
2	In our testing of leavers, we noted one instance out of 6 where it was not clear on the authorising documentation who the officer was from the admitted body authorising the processing of the leaver.	Recommendation 1 Where the officer authorising the pension fund leaver or starter is not clear, Pension officers should confirm the transaction with the officer normally responsible for authorising pension fund leavers / joiners at the organisation / admitted body prior to processing.	Processes will be reviewed	Pension Services Manager	30/09/2013	Implemented Employer pension instructions for members were clearly authorised for comparison to authorised signatory lists.
2	We were informed that reconciliations between AXIS, the Council's pension administration system, and	Recommendation 2 Reconciliations between AXIS and Admitted Body	Outstanding contributions returns will be checked	Pension Services Manager	31/10/2013	Implemented The comparison of employer contribution schedules to pension system records, where

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Priority	Issue	Recommendation	Management Response	Responsible Officer	Dead line	Audit findings November 2014
	<p>Admitted Body records for June and July 2013 were delayed. The reconciliations ensure the prompt identification of starters and leavers for processing and to ensure that contributions are received for all applicable members.</p> <p>Management indicated that delays were attributable to the administrative burden created by the automatic enrolment process from 1 April 2013 where persons meeting stated age and pay criteria are required to be enrolled into a workplace pension scheme.</p>	<p>records of pension fund membership should be undertaken at the earliest stage to ensure the accuracy and completeness of AXIS pension records.</p>				appropriate, was undertaken promptly.
2	<p>Although we were provided with a procedure document for external starters, we were informed by management that there were no documented policies for internal starters via the SAP interface.</p>	<p>Recommendation 3</p> <p>A formal policies and procedures document should be produced to define all pension administration responsibilities.</p> <p>Policies and procedures should be dated and</p>	<p>Procedure documents will be reviewed and implemented</p>	<p>Pension Services Manager</p>	<p>31/10/2013</p>	<p>Implemented</p> <p>Documented procedures were available for internal and external starters for referral, where necessary.</p>

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Priority	Issue	Recommendation	Management Response	Responsible Officer	Dead line	Audit findings November 2014
		<p>subject to version control to facilitate ongoing review and update.</p> <p>This recommendation was reported in the Pensions and Treasury Management report – November 2012</p>				

6.2 Payroll audit - September 2013

Priority	Issue	Recommendation	Management Response	Responsible Officer	Dead line	Audit findings November 2014
3	<p>Payroll policies and procedures are not reviewed annually: most were reviewed in 2010/11 with reviews set for October 2013 and the documents are not version-controlled upon review. For example, the Reimbursement of Additional Expenditure policy is dated December 2006. The tracking spreadsheet states that the policy was reviewed in 2010/11 and that no updates were required, however, the</p>	<p>Recommendation 1</p> <p>Policies and procedures should be version-controlled and reviewed at the appropriate level at least annually.</p>	<p>Internal payroll delivery processes and procedures are up to date and regularly reviewed. All HR Policies are currently under review by HR Business Partner. This work is on-going.</p>	HR Business Partner (Policy)	31 March 2014	<p>Partly implemented</p> <p>Work is in progress to review all HR policies. The templates have been agreed which include version control and an annual schedule of review developed. Policies are also reviewed in light of planned employee legislation changes.</p>

