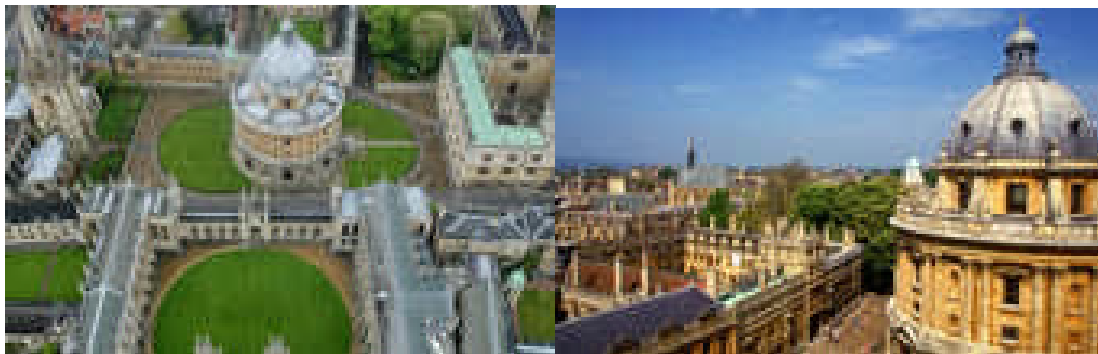


Oxford City Council

General Ledger

Internal Audit Final Report 09_10 1.7



Assurance rating this review	Limited Assurance
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Distribution List

Peter Sloman - Chief Executive
Penny Gardner / Sarah Fogden - Heads of Finance
Nigel Pursey – Interim Executive Director, Finance
Anna Winship – Chief Accountant
Performance Board



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Background and scope

Introduction

This review was undertaken as part of the 2009/10 Internal Audit Plan agreed by the Audit and Governance Committee.

This report has been prepared solely for Oxford City Council in accordance with the terms and conditions set out in our letter of engagement. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

Background

The Authority operates their General Ledger using the Agresso system. This system is supported by a number of feeder systems which are regularly interfaced. The system is operated and monitored by the Financial Management Team which is responsible for statutory duties such as the preparation, monitoring and reporting of revenue and capital budgets; the closedown of the accounts each financial year; the publication of the financial statements and the completion of statutory returns and claims.

Approach and scope

Approach

Our work is designed to comply with Government Internal Audit Standards [GIAS] and the CIPFA Code.

Scope of our work

In accordance with our Terms of Reference (Appendix 1), agreed with the Chief Accountant we undertook a limited scope audit of the General Ledger.

This limited scope audit involved a review of the design of the key controls together with detailed testing to determine whether the controls are operating in practice.

Limitations of scope

The scope of our work was limited to those areas identified in the terms of reference.

Staff involved in this review

We would like to thank all client staff involved in this review for their co-operation and assistance.





Name of client staff
Anna Winship – Chief Accountant
Marie Molyneux – Corporate Management Accountant
Dave Swan – Technical Officer

