PERTH & KINROSS COUNCIL

Internal Audit Report
Chief Executive's Service
General Ledger Assignment No. 14-14
March 2015

Final Report

Chief Executive's Service
Finance Division
Perth & Kinross Council
2 High Street
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61

Background and Introduction

This audit was carried out as part of the audit plan for 2014/15, which was approved by the Audit Committee on 2 April 2014.

The general ledger is the Council's main accounting system. It holds financial information that is used to prepare in-year budget monitoring reports and year-end financial statements. In order to ensure that financial reports and statements are accurate, a control framework exists which provides assurance throughout the year that the information contained within the general ledger is complete, accurate and valid.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation received during this audit from the Corporate Accounting Team and Finance and Resource officers within each of the Services.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A 'control objective' is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective 1: To ensure the adequacy of the control framework over access to and operation of the general ledger system	
Auditor's Comments: The control framework over access to, and operation of, the general ledger falls within the overall control of the Council's well established Integra financial management system. Detailed procedural instructions and templates are available on-line for ease of access by all system users. Our review of the procedural documentation found the guidance to be detailed and extensive in terms of user access to and operation of the system but it lacked detail in respect of operational authorisation requirements. It was also noted that a number of the procedural documents have been reviewed and updated whereas others have not. Changes in procedures are not fully reflected across all documents. Testing confirms that guidelines and controls are generally being complied with although the requirement for managers to notify the Systems Development team of the names of all leavers to ensure system access rights are rescinded is not always being followed.	
Strength of Internal Controls:	Moderately strong

Control Objective 2: To ensure that the coding structure of accounts cannot be modified without authorisation;

Auditor's Comments: Controls within the Integra general ledger system ensure that changes to the coding structure of the accounts will only be accepted from system users with the appropriate level of user access rights. The general ledger manual provides guidance in the steps to be followed to initiate code changes but does not clarify separation of duties and authorisation requirements

Testing of a sample of code changes implemented during 2014 confirms that they have been appropriately documented and approved although the lack of clarity in the guidance has resulted in inconsistency across Services in the use of Request for New Code templates.

In order to ensure that the coding structure of the accounts is relevant and continues to meet the requirements of the Council it should be the subject of periodic management review. The range of account codes in use is extensive and is routinely reviewed by accountants and Service managers under the budget setting and monitoring process but there is no corporate guidance on this topic included in the on-line procedural documents.

Strength of Internal Controls:	Moderately strong

Control Objective 3: To ensure that amendments made to data held within the general ledger (i.e. journal entries) are complete, accurate and valid;

Auditor's Comments: Amendments are made to the data held in the general ledger by the posting of journals, the process for which is set out in the on-line Integra General Ledger Manual, supplemented by a separate best practice guide which is also available on-line.

Testing confirms that in practice journals have been created by system users and authorised by separate system users with appropriate system access rights, and that accounting amendments have been properly supported and authorised.

However, as noted at Control Objective 1 above, although the procedural guidance available is detailed and extensive in terms of creation and input of journals it is weak in respect of operational authorisation requirements.

Strength of Internal Controls:	Moderately strong

Control Objective 4: To ensure that outputs from the general ledger system are complete, accurate and valid, and are produced in a consistent and appropriate format in a timely manner

Auditor's Comments: General ledger system outputs are produced regularly in accordance with the agreed timetable issued on-line each financial year

Assurance that outputs are complete, accurate and valid can be achieved through the use of period end checklists stipulating all processes that are required to be completed prior to the accounts closedown, linked with management review for exceptional items following closedown.

Pre-closedown checklists and management review of outputs are not in place within the Council, reliance being placed on officers complying with the issued timetable. This represents a potential management control weakness.

The Council maintains a significant number of Suspense accounts which require to be reconciled on a regular basis. Whilst many account reconciliations are being completed on a regular basis, there is scope to improve the overall monitoring and control of suspense accounts.

Guidelines setting out control requirements and areas of responsibility in respect of suspense accounts are inadequate.

Strength of Internal Controls:	Moderate

Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Feedback

Internal Audit welcomes feedback from management, in connection with this audit or with the Internal Audit service in general.

Distribution

The final report will be distributed to:

B Malone, Chief Executive

J Symon, Head of Finance

E Sturgeon, Chief Exchequer Officer

S Walker, Chief Accountant

A O'Brien, Corporate Accounting Manager

L Speedie, Financial Systems Team Leader

G Taylor, Head of Democratic Services

P Dickson, Complaints & Governance Officer

External Audit

Other officers may be added if necessary

Authorisation

The auditor for this assignment was D Brownlow. The supervising auditor was J Clark.

