

Oxford City Council

General Ledger

FINAL

Internal Audit Report
2011/2012

January 2012
77



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Distribution List

For action	Anna Winship (Financial Accounting Manager)
For information	Nigel Kennedy (Head of Finance) Jackie Yates (Corporate Director – Finance and Efficiency) Peter Sloman (Chief Executive)

1. Executive summary

Report classification	Trend	Total number of findings																														
<p> Medium Risk (9 points)</p>	<p> Performance in this area is comparable to prior year</p>	<table border="1"> <thead> <tr> <th></th> <th>Critical</th> <th>High</th> <th>Medium</th> <th>Low</th> <th>Advisory</th> </tr> </thead> <tbody> <tr> <td>Control design</td> <td>0</td> <td>0</td> <td>0</td> <td>2</td> <td>0</td> </tr> <tr> <td>Operating effectiveness</td> <td>0</td> <td>0</td> <td>2</td> <td>0</td> <td>0</td> </tr> <tr> <td>Open prior year findings</td> <td>0</td> <td>0</td> <td>0</td> <td>1</td> <td>0</td> </tr> <tr> <td>Total</td> <td>0</td> <td>0</td> <td>2</td> <td>3</td> <td>0</td> </tr> </tbody> </table>		Critical	High	Medium	Low	Advisory	Control design	0	0	0	2	0	Operating effectiveness	0	0	2	0	0	Open prior year findings	0	0	0	1	0	Total	0	0	2	3	0
	Critical	High	Medium	Low	Advisory																											
Control design	0	0	0	2	0																											
Operating effectiveness	0	0	2	0	0																											
Open prior year findings	0	0	0	1	0																											
Total	0	0	2	3	0																											

Summary of findings:

Medium risk issues have been identified regarding access to the ledger and processing of journals. Users who are no longer employed by the Council continue to be active on the system and administrator access is held by a number of inappropriate users. In terms of journals, issues have been noted with processing transactions. Non compliance in this area has been noted for a number of years. Journals are deemed by International Auditing Standards as being susceptible to management override of control and therefore the Council should ensure robustness of compliance in this area .

As a result of the fundamental service review and the implementation of International Financial Reporting Standards (IFRS), there have been delays in a review of costs centres and account codes and publication of management information. The Council has put in place a control to ensure that any changes to the ledger following close down are identified and reviewed. A full review of the chart of the accounts is planned as part of the Agresso healthcheck.

No issues were noted with the control design or operating effectiveness of key control account reconciliations and interfaces. The general ledger suspense account held around 80 aged transactions which should be matched or written off on a timely basis. This has now been cleared.

2. Background and scope

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 Finance 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. A system administrator is in place for the system who is charged with monitoring access as well as the operating effectiveness of the system.

Scope and limitations of scope

Scope

We will review the design and operating effectiveness of General Ledger key controls during 2011/12. Our work in this area will concentrate on the follow up of prior year issues and review of key controls identified by Internal Audit and the Audit Commission. In addition we will enquire as to any changes in the systems and processes from prior year and document these accordingly

The sub-processes and related control objectives included in this review are:

Sub-process	Control objectives
Journals	Journals are input to the ledger in a complete, accurate and timely fashion following appropriate authorisation
Feeder systems and Control Account Reconciliations	Information is interfaced on a timely basis from supporting systems and checks are performed to ensure the completeness of this process.
Procedure notes	Procedure notes are in place to outline the functionality of the system.
General Ledger access	The system is protected against unauthorised access/ processing and is secure against loss or damage of data.

Limitations of Scope

The scope of our work will be limited to those areas outlined above. This review will not consider the IT Infrastructure of the General Ledger system, nor will consideration be made of the supporting systems interfaced into Agresso.

3. Detailed current year findings

1. Agresso User Access – Operating Effectiveness

Finding	<p>The Agresso system currently has over 250 users throughout the Council. Currently no review is performed on the access list to ensure that access rights are up to date and reasonable. In addition, no exception reports are run to identify and review changes to standing data. The following issues were noted when reviewing the current access lists:</p> <ul style="list-style-type: none">• There are currently 5 officers with administrator access to the Agresso system. 2 of these officers are members of the operational finance team and therefore should not hold this level of access• 5/25 Agresso users tested are no longer employed by the Authority	
Risks	<p>The system may be open to misuse. If no monitoring reports are produced, management can have limited comfort over the appropriateness of access and changes to the system.</p>	
Action plan		
Finding rating	Agreed action	Responsible person / title
Medium	Current users will be reviewed and superusers rationalised to ensure that appropriate access is held. A request will be sent to reduce all IT level access from superusers within finance.	Anna Winship
		Target date:
		30 th November 2011