Our opinion and assurance statement

Introduction

This report summarises the findings of our review of the General Ledger

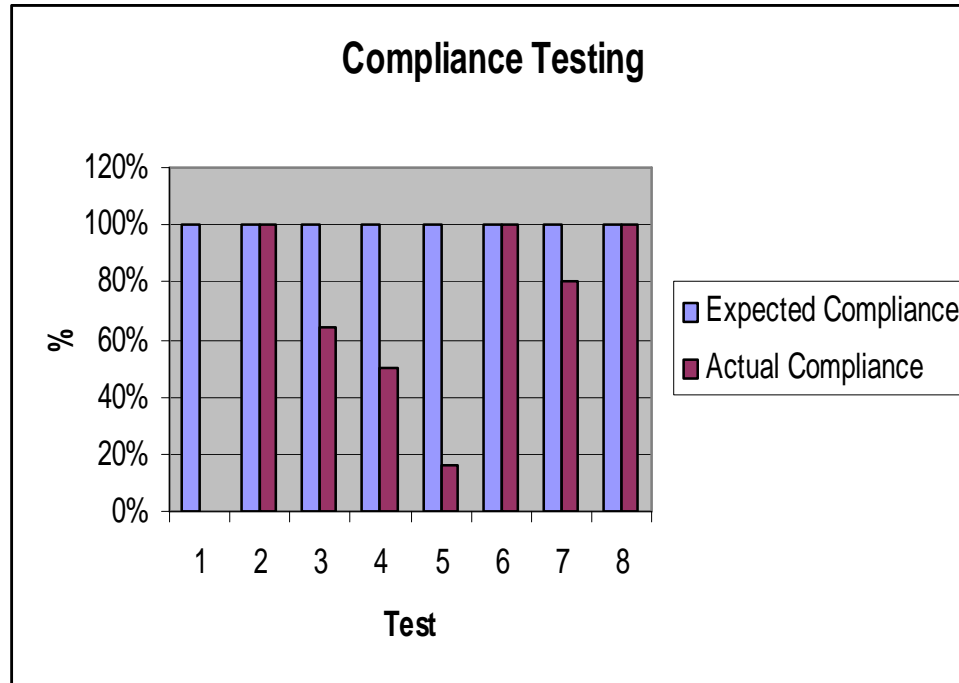
Each of the issues identified has been categorised according to risk as follows:

Risk rating	Assessment rationale
 Critical	Control weakness that could have a significant impact upon, not only the system, function or process objectives but also the achievement of the authority's objectives in relation to: <ul style="list-style-type: none"> • the efficient and effective use of resources; • the safeguarding of assets; • the preparation of reliable financial and operational information; and • compliance with laws and regulations.
 High	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall authority objectives.
 Medium	Control weakness that: <ul style="list-style-type: none"> • has a low impact on the achievement of the key system, function or process objectives; and • has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.
 Low	Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.

Executive Summary

<p>Department: Finance</p> <p>Audit Owner: Anna Winship</p> <p>Date of last review: -</p>	<p>Overall Opinion: Limited Assurance</p> <p>There are some weaknesses in the design and / or operation of controls around journals, suspense accounts and fixed assets which could have a significant impact on the achievement of the General Ledger but should not have a significant impact on the achievement of organisational objectives. However, there are discrete elements of the key system, function or process where we have not identified any significant weaknesses in the design and / or operation of controls which could impair the achievement of the objectives of the system, function or process. We are therefore able to give limited assurance over certain discrete aspects of the system, function or process.</p>	<p>Direction of Travel</p> <p>No previous review has been conducted by PwC. Work conducted by the predecessor auditor identified no issues.</p>	<p>Number of Control Design issues identified</p> <p>0 Critical 3 High 4 Medium 2 Low</p>	<p>Number of Controls Operating in Practice issues identified</p> <p>0 Critical 2 High 3 Medium 1 Low</p>			
<p>Key Areas of Risk</p> <ul style="list-style-type: none"> Journals are not authorised and are frequently not accompanied by supporting documentation Material Fixed Asset balances are not reconciled to the General Ledger on a periodic basis Opening balances for the 2009/10 year have not been rolled forward Suspense account balances are large and are not being cleared regularly 	<p>Other Considerations</p> <table border="1"> <tr> <td data-bbox="750 957 1146 1102"> <p>Use of Resources-related</p> <p>Financial reporting issues may impact on Use of Resources scores</p> </td> <td data-bbox="1146 957 1473 1102"> <p>Corporate Plan-related</p> <p>None noted</p> </td> </tr> <tr> <td data-bbox="750 1102 1146 1315"> <p>VFM-related</p> <p>None noted</p> </td> <td data-bbox="1146 1102 1473 1315"> <p>Financial Reporting related</p> <p>Accuracy of financial accounts is hindered by high risk issues raised (see key areas of risk)</p> </td> </tr> </table>		<p>Use of Resources-related</p> <p>Financial reporting issues may impact on Use of Resources scores</p>	<p>Corporate Plan-related</p> <p>None noted</p>	<p>VFM-related</p> <p>None noted</p>	<p>Financial Reporting related</p> <p>Accuracy of financial accounts is hindered by high risk issues raised (see key areas of risk)</p>	<p>Scope of the Review</p> <p>To ensure that adequate controls exist over access and amendments to the General Ledger and all transactions are accurately recorded in a timely manner.</p>
<p>Use of Resources-related</p> <p>Financial reporting issues may impact on Use of Resources scores</p>	<p>Corporate Plan-related</p> <p>None noted</p>						
<p>VFM-related</p> <p>None noted</p>	<p>Financial Reporting related</p> <p>Accuracy of financial accounts is hindered by high risk issues raised (see key areas of risk)</p>						