This report is authorised for issue:

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Jacqueline Clark
Chief Internal Auditor
Date: 10 March 2015

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Procedural instructions	Medium
2	Control of authorised users	Medium
3	Management review of the Chart of Accounts	Low
4	Complete and accurate outputs from the general ledger system	Low
5	Suspense Accounts	Medium

Appendix 2: Action Plan

Action Point 1 - Procedural instructions

The Integra General Ledger Manual is a comprehensive guide. It is available on the Council's intranet for access by all Integra system users and has been regularly reviewed and updated. The manual is supplemented by additional guidance documents which focus on specific areas of the system and which are also available on-line.

Review of the documents found that they provide guidance in the day to day operational processes of the system but do not provide detailed guidance on user responsibilities and authorisation levels, specifically in respect of changes to the chart of accounts and the input of journals. In addition, guidance in the use of 'request for new code' template also requires to be clarified.

It was also noted that a number of the supplementary guides had not been recently reviewed or updated resulting in discrepancies and areas of duplication.

Management Action Plan

The implementation of Integra 2 will result in all manuals & documents being reviewed. Going forward these documents will be refreshed (if necessary) on a 6 monthly basis. The reviews will ensure that procedures are consistent, up to date and provide adequate detail on user responsibilities and authorisation levels. In addition, the guidance will clarify the process for requesting new codes.

Importance:	Medium
Responsible Officer:	L.Speedie, Financial Systems Team Leader
Lead Service:	Chief Executive's Service
Date for Completion (Month / Year):	July 2015
Required Evidence of Completion:	Reviewed manuals and documents

Auditor's Comments

Satisfactory

Action Point 2 - Control of authorised users

Financial Regulations and the Integra general ledger manual's procedures include the requirement for managers to notify the Systems Development team when a system user leaves their team. The annual check of authorised system users found a significant number who required their access rights rescinding indicating that not all leavers are being notified in a timely way.

Management Action Plan

A "leavers list" will be provided from MyView on a monthly basis and will be used to ensure that leavers are removed from systems. In addition a notice will be placed in the Integra Information Zone and a reminder sent to managers.

Importance:	Medium
Responsible Officer:	L.Speedie, Financial Systems Team Leader
Lead Service:	Chief Executive's Service
Date for Completion (Month / Year):	March 2015
Required Evidence of Completion:	Review of 'leavers list'

Auditor's Comments

Satisfactory

Action Point 3 - Management review of the Chart of Accounts

> In order to maintain the integrity of the Chart of Accounts it should be the subject of regular review by persons with relevant authority.
>
> The use of groups of account codes and cost centres has been reviewed by different officers at different times on an ad-hoc basis, but there are no corporate arrangements in place for regular systematic management review to ensure that the Chart of Accounts continues to meet the requirements of the organisation.

Management Action Plan

> An exceptions report will be generated on an annual basis to allow an analysis of the Chart of Accounts to take place.

Importance:	Low
Responsible Officer:	A.O'Brien, Corporate Accounting Manager
Lead Service:	Chief Executive's Service
Date for Completion (Month / Year):	December 2015
Required Evidence of Completion:	Reviewed report

Auditor's Comments

> Satisfactory

Action Point 4 - Complete and accurate outputs from the general ledger system

A timetable is published on the Council's Intranet page to inform all ledger system users of monthly system closedown dates. In addition to this, numerous instructions are issued throughout the year by Service / Team managers instructing staff of tasks that require to be completed prior to closedown dates but there are no checklists in place to confirm all actions have been completed.

Whilst the audit found no instances of incomplete general ledger outputs, the absence of period end checklists to confirm the completion of all appropriate processes and file inputs represents a weakness in management control.

Management Action Plan

A checklist has been developed for use within the Systems Team to ensure that all inputs to the General Ledger were processed. This would be independently verified by Accountancy.

Importance:	Low
Responsible Officer:	L.Speedie, Financial Systems Team Leader
Lead Service:	Chief Executive's Service
Date for Completion (Month / Year):	April 2015
Required Evidence of Completion:	Checklist

Auditor's Comments

Satisfactory

Action Point 5 - Suspense accounts

The accuracy and validity of outputs from the general ledger system are impacted by the effective monitoring and control of suspense accounts.

The Council maintains a significant number of suspense accounts which require to be reconciled on a regular basis. Details of the account balances are issued by Corporate Accounting for review by responsible officers each month. The audit found that the completion of reconciliations and management reviews have been inconsistent throughout 2014. Whilst many account reconciliations are being completed on a regular basis, there is scope to improve the overall monitoring and control of suspense accounts .

Management Action Plan

On a monthly basis Corporate Accounting staff will ensure that all suspense accounts are reconciled. Any issues will be escalated to the Accountancy Management Team for resolution.

Importance:	Medium
Responsible Officer:	A.O'Brien, Corporate Accounting Manager
Lead Service:	Chief Executive's Service
Date for Completion (Month / Year):	April 2015
Required Evidence of Completion:	Evidence of review of reconciliation

Auditor's Comments

Satisfactory