2. Journal Processing- Operating effectiveness

Finding	<p>Council procedures state that all journals should be appropriately authorised ahead of processing and should be supported by a completed journal input form, relevant supporting documentation and a General Ledger print to evidence the transaction. The following issues were noted from a sample of 25 journals processed in year:</p> <ul style="list-style-type: none"> • 4/25 journals were authorised after the journal had been processed; • No supporting documentation was in place for 2/25 journals tested; and • In 6/25 cases, there was no Agresso print to support the transaction. 		
Risks	<p>Transactions are posted to the ledger without adequate justification or authorisation. Journals are generally accepted to be more susceptible to fraud as they are often based on accounting estimates</p>		
Action plan			
Finding rating OO Medium	Agreed action	Responsible person / title	
	<p>The policy on journals will be reiterated to officers. Quality review processes have been put in place by finance to ensure that sufficient documentation is provided for journals.</p>	<p>Anna Winship</p>	
		Target date:	
		30 th November 2011	

3. Opening Balances - Control Design

Finding		
Opening balances are rolled forward on the ledger following completion of the statutory audit. This process is not authorised ahead of processing.		
Risks		
Opening balances may be rolled forward incorrectly or incompletely. Balances may be misstated.		
Action plan		
Finding rating	Agreed action	Responsible person / title
Low	The 10/11 open balances journal will be reviewed. As part of the Agresso healthcheck, the Council are reviewing the implementation of an automated roll forward process to reduce the risks in this area.	Anna Winship
		Target date:
		2010/11 Journal: 31 st October 2011 Agresso Healthcheck: 31 st October 2012

4. Procedure Notes - Control Design

Finding		
It was noted from review that elements of the Agresso procedure notes have not been updated since 2004.		
Risks		
Procedures may be out of date, leading to an increased risk of errors in processes.		
Action plan		
Finding rating	Agreed action	Responsible person / title
Low	A review of all procedure notes is being carried out centrally by the Council. Updating of Agresso procedures will be covered as part of this process.	Janice Brown
		Target date:
		31 st December 2011

4. Prior year findings

1. Monitoring of Suspense Accounts – Control Design

Issue Noted		
The Authority does not produce reports of significant balances on suspense accounts.		
Original agreed action		
Agreed that the Authority will consider producing a report of significant balances on suspense over a certain threshold.		
Status update		
Reports are now produced in this area and reported to the management team on a periodic basis.		
Action plan		
Finding rating	Revised action	Responsible person / title
Low	Issue addressed. No further action required	n/a
	Revised target date:	n/a

2. Code Review – Control Design

Issue Noted	
The Council has not completed its review of account and cost codes. Therefore, there may be incorrect or dormant codes on the system which are either being used incorrectly or not identified for management reporting.	
Original agreed action	
This will be reviewed as part of the year end process, linking to the new service structures which are being created for 2011/12.	
Status update	
A complete review of all account codes has not yet been performed. Open prior year issue. To be used in calculation of overall risk rating.	
Action plan	
Finding rating	Revised action
Low	The planned Agresso healthcheck will help to rationale and review the current chart of accounts. The outputs of this review will be considered.
	Responsible person / title
	Anna Winship
	Revised target date:
	31 st October 2012

3. Management Information – Operating Effectiveness

Issue Noted	
At the time of audit, the Performance Matters information which documents performance statistics for the entire Council had not been produced for August 2010.	
Original agreed action	
This was a temporary glitch whilst we reviewed what we wanted to publish.	
Status update	
The Council no longer publish Performance Matters. The Council have introduced Corvu as an integrated performance and risk system in 2011/12. This system allows for detailed performance information to produced for members and officers. Corvu has been reviewed as part of the internal audit review on Performance Improvement and Risk Management.	
07	
Action plan	
Finding rating	Responsible person / title
Low	n/a
Revised action	Revised target date:
Not applicable	n/a

4. Temporary Employees – Control Design

Issue Noted	
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.	
Original agreed action	
The Finance department are currently working with Sue Green, Champion Recruitment, to devise a way to ensure that system administrators are able to remove temporary agency staff access rights when they have left.	
Status update	
No reports of this nature are currently being run.	
Action plan	
Finding rating	Revised action
∞ Medium	See issue #1 above for revised current year recommendation.
	Responsible person / title
	See issue #1
	Revised target date:
	See issue #1