Compliance Summary



Tests Performed:

1. Month end closedown performed on a timely basis
2. Payroll, Academy and Spectrum interfaces performed accurately and verified as checked
3. New cost centres and codes accompanied by authorised form
4. 'Performance Matters' reports published on a timely basis
5. Journals provided with completed input form and supporting documentation
6. Accounts Payable and Receivable reconciliations performed and reviewed with no exceptions noted
7. New Agresso user request forms in place (raised in minor issues report)
8. Agresso users still employed by the Authority

Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken a review of the General Ledger, subject to the following limitations.

Internal control

Internal control, no matter how well designed and operated, can provide only **reasonable** and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

The assessment of controls relating to the General Ledger is that historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We shall endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

Findings and recommendations

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
Control Design						
1	<p>Periods may not be closed down on a timely basis.</p> <p>Late closure of accounts at year end increases the risk of cut off issues in the financial accounts.</p>	<p>There is no timetable in place to outline the deadline for closing down the general ledger at month end. Best practice would indicate that this should be performed no later than 7 days following the month end.</p> <p>In 3/3 months tested, the ledger was closed after this 7 day period. In 1 case (July 09) the period was reopened over a month after closedown.</p>	<p>● Medium</p>	<p>A timetable should be put in place to outline key dates for the close down of period ends. The ledger should be closed down in line with this timetable and should only be reopened in exceptional circumstances and to ensure accuracy of management reporting.</p>	<p>Agreed</p> <p>A timetable will be put in place to indicate cut off dates for close down. The month will only be reopened for significant journals (e.g. VAT return) and will be performed by System Administrators only.</p>	<p>Anna Winship and Dave Swan</p> <p>With Immediate Effect</p>

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
2	Excessive numbers of codes may in use. Codes may be used incorrectly or not identified for management reporting.	The Council does not undergo a regular review of cost centres and account codes to ensure they remain valid and in use. It was noted through review of the ledger that 21 account codes have been set up outside of the normal coding structure. In addition it appears that a number of codes have duplicate names and descriptions (e.g. creditors, windows, unidentified corporate savings)	● Low	The Authority should seek to review their chart of accounts on an annual basis. All dormant and duplicate codes should be removed.	Agreed This process was performed a number of years ago but will be introduced on an annual basis going forward.	Anna Winship/Dave Swan 31st March 2010
3	Inadequate management information can result in potential issues not being identified and acted upon in a timely manner.	Whilst the Authority produces detailed Management Accounts on a monthly basis, other key management reports are not produced.	● Medium	The Authority should consider distributing a management information 'pack' on a monthly basis. This could include reports showing: <ul style="list-style-type: none"> • Significant balances on suspense accounts; • Individually significant journal transactions 	Agreed The production of reports indicating significant journals and suspense accounts will help to mitigate against a number of risks identified during the General Ledger review. These will be passed to Heads of Finance for review.	Anna Winship and Dave Swan 1st December 2009