Continuous Auditing - Key Financial Controls

Priority	Issue	Recommendation	Management Response	Responsible Officer	Deadline	Audit findings November 2014
	<p>policy is not due for review until October 2013 (2013/14). Vehicle and Travelling Allowances policy is dated January 2008 but was in fact updated in March 2012.</p>					
2	<p>We noted that Pay and Reward staff had the Z_Central HR access which allowed them to create a starter and update bank details which was the responsibility of the HR Recruitment and Compliance Team. The creation of starters and the changing of bank details are not required in terms of their role.</p> <p>As part of the previous audit, Management indicated that additional work to restrict HR staff access was put on hold due to the impending outsourcing of HR and Payroll work to Capita as part of the NSCSO Programme.</p>	<p>Recommendation 2</p> <p>The planned implementation of changes in HR/Payroll SAP access regarding access to change bank details should be revisited and the options should be assessed in terms of cost, benefit and risk.</p> <p>The SAP access of the Pay and Reward staff, in particular, should be assessed to ensure that they are only able to process in line with their role. The relevant exception reporting on Pay and Reward activity should be introduced where access cannot be suitably restricted in SAP, for example independent reviews of bank account changes should identify</p>	<p>Pay & Reward staff have access to Z_Central HR as they are required to update variable changes. Pay & Reward do not set up bank details on new starters as this process is completed by Recruitment & Compliance Team. Monthly bank details audit checking is carried out by the HR Customer Services Manager to mitigate the risk of fraud. SAP HR & Payroll is due to be transferred to Capita Shared Service Centres in April 2014 and SAP will cease to be used. In such circumstances it is felt with the mitigating checks in place, there is little</p>	HR Customer Services Manager	Complete	<p>Implemented</p> <p>SAP is no longer used and has been replaced by Core as the HR and Payroll system. Within Core, the HR team create new starters and the payroll team do not have access to create a new starter record.</p> <p>The review confirmed that the access profile of Payroll administrators included the menu profile, PAY_ADMIN while the access profile for HR administrators did not. The access profile of HR Administrators included the menu profile, HR_ADMIN while the access profile of Payroll administrators did not. This meant that Payroll administrators were unable to undertake the processing of employee bank details which was available under the HR_Admin which is consistent with our expectation as the processing of bank details, for instance, should only be possible by HR administrators in line with their role.</p>

Continuous Auditing - Key Financial Controls

Priority	Issue	Recommendation	Management Response	Responsible Officer	Deadline	Audit findings November 2014
		and review changes made by officers in the Pay and Reward team, where noted.	merit in expending resources further in this area when the system will cease to be used.			
2	The HR section handles significant personal data. We noted that 6 out of 22 HR officers tested had not undertaken the compulsory E-Learning Information Governance training.	<p>Recommendation 3</p> <p>Arrangements to routinely assess the need for data protection training and monitor attendance should be introduced. The Information Governance E-Learning training should be undertaken by all officers.</p>	All Council employees within HR had completed the eLearning Information Governance training. Some temporary agency staff; engaged recently, had not. The HR Customer Services Manager will ensure all temporary agency staff have completed the online training by the deadline.	HR Customer Services Manager	31 October 2013	<p>Implemented</p> <p>All members of the HR & Payroll team have completed Capita Data Protection Awareness and Information Security Awareness training.</p>
2	We noted one instance out of 6 where the passport copy retained for the identification of the starter was not stamped and recorded as a "True copy of the original". This is required in terms of the Starter procedure provided.	<p>Recommendation 4</p> <p>Starter identification should be stamped as a true copy of the original to ensure that original documentation was inspected and tested prior to the employee starting.</p>	Standard HR and Payroll processes require the checker to stamp and sign to verify the "true copy of the original" document. The one instance was human error. The HR Customer Services Manager will remind	HR Customer Services Manager	31 October 2013	<p>Implemented</p> <p>The recommendation has been implemented as all new starter documentation is signed, dated and verified as an original.</p> <p>Confirmation that the original passports had been inspected was indicated for all passport copies for starters tested.</p>

Continuous Auditing - Key Financial Controls

Priority	Issue	Recommendation	Management Response	Responsible Officer	Deadline	Audit findings November 2014
			all staff to stamp and sign all relevant documents.			
3	A resignation letter was not received in one out of 6 leaver cases tested. Management indicated that one had been submitted but had been misplaced	Recommendation 5 Resignation letters should be requested and retained wherever possible, in line with the procedure for leavers. The recommendation was reported in the Payroll report – February 2013.	HR standard procedures do require resignation letters to be submitted as part of the leaver process. In this one instance, the letter could not be located at the time of the audit, but a copy has been obtained from the ex-employee. The HR Customer Services Manager will remind all staff to ensure a resignation letter is obtained in all cases of an employee leaving the Council or where a letter cannot be obtained, a note is placed on the employees' personal file to state no letter could be obtained.	HR Customer Services Manager	31 October 2013	Partly implemented The leaver procedure has been updated to advise that if a resignation letter is not submitted by the line manager with the notification of leaver then this must be requested and followed up. However resignation letters were not available for 4 out of 5 leavers tested. Management indicated that this arose as the procedures had only recently been updated with the instruction to request resignation letters if not received with the leaver forms in line with the recommendation made in last year's audit
3	In four of our sample of six leavers, the leavers form was not fully completed with respect to recording by the line manager that Council	Recommendation 6 HR should confirm with line managers that all Council property has been	Agreed. The HR Customer Services Manager will amend existing procedures to ensure that where a	HR Customer Services Manager	31 October 2013	Partly implemented The leaver form has been reviewed and updated. This includes a section of items to

