



Main Accounting System

City of York Council

Internal Audit Report 2013/14

Business Unit: Customer & Business Support Services, Corporate Finance
Responsible Officer: Director of Customer and Business Support Services
Service Manager: Corporate Finance Manager
Date Issued: 4 August 2014
Status: Final
Reference: 10120/005

	P3	P2	P1
Findings	2	2	0
Overall Audit Opinion	Substantial Assurance		

Summary and Overall Conclusions

Introduction

The Financial Management System (FMS) is the fundamental financial accounting system used by the council. The system records all financial activity undertaken by the council. This includes gross expenditure on services of £452m and total expenditure on capital schemes of £46m.

The FMS also records all financial decisions made by the council in the form of a budget. The FMS is used to prepare the council's annual accounts, financial returns and for budgetary control.

The FMS is made up of Civica Financials, which includes integrated modules for general ledger, debtors and creditors, and is integrated to the purchasing system Civica Purchasing. This audit concentrated on the general ledger part of this integrated system.

Objectives and Scope of the Audit

The purpose of the audit was to provide assurance to members and management that the controls it has put in place to manage key risks relating to the main accounting system are effective.

The audit covered the following risks:

- Control accounts and bank reconciliations are not carried out regularly.
- Transactions are not transferred accurately from feeder systems into Civica Financials.
- The integrity and security of the main accounting system is compromised.
- Responsibilities and processes for journal entries and year end processing are not appropriately defined and allocated.
- Transactions are inaccurately valued or allocated incorrectly within the general ledger.

This audit focussed on the arrangements for the overall governance of the system and the controls and risks related to the general ledger. The debtors and creditors (including purchasing) systems will be audited as separate entities and virements will be covered as part of the budgetary control audit.

Key Findings

Overall, it was found that most areas within the main accounting system were well controlled. Audit testing revealed that processes for journals, suspense recoding, user access and closedown at year end are well controlled and only minor issues were noted in these areas. These were notified to managers to take action as they deemed appropriate.

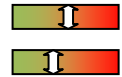
However, audit testing also revealed some continuing issues about the reconciliation of the council's bank accounts to cash book transactions; in relation to the number of adjustments being carried forward on each reconciliation and the lack of a reconciliation statement being produced within the financial year for the council's general bank account. There were also some issues relating to the control account reconciliation processes.

Overall Conclusions

It was found that the arrangements for managing risk were good with few weaknesses identified. An effective control environment is in operation, but there is scope for further improvement in the areas identified. Our overall opinion of the controls within the system at the time of the audit was that they provided Substantial Assurance.

Area Reviewed: Bank reconciliation of general account

Severity
Probability



1	Issue/ Control Weakness	Risk
	Accuracy of bank statement and ledger cash transactions cannot be confirmed.	There is a risk that bank errors on the general account will not be identified and actioned promptly and this could lead to a financial loss to the council.

Findings

For the council's 'general account' (used for receipt of income and making transfers into payment bank accounts), ongoing matching of individual transactions from the cash book to the bank statement is conducted throughout the year. However, a full reconciliation statement is only produced at year end for the production of the annual accounts. This issue was raised in the external auditors report on the 2012-13 accounts and they recommended that quarterly reconciliations should be completed throughout the year. The council's response indicated that management are satisfied that current processes are adequate and no further action is necessary. Internal audit assessed the current process to consider their efficiency and effectiveness and whether existing processes did adequately mitigate the risks.

At the time of the audit, ongoing matching of transactions had taken place. However, there remained a significant number of transactions, dating back to April 2011, that had not been matched between the cash book and the bank statement. The reconciliation process and supporting documentation is very complicated and contains large numbers of adjustments and this may increase the likelihood of errors and/or decrease the confidence in the accuracy of the bank reconciliation and statement of the cash position.

Recently, processes have been amended to enable more of these unmatched transactions to be reconciled and additional resource is now available to do this work. Priority is being given to clearing the backlog of unmatched transactions and once this has been completed, processes will be reviewed to identify how the volume of unmatched transactions can be reduced in future.

Overall, it was found that there was no traditional, regular reconciliation of the council's general bank account. The bank reconciliation in Civica Financials is intended to be a largely automated process but there are problems with this process that result in large volumes of unmatched transactions that require manual intervention. Mitigating controls are in place (i.e. a daily check between the cash receipting system and bank statements and between the cash receipting system and general ledger) but these do not provide as effective a level of control as would exist with regular bank reconciliations.

If the actions detailed elsewhere in this report, relating to daily reconciliations of cash receipting entries to general ledger (2.1) and

reconciliations of payment bank accounts (3.1 and 4.1), are implemented then reasonable assurance can be given regarding the accuracy of the council's cash transactions. However, the council may also want to review its cash receipting and bank reconciliation systems, to be able to move towards a position where reconciliations of the general account take place more frequently (perhaps quarterly but ideally monthly), in order to achieve a higher level of assurance and improve the efficiency of the reconciliation process.

1.1 Management response

Overall, corporate finance management are comfortable that the process for reconciling income is as robust as it can be given the constraints of the bank reconciliation system and the resources available. The technical team did aim to do a mid year reconciliation but did not have the capacity to fully conclude this. From regular reviewing of all bank reconciliations the principal accountant is not aware of any issues that have arisen as a result of the way the process is carried out.

The large volume of adjustments are commensurate with the value and volume of transactions for the council. All in year matching has been concluded as at the end of March 2014 and the majority of unmatched transactions relate to bank charges automatically deducted by HSBC. The remaining transactions relate to minor system to statement discrepancies that total only pennies and will be resolved but have not been a priority because of their small value. There are a number of outstanding issues relating to Money Market Fund transactions that need to be resolved but do not cause concern in terms of validity, accuracy and authenticity.

