

Cumbria Shared Internal Audit Service

Internal Audit Report for Cumbria Constabulary



Audit of the Main Accounting System

Draft Report Issued: **23rd April 2019**

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Audit Resources

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Audit Report Distribution

For Action:	Keeley Hayton, Financial Services Manager
For Information:	Stephen Kirkpatrick, Director of Corporate Support Roger Marshall, Joint Chief Finance Officer Michelle Bellis, Deputy Chief Finance Officer
Audit Committee	The Joint Audit Committee, which is due to be held on 23 rd May 2019, will receive the report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Audit Manager.

Cumbria Shared Internal Audit Service

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Executive Summary

1. Background

- 1.1. This report summarises the findings from the audit of the **Main Accounting System**. This was a planned audit assignment which was undertaken in accordance with the 2018/19 Audit Plan.
- 1.2. The main financial accounting system is the mechanism by which the PCC and Constabulary manage their financial affairs and record all financial transactions using Oracle. The Joint Chief Finance Officer is responsible for ensuring the financial affairs of the PCC and Chief Constable are properly administered and that financial regulations are observed.

2. Audit Approach

2.1. Audit Objectives and Methodology

- 2.1.1. Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems. A risk based audit approach has been applied which aligns to the five key audit control objectives which are outlined in section 4; detailed findings and recommendations are reported within section 5 of this report.

2.2. Audit Scope and Limitations

- 2.2.1. The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsor for this review was the Deputy Chief Finance Officer. The agreed scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control in the following areas:
 - Follow up of previous recommendation from the 2016/17 audit
 - Operational policies and procedures
 - Budgetary Control
 - Coding Structure
 - Feeder Systems
 - Control Accounts
 - Bank Reconciliations

2.2.2. There were no instances whereby the audit work undertaken was impaired by the availability of information.

3. Assurance Opinion

3.1. Each audit review is given an assurance opinion and these are intended to assist Members and Officers in their assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A**.

3.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within Main Accounting System provide **substantial** assurance.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4. Summary of Recommendations, Audit Findings and Report Distribution

4.1. There are three levels of audit recommendation; the definition for each level is explained in **Appendix B**.

4.2. The previous audit raised one recommendation regarding the arrangements for ensuring virements comply with financial regulations and financial rules. A copy of the Virement Listing spreadsheet 2018/19 was obtained and a sample of 10 virements was randomly selected for testing to confirm all were appropriately signed by an authorised budget holder and countersigned in accordance with financial rules, valid codes were used and the virements netted to zero. Testing confirmed that procedures are in place as per the agreed management actions and they address the original audit recommendation.

4.3. There are no audit recommendations arising from this audit review.

4.4. **Strengths:** The following areas of good practice were identified during the course of the audit:

- Comprehensive financial policies and procedures are in place, they are reviewed regularly and readily available to budget holders;
- An annual budget setting timetable and a Financial Period Ends timetable are established; adherence to deadlines is monitored;

- Budget holders accept their delegated budget responsibilities on an annual basis and evidence of this is retained. Our testing identified that where budget holders change, new budget holders are required to sign and accept delegated budget responsibility;
- Each business area has a designated Financial Services Officer who hold monthly meetings with budget holders;
- A Chart of Accounts is produced showing all valid cost, main, analysis and project codes for the year. Within the Chart of Accounts an audit trail is maintained showing amendments to the coding structure during the year. The accounting system does not accept invalid codes;
- Feeder systems information from Trent and Tranman are uploaded to the accounts on a monthly basis. The files are checked for coding accuracy and any miscoding is corrected prior to upload to the general ledger.
- There are a number of control accounts in use e.g. payroll, deductions, debtors, returned cheques, etc. The Financial Period Ends timetable identifies deadlines for monthly bank account and control account reconciliations. We tested April 2018 to February 2019 Bank Account, Payroll and Deductions reconciliations; testing confirmed that these were undertaken in a timely manner, in line with monthly deadlines and were independently reviewed. Compliance with monthly deadlines is monitored via a Control Account Reconciliation Monitoring spreadsheet;
- Access to the finance system is limited to named individuals with monthly reviews in place to ensure that access is current. The monthly audit of system access for February 2019 was reviewed; it contained 8 access removal and 3 new access requests relating to 5 employees. Testing confirmed that access change requests were authorised by the users' line manager and approved by Finance. Requests for changes to access, which may result in segregation of duties issues, are challenged.

Comment from the Joint Chief Finance Officer

The main accounting system and the associated procedures to ensure the integrity of financial records are the bedrock of financial management and the production of the financial statements. In this context, I am delighted the audit gives substantial assurance that financial controls are operating effectively, that the recommendation from the previous audit has been addressed and that there are no new recommendations. Thank you to all staff involved.

Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The controls tested are being consistently applied and no weaknesses were identified.</p> <p>Recommendations, if any, are of an advisory nature in context of the systems and operating controls & management of risks.</p>
Reasonable	There is a reasonable system of internal control in place which should ensure that system objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed.</p> <p>Recommendations are no greater than medium priority.</p>
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.	<p>There is an unsatisfactory level of internal control in place as controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>Recommendations may include high and medium priority matters for address.</p>
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist. Recommendations will include high priority matters for address. Some medium priority</p>

		matters may also be present.
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Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below.

Definition:		
High	●	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	●	Some risk exposure identified from a weakness in the system of internal control
Advisory	●	Minor risk exposure / suggested improvement to enhance the system of control

Recommendation Follow Up Arrangements:

- High priority recommendations will be formally followed up by Internal Audit and reported within the defined follow up timescales. This follow up work may include additional audit verification and testing to ensure the agreed actions have been effectively implemented.
- Medium priority recommendations will be followed with the responsible officer within the defined timescales.
- Advisory issues are for management consideration.