Continuous Auditing - Key Financial Controls

Priority	Issue	Recommendation	Management Response	Responsible Officer	Deadline	Audit findings November 2014
	<p>property had been obtained. Line managers were not challenged by HR to confirm retrieval of property.</p> <p>In line with the recommendation in the Payroll report – February 2013, the leaver form had been updated to reflect the message to line managers reminding them of their responsibility to recover Council property from exiting employees.</p> <p>The previous audit did note however that it is not the responsibility of HR to ensure that Council property is returned.</p>	<p>returned or requested from leavers. Where the leaver form received by HR does not reflect that this has been done by the relevant line manager, for instance where Council property has not been recorded (ticked) on the leaver form as to its return, this should be challenged by HR and the outcome documented accordingly.</p>	<p>leaver form is received and there is no indication that the line manager as collected the Councils property, HR will email the line manager to remind them of their responsibilities. A copy of the email will be retained on the employees file</p>			<p>be returned and systems permissions which need to be revoked. The procedure has been updated to advise that if the relevant section has not been completed it should be returned to the line manager to complete.</p> <p>For 4 out of five leaver forms tested, there was no record on the leaver form that property had been returned and no evidence of subsequent challenge by HR to confirm compliance with the procedure.</p>
2	<p>We noted that 1 instance out of 22 where an officer had not completed the Corporate Anti-Fraud (CAFT) Fraud Awareness E-Learning training.</p>	<p>Recommendation 7</p> <p>Arrangements should be introduced to routinely assess the need for fraud awareness training and monitor related attendance. The CAFT fraud awareness training should be completed by officers as a minimum.</p>	<p>Agreed. The Head of HR Operations will ensure that all HR staff have completed the Corporate Anti-Fraud (CAFT) Fraud Awareness E-Learning training</p>	<p>Head of HR Operations</p>	<p>31 October 2013</p>	<p>Implemented</p> <p>All members of the HR & Payroll team have completed Capita Fraud Awareness training.</p>

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Priority	Issue	Recommendation	Management Response	Responsible Officer	Deadline	Audit findings November 2014
2	Although authorisation of variable pay actions was evident, we were informed that a formal process did not exist to confirm whether the authorising officer was on the appropriate authorised signatory list.	Recommendation 8 Pay and Reward officers should confirm, in line with the risks, that Delivery Unit officers authorising variable payments have the required authority to do so. Evidence should be retained of such confirmation where this has been done.	Standard payroll procedures note that the Council does not have a central repository of authorised signatories for payroll purposes. Where payroll staff do not recognise the authorising signature, they will contact the line manager to seek clarification of authority. The HR Customer Services Manager will remind all HR staff that they need to note evidence of such confirmations whenever done.	HR Customer Services Manager	31 October 2013	Implemented The hierarchy structure within the Core HR system is checked to verify if approval is from the correct level within the organisation. Any changes which come through the self service facility on Core HR come through manager self-service and the manager needs to approve these. Payments are approved by line managers which is maintained through management of hierarchy structure in HR Core
2	Seven recommendations were reported in the February 2013 report of which six had an implementation date prior to 30 September 2013. Two of the six recommendations had not been implemented in that the identification of payroll risks in JCAD had not been significantly progressed and one leaver resignation letter, reported in	Recommendation 9 Audit recommendations made in the February 2013 audit report should be implemented as soon as possible, where they are still applicable after the transfer to NSCSO.	Identification of payroll risks had been reviewed prior to transfer of services to Capita. All risks were noted and mitigated as appropriate. JCAD is no longer accessible to transferring Capita staff. No further action required.	Head of HR Operations / HR Customer Services Manager	31 October 2013	Not implemented There was no evidence that HR/Payroll risks were formally recorded in a risk log for their on-going management.