It has always been the intention to produce more regular reconciliations and we are working towards this but this is restricted by the resource limitations and limitations of the bank reconciliation module of Civica Financials.



2 Issue/ Control Weakness Risk

Lack of evidence of daily reconciliations of cash receipting system to the general ledger.

There is a risk that discrepancies between the cash receipting system and the general ledger are not identified promptly. This will make the end of year reconciliation of the general account more difficult and time consuming and this could result in a misstated cash or ledger position.

Findings

A daily reconciliation is undertaken between the amounts received into the general bank account through the cash receipting system and the entries made on the general ledger for that day.

This control is important for promptly identifying discrepancies between the cash receipting system that feeds the bank reconciliation module and the control totals that are posted to the general ledger cash account on a daily basis. Although the current processes in place should mean this reconciliation is completed daily, evidence of the reconciliation could not be found for 50% of the days tested during the audit. It is recognised that additional resources put in place since the period tested increase the likelihood that this reconciliation will be completed daily in future.

2.1 Agreed Action

The existing reconciliation of cash receipting to general ledger postings will be done on a daily basis and reviewed periodically to ensure it has been completed each day. Any days that have been missed will be completed on subsequent days.

Priority	3
Responsible Officer	Principal Accountant
Timescale	Completed

Area Reviewed: Reconciliation of payment bank accounts

Severity
Probability



3 Issue/ Control Weakness Risk

Reconciliations of payment accounts not completed for first four months of the financial year.

Errors or fraudulent transactions on the council's payment bank accounts may not be identified promptly, which may lead to a financial loss for the council.

Findings

The council has three bank accounts used for making payments. No reconciliations of the council's payment accounts were completed for April, May or June 2013. The first reconciliation of these accounts was done in August 2013, for the bank account position up to the end of July 2013. Therefore, there were four months in which the council has limited assurance regarding the accuracy of the cash position of its payment bank accounts.

Whilst it is appreciated that year end processes will take a lot of officers' time in the first three months of a new financial year, these reconciliations should also be considered a priority and, ideally, they should still be conducted monthly.

Processes have recently been reviewed for each of the three payments accounts (benefits, salaries, payments), which should simplify the reconciliation process, increase the volume of transactions that are automatically reconciled and reduce the number of adjustments that need to be made. Furthermore, additional resources are now available to complete bank reconciliations so these should be able to be done more promptly in 2014-15.

3.1 Agreed Action

Closedown processes will be given priority in the first three months of the financial year and the capacity does not currently exist to also reconcile payment accounts each month. Therefore a reconciliation of these accounts will be completed in July 2014, to cover the transactions up to the end of June 2014, and then monthly throughout the rest of the year.

Priority

2

Responsible Officer

Principal Accountant

Timescale

July 2014 and ongoing

Area Reviewed: Reconciliations of payment bank account

Severity
Probability



4 Issue/ Control Weakness Risk

Bank reconciliations have large volumes of adjustments and unmatched transactions.

Bank errors may not be identified, leading to financial loss for the council. In addition, current processes are inefficient and time and resources are spent maintaining a complicated reconciliation process.

Findings

Bank reconciliations for the payments account are complicated and contain large volumes of adjustments. Most of the adjustments that are made are for reasons that have been identified and most of these are as a result of how the system is fed from other council systems, rather than errors or discrepancies with the bank or the ledger. However, the large volume of adjustments may increase the likelihood that errors are made and would make it more difficult to understand if other officers had to take over responsibility for the process.

Work has been undertaken recently to clear existing unreconciled transactions and this should be completed before the end of the current financial year. This is anticipated to remove the majority of adjustments on the reconciliation statements. Processes have also been reviewed and changes made that should reduce the occurrences of the problems that produced these large volumes of unreconciled transactions and adjustments.

Once the long-standing adjustments have been resolved and the new processes are operating, the reconciliation statements should be clearer and unreconciled transactions will be able to be identified more easily and action taken to resolve them promptly.

4.1 Agreed Action

Historic adjustments and unmatched transactions will be cleared. Processes will be reviewed and amended to prevent similar discrepancies recurring in future.

Priority

2

Responsible Officer

Principal Accountant

Timescale

Completed



5 Issue/ Control Weakness Risk

Discrepancies in control accounts are not always resolved.

Inaccurate ledger balances are not identified and resolved promptly and appropriate action is not taken promptly to correct problems, which may result in further errors and more time being spent trying to resolve these than if they had been identified and corrected early.

Findings

Testing was undertaken on a selection of the council’s most important control accounts.

In the payroll control accounts, there remain a significant number of discrepancies that have not been resolved despite having been identified up to 9 months ago. In 2012-13, discrepancies on these accounts were carried forward (for 11 of the 16 CYC payroll control account, totalling £29K and for 10 of the 15 CYT payroll control accounts, totalling £33K) and there seems to be a similar risk that 2013-14 discrepancies may also be carried forward if they are not resolved before the production of the annual accounts.

It is recognised that corporate finance cannot directly take action to resolve these discrepancies as they arise from the payroll system and how it interfaces to general ledger and can therefore only be resolved through liaison with payroll colleagues.

5.1 Agreed Action

Monthly meetings take place between corporate finance and payroll and the issue of control account discrepancies will be discussed at these. In addition, specific time has been set aside for an accounting technician to work with the payroll control officer each month to work through discrepancies.

Priority	3
Responsible Officer	Principal Accountant
Timescale	Completed

Audit Opinions and Priorities for Actions

Audit Opinions	
<p>Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.</p> <p>Our overall audit opinion is based on 5 grades of opinion, as set out below.</p>	
Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Moderate assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions	
Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.