5. Month End Close Down – Operating Effectiveness

Issues Noted	
During testing of the general ledger closedown it was noted that in 3/3 months tested, the ledger was closed after the specified deadline of the 7th of the month. In 1 case (May 10) the period was reopened 2 weeks after closedown.	
Original agreed action	
The general ledger was re-opened in May for a Paypoint negation on 28/06/2010.	
Status update	
A log is now kept to highlight when the General Ledger is re-opened following close down and the reasons for this occurring.	
Action plan	
Finding rating	Revised action
Medium	Issue addressed. No further action required
	Responsible person / title
	n/a
	Revised target date:
	n/a

6. Journal Processing – Operating Effectiveness

Issue raised		
During testing of journals it was noted that 5/45 journals tested had not been authorised until after the journal had been processed.		
Original agreed action		
Agreed that all journals should be authorised prior to system input to ensure that journals are mathematically accurate, posted to correct codes and for valid reasons		
Status update		
Issues were noted with 4/25 journals tested in year. See issue #2		
Action plan		
Finding rating	Revised action	Responsible person / title
Medium	See issue #2 above for revised current year recommendation.	See issue #2
		Revised target date:
		See issue #2



Appendix 1. Basis of our classifications

Individual finding ratings

Finding rating	Assessment rationale
<p>Critical</p>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance (quantify if possible); or • Critical monetary or financial statement impact (quantify if possible = materiality); or • Critical breach in laws and regulations that could result in material fines or consequences (quantify if possible); or • Critical impact on the reputation or brand of the organisation which could threaten its future viability (quantify if possible).
<p>High</p>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance (quantify if possible); or • Significant monetary or financial statement impact (quantify if possible); or • Significant breach in laws and regulations resulting in significant fines and consequences (quantify if possible); or • Significant impact on the reputation or brand of the organisation (quantify if possible).
<p>Medium</p>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance (quantify if possible); or • Moderate monetary or financial statement impact (quantify if possible); or • Moderate breach in laws and regulations resulting in fines and consequences (quantify if possible); or • Moderate impact on the reputation or brand of the organisation (quantify if possible).
<p>Low</p>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance (quantify if possible); or • Minor monetary or financial statement impact (quantify if possible); or • Minor breach in laws and regulations with limited consequences (quantify if possible); or • Minor impact on the reputation of the organisation (quantify if possible).
<p>Advisory</p>	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Report classifications

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification		Points
	Low risk	6 points or less
	Medium risk	7– 15 points
	High risk	16– 39 points
	Critical risk	40 points and over

Appendix 1: Terms of Reference

Oxford City Council

Terms of Reference – General Ledger

To: Pete Johnson, Revenues Manager

From: Katherine Bennett, Audit Manager

This review is being undertaken as part of the 2011/12 internal audit plan approved by the Audit and Governance Committee.

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 Finance 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. A system administrator is in place for the system who is charged with monitoring access as well as the operating effectiveness of the system.

Scope

We will review the design and operating effectiveness of key controls relating to Cash Collection and Establishment and follow up issues noted during the prior year.

The sub-processes and related control objectives included in this review are:

Sub-process	Control objectives
Journals	Journals are input to the ledger in a complete, accurate and timely fashion following appropriate authorisation
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Limitations of Scope

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Internal audit team

Name	Role
Richard Bacon	Engagement Leader
Chris Dickens	Chief Internal Auditor
Katherine Bennett	Audit Manager
Charlotte Bilsland	Team Manager
Matthew Pattison	Team Member

Key contacts – Oxford City Council

Name	Title	Role	Responsibilities
Anna Winship	Financial Accounting Manager	Audit Sponsor	Review and approve terms of reference Review draft report Review final report Hold initial scoping meeting Review and meet to discuss issues arising and develop management responses and action plan

Other Roles and Responsibilities – Oxford City Council

Name	Title	Responsibilities
Nigel Kennedy	Head of Finance	Receive draft and final reports
Jackie Yates	Corporate Director (Finance and Efficiency)	Receive final report
Peter Sloman	Chief Executive	

Timetable

Fieldwork start	5 th September 2011
Fieldwork completed	9 th September 2011
Clearance Meeting	w/c 19 th September 2011
Draft report to client	By 23 rd September 2011
Response from client	By 30 th September 2011
Final report to client	By 7 th October 2011

Agreed timescales are subject to the following assumptions:

- All relevant documentation, including source data, reports and procedures, will be made available to us promptly on request
- Staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation

Appendix 2. Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of the General Ledger subject to the limitations outlined below.

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 judgment 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

Our assessment of controls relating to the General Ledger review is for the 2011/12 year. 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 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.

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