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Priority	Issue	Recommendation	Management Response	Responsible Officer	Deadline	Audit findings November 2014
	recommendation 5 of this report, could not be located. Four of the recommendations were implemented. The implementation of all audit recommendations is needed to support continuous improvement in service delivery.		The Management Action for recommendation 5 is noted above			

6.3 Cash Book – September 2013

Priority	Issue	Recommendation	Management Response	Responsible Officer	Deadline	Audit findings November 2014
2	At June 2013 when the audit was undertaken, the bank signatory list held by Cash Book had been validated against the Co-Op Bank's records of authorised signatories on the 18 January 2013. This is meant to be done quarterly. Confirmation from the Co-op Bank was received in July 2013.	Recommendation 1 The Co-Op bank's records of authorised signatories for bank accounts should be provided to Cash Book on a quarterly basis.	Agreed and actioned. The bank mandate was updated following the quarterly meeting with Co-op Bank in July 2013. The Global mandate was updated in August 2013 and will be reviewed at scheduled quarterly meetings going	Head of Treasury	Completed and ongoing	Partly implemented The last reconciliation between Co-Op Banks and Cash Book's authorised signatory list was done to March 2014. This process had ceased owing to the pending termination of the contract with Co-Op Bank. Updates such as new signatories, leavers and name changes following a change in marital status are notified by Cash Book and Treasury. Discussion and testing confirmed potential differences between the Co-Op banks records and Cash Books records which could only be resolved by a

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Priority	Issue	Recommendation	Management Response	Responsible Officer	Deadline	Audit findings November 2014
			forward.			<p>formal reconciliation. We were informed that the Co-Op Banks latest list will be requested for comparison.</p> <p>Further action:</p> <ol style="list-style-type: none"> 1. Request the Co-Op Banks latest authorised signatory list for comparison to Council records. 2. Ensure that the new Banking contract includes the regular provision of their authorised signatory list to Cash Book for reconciliation and update. <p><u>Management response from Treasury Manager</u></p> <p>We will be reviewing and updating all bank signatories for new bank contract and this will be completed before March 2015. We will establish a signature verification procedure with the Council's new bank</p>

6.4 Accounts Payable – September 2013

Priority	Issue	Recommendation	Management Response	Responsible Officer	Deadline	Audit findings November 2014
2	<u>Authorised signatory lists (Services)</u>	Recommendation 1	Checking authorised of	Head of Exchequer	30/09/20	<u>Authorised signatory lists</u>

Continuous Auditing - Key Financial Controls

Priority	Issue	Recommendation	Management Response	Responsible Officer	Deadline	Audit findings November 2014
	<p>We were informed that a formal process did not exist for validating Delivery Unit instructions, on the relevant authorisation templates, for manual payments and updates to vendor standing data against authorised signatory lists.</p> <p>Management indicated that an electronic list of authorised signatories was being developed as part of embedding a more formal process for validating payments and changes prior to processing.</p> <p><u>Finance payment authorisation</u></p> <p>Payments over £35k were independently authorised by Heads of Finance. However, in 2 instances out of 10 tested, the date of authorisation was not indicated to assess the timeliness of authorisation. In</p>	<p>Responsible officers should validate instructions for manual payments and internal vendor standing data changes against authorised signatory lists in line with the risks.</p> <p>Payment authorisation should take place prior to payment. Complete evidence of authorisation, including date authorised, should be retained. This recommendation was raised in the Accounts Payable report – August 2012.</p>	<p>signatories is performed but on an ad-hoc basis and it is recognised that a more robust process is required. To provide this additional identifiers are being requested from the signatories to eliminate the difficulty and time taken in deciphering signatures.</p> <p>Reductions in the number of staff</p>	<p>Head of Exchequer</p>	<p>13</p> <p>16/09/2013</p>	<p>Partly implemented</p> <p>The Head of Exchequer confirmed that the authorised signatory list was not up to date for fully effective validating of payments, where necessary. Delays in the development of an up to date list were attributable to a rapidly changing organisation and to an understanding that system changes were planned next year for payment authorisation to take place through automated system workflow.</p> <p><u>Payments over £35K</u></p> <p>Partly implemented</p> <p>Payments over 35k were subject to independent check. We noted one instance out of five where the authorising officer failed to date the sign-off to confirm accountability for review prior to payment date. The Head of Exchequer indicated that the officer had been asked to date payment authorisations in future.</p>