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
4	<p>Transactions are posted to the ledger without adequate justification or authorisation.</p> <p>Journals are generally accepted to be more susceptible to fraud as they are often based on accounting estimates.</p>	<p>There is no process in place for authorising journals. The Council has introduced a method of 'parking' larger journals before they are processed but it is not possible to evidence this on Agresso.</p>	<p>● High</p>	<p>Best practice would indicate that all journals should be authorised before being processed on Agresso.</p> <p>The Council should investigate the functionality of Agresso to include an automated workflow for journal transactions.</p>	<p>Partially Agreed</p> <p>It is not deemed efficient to authorise all journals where a large majority of transactions are reversed out after period end. That said, the implementation of a review of all significant journals (see issue '#3) will mitigate against the risk of material misstatement due to journal calculations.</p> <p>Further consideration will be given to the journal workflow within Agresso.</p>	<p>Anna Winship and Dave Swan</p> <p>1st December 2009</p>
5	<p>Fixed Asset balances may be materially misstated.</p>	<p>Reconciliations between the General Ledger and the Fixed Asset Register are only performed at year end. The Council has encountered significant issues with the completeness of Fixed Asset data in the closedown of prior year accounts.</p>	<p>● High</p>	<p>Periodic reconciliations should be performed between the Fixed Asset Register and General Ledger. All reconciling items should be cleared on a timely basis.</p>	<p>Agreed</p> <p>A fundamental review of Fixed Assets is underway. Going forwards the Fixed Asset Register will be reconciled to the General Ledger on a monthly basis.</p>	<p>Anna Winship</p> <p>31st December 2009</p>

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
6	Close down issues will not be identified before year end leading to an increased risk of audit issues.	The Council does not currently perform a trial close down before year end. We are aware that the Council is planning to scope plans for a trial close down in the coming months.	● High	A trial close down should be performed ahead of the new calendar year. This should involve reconciliation of balance sheet codes to ensure completeness of information and target testing of transactions to supporting documentation. Review of information for inclusion in the financial accounts should be considered.	Agreed A trial close down is being planned for December 2009.	Anna Winship 31st December 2009
7	Access may not be removed on a timely basis leading to increased risk of misappropriation of Council systems.	Monthly leavers reports are sent from payroll to Agresso administrators. This ensures that all leavers are removed from the system. There is no process in place for removing temporary agency staff.	● Medium	A process should be put in place to ensure that system administrators are able to remove temporary agency staff access rights when they have left. This may involve a regular listing being sent from the agency contract manager or a periodic review of all users.	Agreed A regular report will be requested from responsible officer to detail all temporary agency staff who have left the Authority. We will liaise with ICT to ascertain whether a process for informing departments of agency staff leavers can be devised.	Dave Swan 31st December 2009

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
8	<p>If users are removed without transferring their subscriptions, the Council may miss key payment deadlines.</p> <p>Retention of users on Agresso increases the risk of unauthorised access.</p>	<p>Officers are able to set up subscriptions on Agresso to allow ongoing periodic payments to be made throughout the year.</p> <p>It was brought to audits attention that if an officer subsequently leaves the Authority and their username is parked, the subscription payments are cancelled. These users are therefore kept live on Agresso.</p>	<p>● Low</p>	<p>A listing of all users who have set up subscriptions should be generated and compared to leavers lists provided from payroll. Line managers of leavers with this access should be contacted and a new responsible officer identified. Subscriptions should be moved to the new individual and the leaver parked on Agresso.</p>	<p>Agreed</p> <p>Mitigating controls are in place to ensure that leavers who have subscription responsibilities cannot have access to Agresso functionalities. A call will be logged with Agresso to establish whether a solution can be put in place.</p>	<p>Dave Swan</p> <p>31st December 2009</p>

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
9	Increased risk of data loss or instability.	<p>The Council outsourced their IT functions in 2009/10 and consequently all responsibilities for back ups of the ledger have been passed to the County Council.</p> <p>No notification is sent to the Agresso system administrator to confirm that backups have occurred or more importantly when errors have arisen.</p> <p>It was commented that an issue with backup of the ledger occurred in December 2008. The system administrator was not made aware of this instance until errors were noted by end users.</p>	<p>● Medium</p>	Notification should be requested from the County Council to ensure that backups have been performed correctly. All failures should be notified to the system administrator as a matter of urgency.	<p>Agreed</p> <p>Exception reports will be provided to the system administrators should a back up fail. Reporting by exception is deemed sufficient.</p>	<p>Dave Swan</p> <p>31st October 2009</p>

