



Main Accounting System

City of York Council

Internal Audit Report 2014/15

Business Unit: Customer & Business Support Services
Responsible Officer: Director of Customer & Business Support Services
Service Manager: Corporate Finance & Commercial Procurement Manager
Date Issued: 03/07/2015
Status: Final
Reference: 10120/006

	P1	P2	P3
Actions	0	0	5
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 £485m and total expenditure on capital schemes of £45m.

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 and year end processing are appropriately defined and allocated.
- Transactions are accurately valued and allocated correctly 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 were audited as separate entities.

Key Findings

Overall, the majority of areas within the main accounting system were found to be well controlled. Processes for journals, feeder files, user access, closedown and general account reconciliation operate effectively.

Testing identified only minor issues in relation to the use of virement codes and generic income codes, timing of payment account reconciliations, recurrent suspense account entries and xxxxxxxxxxxxxxxxxxxxxxxxxxxx. These issues, whilst not fundamental to the functioning of the main accounting system, nonetheless require management's attention.

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.

1 Schemes of virement

Issue/Control Weakness

Failure to update the council's virement policy.

Risk

Virements are processed using incorrect codes.

Findings

One virement was found to have been uploaded as a non recurring revenue virement approved by members. This virement code (VRINM), and the details of its use (i.e. delegated authority), are not recorded in the approved virement policy.

Agreed Action 1.1

The virement policy will be refreshed and circulated to finance teams as a reminder of the process to be followed.

Priority

3

Responsible Officer

Corporate Finance &
Commercial
Procurement Manager

Timescale

31 July 2015

2 Payment account reconciliations

Issue/Control Weakness

Frequency of payment account reconciliation during closedown.

Risk

For four months at the beginning of the financial year, the council has only limited assurance regarding the cash position of its payment bank accounts.

Findings

In response to a finding in the 2013-14 audit, management advised that, due to being under-resourced during closedown, they would not be able to complete monthly payment account reconciliations for the months April - June. They confirmed that reconciliation would be undertaken in July to account for this period. However, upon review of the completion dates for benefits, payments and salaries accounts it was established that these had not been carried out until early August and thus, in fact, covered the period April - July.

If this position arises again this year, we would advise that reconciliations are completed as soon as possible.

Agreed Action 2.1

The council has assurance over the cash position during this time as daily checks continue to be made and the treasury management process ensures a close control is kept on the current cash position. Due to limited capacity over the closedown period, the team is unable to guarantee that the full reconciliation is carried out. Resources permitting, a reconciliation should be completed during June 2015.

Priority

3

Responsible Officer

Principal Accountant

Timescale

31 July 2015

4 Suspense account

Issue/Control Weakness

Items are being coded to suspense unnecessarily.

Risk

Items are unnecessarily coded to suspense meaning that technicians must spend more time than is desirable in order to clear the account.

Findings

Several items were found to be regularly coded to suspense. These include transactions relating to schools, pool cars and mobile phone charges.

Agreed Action 4.1

Regular miscodes will be reviewed to ensure any problems are resolved within the relevant feeder systems to prevent recurring errors. New processes in place ensure any remaining errors are resolved within a reasonable time period.

Priority

3

Responsible Officer

Systems Accountant

Timescale

31 August 2015

5 Generic income codes

Issue/Control Weakness

Overuse of generic income codes.

Risk

Income is not correctly recorded on the FMS.

Findings

Discussions held with the systems accountant revealed that the focus for the ongoing review of ledger codes had been on expenditure codes. The intention is to now work on miscellaneous income codes but, for the time being, no work has been undertaken to reduce the balance which, at the time of testing, stood at approximately £750k.

Agreed Action 5.1

Transactions on generic income codes will be reviewed with a view to more accurately coding income.

Priority

3

Responsible Officer

Systems Accountant

Timescale

30 September 2015

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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