



Main Accounting System

City of York Council

Internal Audit Report 2018/19

Business Unit: Customer and Corporate Services
Responsible Officer: Director, Customer and Corporate Services
Service Manager: Corporate Finance and Commercial Procurement
Manager
Date Issued: 18 July 2019
Status: Final
Reference: 10120/012

	P1	P2	P3
Actions	0	1	1
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 in 2017/18 of £408m and total expenditure on capital schemes of £70.8m.

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.

Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls within the system ensure that:

- Control accounts and bank reconciliations are carried out regularly.
- Transactions are transferred accurately from feeder systems into Civica Financials.
- The integrity and security of the main accounting system is maintained.
- Responsibilities and processes for journal entries, Virements and year end processing are appropriately defined and allocated.
- Transactions are accurately valued and allocated correctly within the general ledger.

This audit focused 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 are audited as separate entities.

Key Findings

A register of control accounts is available and each account has supporting working papers showing all reconciliations performed. The majority of reconciliations are carried out regularly and in line with scheduled frequencies. A trial balance report is not run as a matter of routine but, when requested, it was found to balance. Two outstanding control accounts reconciliations were identified. However, due to the large volumes of transactions/items to reconcile and the significant amount of work required to reconcile these accounts, finance staff have agreed with management that these will be reconciled in the 2019/20 financial year.

A sample of feeder files from the repairs management, payroll, housing rents and benefits systems were reviewed. All were found to have been received from an appropriate source, were uniquely referenced and had been accurately uploaded to the FMS. No duplicate feeder files were identified and appropriate staff have access to the import directory.

Feeder files for the Servitor and Payroll systems were found to have been entered promptly onto FMS after receipt. Expected totals for the Servitor feeder files are included in the email sent to Systems Support. These were found to match for those in our sample. Due to significant changes within the Payroll service, control totals are currently not checked. This will be reviewed in further detail in the upcoming 2019/20 Payroll audit. Housing Rents and Benefits files are generated by Systems Support for interfacing. Control totals are not checked prior to interfacing but are reconciled after the upload. For the files in our sample, totals were reconciled and were found to match.

A lack of background information on variances has meant there have been difficulties in accurately investigating payroll control accounts. Liaison with HR and Payroll is ongoing to provide Corporate Finance with required information to enable a more accurate and complete reconciliation.

An acceptable balance remains on the debtors' suspense account and all items entered into the account in 2018/19 were found to have been reallocated. The council's three payments accounts had been reconciled on a timely basis and no discrepancies were identified.

All new requests for access to the Financial Management System (FMS) were processed in line with procedures. However, for clarity, it would be beneficial for the authorisation list to be updated to include officers in Corporate Finance or ICT Services who had processed requests in 2018/19. Two user audits, facilitated by ICT Systems Support, were carried out in 2018/19 and all responses have been received. These audits provide a good level of assurance that the FMS user base remains appropriate.

No duplicate journal entries were identified, self-authorisation is at satisfactorily low levels and appropriate narratives are provided. Evidence of authorisation for virements is not always available and further review found that the virement logs for each service area are not being used consistently. The virement policy would benefit from review to ensure that the requirements for record keeping are clear. Procedure notes documenting closedown activities were found to have been updated for 2018/19 and are satisfactory.

Only a small number of errors were identified on the erroneous ledger codes report, suggesting that ledger codes are generally set up appropriately. The errors have been provided to the Systems Accountant for correction. Items posted to error suspense are recoded promptly and the balance was found to be reasonable. The balance of the miscellaneous ledger codes at the time of the audit was £57k. This is a significant improvement on previous years, where the total has been around £600k.

Overall Conclusions

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.

1 Control Account Reconciliations

Issue/Control Weakness	Risk
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Some control accounts are not being reconciled consistently.

Errors and discrepancies are not identified in a timely manner, increasing the likelihood that these are not resolved.

Findings

The majority of control accounts are reconciled as per the schedule frequency for that account. However, two control accounts were identified that had not been regularly reconciled due to large volumes and a significant amount of work required to reconcile these accounts.

- **BB805 debtors cash control:** Due to large volumes and significant amount of work required to reconcile, entries in this account were not reconciled since July 2018. At year end the account was reconciled with a variance of £1,107.57. This was made up of an accrual amount of £1,243.65 and £142.08 imbalance due to incorrect postings.
- **BB806 Unpaid wages:** Although the total for this account appears high (at £7,339,289.13) the majority of this is due historic errors within the ICON system. The actual outstanding amount at the time of the audit was £4,510.29. The unmatched reconciliations are advances/overpayments to staff that need to be matched to repayments. Due to the volume and significant amount of work required to reconcile these, it has been agreed these will be carried forward to 2019/2020. To improve reconciliation of the payroll control accounts, work is ongoing between Payroll and Finance officers. A spreadsheet with information on payroll issues and overpayments/recovery will be provided to enable more accurate investigations.

Regular reconciliation of control accounts should be carried out to ensure that any errors or discrepancies are promptly detected and resolved.

Agreed Action 1.1

Action taken to address issues raised regarding the above control accounts will be as follows:

- **BB805 debtors cash control –** Reconciliations will be carried out monthly from the reports generated and compared with reports from Debtors systems.
- **BB806 Unpaid wages –** Regular meetings will be arranged between Finance and Payroll. Information of outstanding overpayments and advances will be provided to finance and reviewed monthly.

Priority	2
Responsible Officer	Systems Accountant
Timescale	1 October 2019



2 Virements

Issue/Control Weakness

Inconsistent use of the virement logs and retention of the appropriate evidence for virements.

Risk

Virements may be completed inappropriately.

Findings

According to the virement policy, all revenue virements must be recorded in a log to enable monitoring against the policy. Each service area has a log listing the virements posted and the approval level and the approver. A link or attachment should then be added to provide evidence where applicable.

A review of evidence of authorisation for a sample of virements found that information is being recorded inconsistently. A sample of 20 virements from across the 2018/19 financial year was selected for testing. Nine of these had no record of approval or link to a relevant authorisation document on the virement log. Four virements tested had no record on the relevant virement log. Further review of virement logs for each service area found information is not being inputted consistently. Examples were seen of accounting adjustments and capital base budgets being recorded on these logs.

The virement policy was last updated in 2016. A review of the policy found it does not clearly stipulate what types of virements should be recorded or what information is required. It would be beneficial for the policy to be updated to clearly specify the recording requirements for virements. This should provide further assurance that virements are being appropriately made and recorded consistently.

Agreed Action 2.1

Virement logs will be monitored quarterly by an Accounting Technician and any issues identified with use of the logs will be resolved accordingly.

The virement policy will be reviewed and updated where necessary. Management will review virements and function of the virement logs to determine if any changes to the process are required to encourage consistent and appropriate use.

Priority

3

Responsible Officer

Systems Accountant

Timescale

1 December 2019

Audit Opinions and Priorities for Actions

Audit Opinions

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.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

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.
Reasonable 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.

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