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
Operating Effectiveness						
10	Procedure notes may not reflect current working practices thus increasing the risk of error and omission.	<p>The Council upgraded their version of Agresso to v5.5 in March 2009.</p> <p>Although key procedure notes have been amended to reflect the new system, this has not been performed for all procedures notes in place.</p>	<p>● Medium</p>	All procedure notes should be reviewed to ensure they reflect Agresso v5.5. Going forward, procedure notes should be reviewed on an annual basis to reflect changes in working practices.	<p>Agreed</p> <p>All procedure notes will be reviewed to ensure that they are in line with the current version of Agresso. This will be performed in the order of risk and importance. A review date will be detailed on all documents.</p>	<p>Dave Swann</p> <p>31st March 2010</p>
11	Codes and cost centres may be set up inappropriately or in error. Management accounts may not identify all codes for reporting.	All new codes and cost centres are accompanied by a set up form. In 6/25 new entries tested, forms had not been signed by the responsible officers. These were all in relation to capital cost centres. An additional 3 forms had not been signed by financial management to indicate that the code had been set up in Agresso	<p>● Medium</p>	All new codes and cost centre forms should be signed by responsible officers before set up on Agresso.	<p>Agreed</p> <p>Checks will be performed to ensure that appropriate authorisation has been obtained.</p>	<p>Dave Swann</p> <p>With Immediate Effect</p>

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
12	Performance data is not published for public use on a timely basis. Statutory deadlines may not be met.	At the time of audit (October 2009), the Performance Matters information had not been produced for August 2009:	● Low	Performance statistics should be published in line with the set timetable.	Agreed Performance Board was scheduled later in the month and therefore reports were delayed. Timetables should be updated to reflect any rearrangements.	Penny Gardner & Sarah Fogden With Immediate Effect
13	The balance sheet may be inaccurate or incomplete.	At the time of audit, the opening balances for 2009/10 had not been rolled forward.	● Medium	Opening balances should be rolled forward as a matter of urgency. This process should be formally reviewed and documentation retained to evidence the process. The Authority should investigate the possibility of using a 'trigger' system which will automatically roll forward Opening Balances.	Agreed Opening balances were delayed due to the preparation of the final accounts. This will be performed as a matter of urgency.	Anna Winship 31st October 2009

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
14	Transactions are posted to the ledger without adequate justification or authorisation.	<p>All journals should be accompanied by an input form, supporting documentation and a ledger print to evidence the input. The following issues were noted during testing of 25 journal transactions:</p> <ul style="list-style-type: none"> • 5/25 journals could not be provided for audit; • Of the 20 journals available for testing, 9 were not accompanied by a journal form • 7/20 journals did not contain both supporting documentation and a ledger print as stipulated by procedures 	<p>● High</p>	The Authority should ensure that journals are only made upon receipt of appropriate supporting documentation as stipulated by guidance.	<p>Agreed Supporting documentation is still being reviewed for this issue which is agreed in principle. Some of the transactions selected for testing were 're-postings' processed to move transactions between codes. Going forward the budget holder will provide authorisation of these movements.</p>	<p>Anna Winship With Immediate Effect</p>

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
15	Balances may be misstated.	<p>The Councils suspense accounts have not been cleared during 2009/10. At the time of audit, the balances on the suspense accounts were as follows:</p> <ul style="list-style-type: none"> • Agresso suspense account: £600k • Cash suspense account £100k 	<p>● High</p>	Suspense accounts should be reviewed on a periodic basis. All items should be cleared where possible or written off if a correction cannot be established.	<p>Agreed</p> <p>The main Agresso suspense account has since been cleared and will be reviewed on a periodic basis. Officers were aware of one large item that was held on suspense. This had been identified but clearing the account was not prioritised.</p> <p>Efforts will be made to clear the cash suspense account before the implementation of the Councils new cash system.</p> <p>We do not believe that this a high risk issue.</p>	<p>Anna Winship 30th November 2009</p>

Appendix 1 - Terms of Reference

Objectives and deliverables

Objectives

To ensure that adequate controls exist over access and amendments to the General Ledger and all transactions are accurately recorded in a timely manner.