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Priority	Issue	Recommendation	Management Response	Responsible Officer	Deadline	Audit findings November 2014
	8 instances payment was authorised after payment.		authorised to approve this report meant that the authorisation was not as timely as desired but steps have already been taken to widen the pool of authorised signatures to improve the timeliness.			
2	<p>Changes to vendor data are supported by authorising instructions internally or externally from the vendor and are subject to independent review and check.</p> <p>We noted one instance out of 10 where there was no evidence of the independent check on the supporting documentation.</p> <p>We noted a second instance where a change to the vendor standing data was initiated by Accounts Payable and not the vendor or Corporate Procurement Team (CPT) and had not</p>	<p>Recommendation 2</p> <p>Changes to vendor standing data should be subject to independent secondary review in all instances. Records of such independent review should be retained to establish accountability for effective performance of the check. This recommendation was raised in the Accounts Payable report – August 2012.</p> <p>Where vendors instruct the Council to change their bank account details, records should be retained of the information used to</p>	<p>Our normal practice, as confirmed in the Audit findings, is to separately obtain vendor contact details and confirm that the bank account changes are valid before the account is changed. It will be reiterated to staff that the contact details need to be noted and independently reviewed which should eliminate these oversights.</p> <p>Where a material change to a</p>	Head of Exchequer	30 September 2013	<p>Implemented</p> <p>Vendor changes were subject to independent check in all instances.</p> <p>Processes were followed by Payments to confirm that instructions by suppliers to change their bank details were valid by referring to earlier documentation relating to the relevant supplier known to be correct.</p>

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Priority	Issue	Recommendation	Management Response	Responsible Officer	Deadline	Audit findings November 2014
	<p>been subject to independent scrutiny. The change involved linking 2 identical vendors as part of a cleansing exercise. Although such adjustments are valid, any change to vendor data not stemming from a CPT or vendor instruction should be reported for scrutiny.</p> <p>Where a vendor notifies the Council of a change to its bank details, confirmation of the change is sought from the vendor by the Council through contacting them using prior information known to be reliable and genuine. The source of contact information was not annotated on the supporting instructing documentation from the vendor to evidence such a check.</p>	<p>contact the vendor to confirm its reliability and the validity of the change request.</p>	<p>procurement vendor takes place these are referred to the Corporate Procurement Team however, changes of a minor nature and those only affecting Finance vendors do not require Procurement approval.</p>			

Accounts Payable – Retrospective purchase orders reporting - September 2013

Priority	Issue	Recommendation	Management Response	Responsible Officer	Deadline	Audit findings November 2014
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Continuous Auditing - Key Financial Controls

