

AUDIT OF CORE FINANCIAL SYSTEMS 2011/2012 (Undertaken as part of the 2012/13 Audit Plan)

Introduction

- 1 A key control review was undertaken on the following systems as part of the agreed approach to the audit of the Authority's core financial systems for the financial year 2011/2012:
 - Housing Rents
 - Accounts Payable
 - Accounts Receivable
 - Capital Programme

- 2 Control self-assessments were obtained from the relevant managers for the following core financial systems:
 - Housing Benefits
 - NDR
 - Council Tax
 - Payroll
 - Treasury Management

- 3 In addition, to satisfy the requirements of the External Auditors, managers were asked to review and update systems documentation, Internal Audit undertook walkthrough tests to confirm the actual system in operation for all core financial systems and control self-assessments were obtained for the 5 systems not reviewed.

- 4 The testing strategy used for the reviews was based on CIPFA Control Matrices and also agreed with the external auditors for reliance purposes. A minimum sample size of 24 (2 transactions per month) was used from 2011/2012 financial records for the full reviews to confirm the application of key controls and a minimum of 3 transactions were used for walkthrough testing.

Audit Opinion

- 5 Overall out of a total of 19 key controls reviewed, 14 (74%) were fully operating, 3 (16%) were substantially operating and 2 (10%) were partially operating. In total 4 recommendations were made, which were all medium risk. All 4 recommendations have been agreed for implementation.

Full Key Control Reviews

- 6 The position for each system reviewed is shown below:

SYSTEM	NUMBER OF CONTROLS	FULLY OPERATING	SUBSTANTIALLY OPERATING	PARTIALLY OPERATING	NOT OPERATING	OVERALL RATING ¹
Housing Rents	9	6	2	1	0	89%
Accounts	14	11	0	3	0	89%

¹ Operating controls given a weighting of 2 and partially operating controls given a weighting of 1

Receivable						
Accounts Payable	9	5	2	2	0	83%
Capital Programme	60	34	10	13	3	80%
Overall	92	56	14	19	3	83%

- 7 For the Housing Rents system overall, 6 (67%) of the key controls were operating effectively, 2 (22%) were substantially operating with a further 1 (11%) partially operating. Each of the 9 key controls is made up of a number of individual elements that were each tested. Eight recommendations have been made to address the weaknesses identified, 3 have been rated as medium risk and 5 as low risk.
- 8 For the Accounts Receivable system overall, 79% (11) of the controls were operating effectively, with a further 21% (3) partially operating. Although these percentages indicate an amber/green assurance, the report has been rated as amber assurance due to the 4 high risk recommendations. Each of the 14 key controls is made up of a number of individual elements that were each tested. Seven recommendations have been made to address the weaknesses identified, 4 have been rated as high risk with a further 3 rated as medium risk.
- 9 For the Accounts Payable system overall, 70% of the elements of the controls were operating effectively, with a further 18% substantially operating and 12% partially operating. Although these percentages indicate a green assurance, the report has been rated as amber/green assurance due to the 2 high risk recommendations. Each of the 9 key controls is made up of a number of individual elements that were each tested. Nine recommendations have been made to address the weaknesses identified. Two recommendations have been rated as high risk, and 7 are medium risk. Some extra work on one-time vendor payments has been included in this review and a further 3 recommendations have been made to address the issues identified. Two of these recommendations have been rated as high risk and one as medium risk.
- 10 For the Capital Programme system overall 57% of the expected controls were found to be in place and operating effectively, 16% were substantially operating, 22% were partially in place with a further 5% not operating. Although these percentages indicate an amber/green assurance, due to the 4 high risk recommendations and the number of recommendations made, the report has been rated as amber assurance. Twenty-one recommendations have been made to address the weaknesses identified, 4 were rated as high risk and 16 were rated as medium risk and 1 was low risk. Monitoring and Reporting and the Use of Project Management were highlighted as particular areas of strength. The most significant weaknesses relate to the fact that although assurances have been given that capital transaction testing for 2011/12 was carried out for the first 3 quarters of the year, this could not be evidenced due to the fact that the relevant file could not be located and the officer involved has left the authority; similarly detailed testing on virements could not be undertaken for the same reason. Other significant weaknesses relate to the fact that a risk assessment is not carried out for the overall capital programme; there is no protocol in place regarding notifying Finance on completion of a project that all purchase order and commitments have been goods receipted and invoice received, including final retention payments; and capital expenditure is not currently profiled across quarters.

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