Deliverables

Our deliverable will be a report detailing our findings with regard to our assessment of the design and effectiveness of controls in place over the General Ledger system.

Scope and approach

Our work will focus on identifying the guidance, procedures and controls in place to mitigate key risks through:

- Documenting the underlying guidance, policy and processes in place and identifying key controls;
- Considering whether the policies and procedures in place are fit for purpose; and
- Testing key controls.

The key points that we will focus on are:

- All Financial transactions of the organisation are input to the ledger in a complete, accurate and timely fashion;
- All financial information and output from the general ledger system is accurate, timely and appropriate to need; and
- The system is protected against unauthorised access/ processing and is secure against loss or damage of data.

We will discuss our findings with the Chief Accountant or nominated representative to develop recommendations and action plans. A draft report will be issued to the Head of Finance and any other relevant officers for review and to document management responses.

Limitation of Scope

The scope of our work will be limited to those areas identified above.

Stakeholders and responsibilities

Role	Contacts	Responsibilities
Chief Accountant	Anna Winship	<ul style="list-style-type: none"> ▪ Review draft terms of reference ▪ Review and meet to discuss issues arising and develop management responses and action plan ▪ Review draft report. ▪ Implement agreed recommendations and ensure ongoing compliance.
Heads of Finance	Penny Gardner Sarah Fogden	<ul style="list-style-type: none"> ▪ Receive agreed terms of reference ▪ Receive draft and final reports.
Interim Executive Finance Director	Nigel Pursey	
Chief Executive	Peter Sloman	<ul style="list-style-type: none"> ▪ Receive final report
Performance Board		<ul style="list-style-type: none"> ▪ Receive final report

Our Team and Timetables

Our team

Chief Internal Auditor	Chris Dickens
Audit Manager	Katherine Bennett
Auditor	Katherine Bennett

Timetable

Steps	Date
TOR approval	September 2009
Fieldwork commencement	5 th October 2009 (T)
Fieldwork completed	T + 2 weeks
Draft report of findings issued	T + 4 weeks
Receipt of Management response	T + 6 weeks
Final report of findings issued	T + 7 weeks



Budget

Our budget for this assignment is 5 days. If the number of days required to perform this review increases above the number of days budgeted, we will bring this to management attention.

Terms of Reference Approval

These Terms of Reference have been reviewed and approved:

.....

Anna Winship
Signature (Chief Accountant)

A handwritten signature in black ink, appearing to read "Anna Winship".

.....

Chris Dickens
Signature (Chief Internal Auditor)

Appendix 2 - Assurance ratings

Level of assurance	Description
High	<p>No control weaknesses were identified; or</p> <p>Our work found some low impact control weaknesses which, if addressed would improve overall control. However, these weaknesses do not affect key controls and are unlikely to impair the achievement of the objectives of the system. Therefore we can conclude that the key controls have been adequately designed and are operating effectively to deliver the objectives of the system, function or process.</p>
Moderate	<p>There are some weaknesses in the design and/or operation of controls which could impair the achievement of the objectives of the system, function or process. However, either their impact would be less than significant or they are unlikely to occur.</p>
Limited	<p>There are some weaknesses in the design and / or operation of controls which could have a significant impact on the achievement of key system, function or process objectives but should not have a significant impact on the achievement of organisational objectives. However, there are discrete elements of the key system, function or process where we have not identified any significant weaknesses in the design and / or operation of controls which could impair the achievement of the objectives of the system, function or process. We are therefore able to give limited assurance over certain discrete aspects of the system, function or process.</p>
No	<p>There are weaknesses in the design and/or operation of controls which [in aggregate] could have a significant impact on the achievement of key system, function or process objectives and may put at risk the achievement of organisation objectives.</p>



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