Priority	Issue	Recommendation	Management Response	Responsible Officer	Deadline	Audit findings November 2014
2	<p>Reports of retrospective purchase orders were produced and reported to Service areas monthly to 31 March 2013 for review and scrutiny to facilitate the development of initiatives to stop the practice of raising them retrospectively.</p> <p>Management indicated that a decision was taken at the Procurement Board in June 2013 to intensify the focus on reducing the level of retrospective purchase orders through Procurement Business Partners engaging with allocated delivery unit areas:</p> <ul style="list-style-type: none"> - Prioritising delivery unit teams where the practice of raising purchase orders retrospectively is highest - Initially educating officers as to how and why to avoid the practice - Adopting a zero tolerance approach through enforcement and disciplinary action 	<p>Recommendation 3</p> <p>All retrospective purchase orders should be reported for scrutiny on a monthly basis. The reporting format should be approved and applied consistently.</p> <p>Related reporting should include those purchase orders raised on the same date as the invoice to ensure monitoring of the most complete data.</p> <p>The planned approach to reduce the level of retrospective purchase orders should be approved, implemented and monitored.</p> <p>This recommendation was raised in the Accounts Payable report – August 2012.</p>	<p>Reporting of retro PO's has been in place since August 12 to no effect. A stronger message has to be given. There should be zero tolerance to retro purchase orders and they should not be allowed as it is not in line with the constitution. I understand that Members have instructed that this should not be accepted practice,</p> <p>An approach is planned for reducing retrospective purchase orders being raised in delivery units including enforcement action for non-compliance. This will be implemented.</p> <p>It is conceivable that</p>	Head of Procurement	1 October 2013	<p>Partly implemented</p> <p>Retrospective purchase order reporting had been undertaken prior to the implementation of Integra in March 2014. The extent of reporting, scrutiny and related challenge was difficult to gauge owing to a lack of audit trails supporting/evidencing related processes.</p> <p>Post implementation of Integra from 1 April, the process for reporting and communication and challenge of Directorates in relation to retrospective purchase orders is in the process of being implemented. Related reporting in Integra was only established in mid-July 2014 and while reporting formats are understood at this stage they still need to be formally approved for implementation.</p> <p>Further action:</p> <p>Agree and implement processes for the reporting, scrutiny and challenge of retrospective purchase order trends in Directorates.</p>

Continuous Auditing - Key Financial Controls

Priority	Issue	Recommendation	Management Response	Responsible Officer	Deadline	Audit findings November 2014
	<p>thereafter to ensure compliance</p> <p>The planned approach for retrospective purchase orders was discussed further in the Procurement Board in August 2013.</p> <p>This process has yet to embed fully in Procurement operation.</p> <p>The following was noted:</p> <ul style="list-style-type: none"> - management indicated that owing to the delay in matching the SAP structure to the restructured Council, reporting had not been undertaken monthly from April 2013 to June 2013 in terms of the normal process. Management indicated that retrospective purchase orders would be reported for the first quarter initially thereafter reporting monthly. Reporting for the first quarter was due to be 		<p>an invoice with a correct PO number could be submitted on the same day and be paid, hence why this has not been the standard format for reporting retro PO's. However purchase orders raised on the same date are now included in the analysis.</p>			

Continuous Auditing - Key Financial Controls

Priority	Issue	Recommendation	Management Response	Responsible Officer	Deadline	Audit findings November 2014
	<p>undertaken shortly at the time of the audit. Management indicated that this had been done in July 2013.</p> <ul style="list-style-type: none"> - Retrospective purchase order percentages remained high during the year to 31 March 2013 with no significant decline in trends from September 2012: 52% to March 2013 48%. Management also indicated that percentages post 1 April 2013 remained unacceptably high. - The retrospective purchase orders information and reporting format was also not consistent from month to month, preventing a direct comparison of information by Delivery Unit officers. For example some months reported percentages by number only, one month reported it by number and value and some split the analysis into 					

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Priority	Issue	Recommendation	Management Response	Responsible Officer	Deadline	Audit findings November 2014
	<p>influenceable and non-influenceable spend, making direct comparisons from month to month difficult.</p> <ul style="list-style-type: none"> - Retrospective purchase orders were those where the date of the purchase order exceeded the date of the invoice. It did not include situations where the invoice and purchase order were processed on the same date. 					

Appendix A: Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below:

- The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made.
- Recommendations for improvements should be assessed by you for their full impact before they are implemented.
- The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity.
- Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.
- Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents.
- Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Appendix B: Guide to assurance and priority

The following is a guide to the assurance levels given:

	Substantial Assurance	There is a sound system of internal control designed to achieve the system objectives. The control processes tested are being consistently applied.
	Satisfactory Assurance	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the system objectives at risk.
	Limited Assurance	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the system objectives at risk.
	No Assurance	Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

Priorities assigned to recommendations are based on the following criteria:

1. **High** – Fundamental issue where action is considered imperative to ensure that the Council is not exposed to high risks; also covers breaches of legislation and policies and procedures. Action to be effected within 1 to 3 months.
2. **Medium** – Significant issue where action is considered necessary to avoid exposure to significant risk. Action to be effected within 3 – 6 months.
3. **Low** – Issue that merits attention/where action is considered desirable. Action usually to be effected within 6 months to 1 year.