



Internal Audit Report

Key Financial Controls 2021-22

Issued by the Head of Internal Audit, August 2022

Audit Assurance Opinion	Effective	Evaluated controls are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives are being met.
	Reasonable	Some specific control weaknesses were noted and some improvement is needed; evaluated controls are generally adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
	Limited	Evaluated controls are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
	Ineffective	Evaluated controls are not adequate, appropriate, or effective. Internal Audit cannot provide reasonable assurance that risks are being managed.

Distribution List	Accountable Officers:	Chief Finance Officer and S151 Officer, B Mew Deputy Chief Finance Officer and Deputy S151 Officer, L Rogers
	For Information:	Strategic Management Team Cabinet Member with responsibility for Resources, Cllr M Cook Assistant Cabinet Member with responsibility for Resources, Cllr E Back Audit and Governance Committee Ernst & Young (External Auditor)

Adequacy of Individual Control Areas

Audit Scope by Control Area	Findings with a Potential Corporate Risk Level of:			Control Adequacy
	High	Medium	Low	
Budget Management			1	Reasonable
Control Account Reconciliations				Effective
Bank Reconciliations				Effective
Accounts Receivable Invoice Approval				Effective
Accounts Payable Invoice Approval				Effective
BACS Processing				Effective
Feeder Systems				Effective
OVERALL				Effective

1. Executive Summary

- 1.1 The Council has an ongoing strategic theme of Remaining Financially Sustainable and significant financial activity: during 2021/22 the Council's gross income totalled £106.7 million and gross expenditure totalled £146.8 million¹.
- 1.2 The objective of the audit was to evaluate the operation of controls within the Council's Main Financial Systems and assess their effectiveness in mitigating risks, and thus provide assurance that core processes to support financial record-keeping are adequate.
- 1.3 The overall assurance of **Effective** has been made on the basis of the control framework in place and supporting risk management, and no High or Medium level corporate risks were identified during this audit.
- 1.4 One low risk level finding has been raised in relation to budget monitoring.

¹ The figures stated relate to the net cost of Council Services only, excluding any non-service related income and expenditure

ACTION PLAN FOR SERVICE AND OPERATIONAL RISKS

All identified control weaknesses have been risk assessed, with potential High and Medium corporate risks reported in the Actions Relevant to Potential Corporate Risks above. The following action plan sets out control improvements relevant to the service area where the internal audit assessment using the corporate risk toolkit has concluded the potential corporate risk is Low. The definition of each priority level is given in the Council’s Audit Framework.

1. BUDGET MANAGEMENT					
REC No.	FINDING	RISKS AND IMPLICATIONS	AGREED ACTION	PRIORITY	MANAGEMENT ACTION
1.1	Budget holders interviewed reported no budget variances or overspends, however, the budget monitoring reports show these are present, therefore, budget holders may not understand the reports or the budget monitoring process.	<p>Overspends are not identified, investigated and accounted for, leading to inefficient budget controls.</p> <p>Although these are minor variances (<£10,000), the lack of awareness from budget holders shows there is a risk that further imbalances may not be identified.</p>	<p>Following a self-assessment against the CIPFA Financial Management Code in 2021 and the ongoing work of the Financial Sustainability Workstream, financial management training was identified as a corporate need.</p> <p>CIPFA have been engaged to deliver one day manager/budget holder training sessions, tailored to ESC. Three sessions have been scheduled for 23 June, 8 July, and 21 September 2022. A Strategic Finance Workshop by CIPFA was also held with CMT on 31 May 2022. A guide on using the monthly finance reports has been produced and promoted on SharePoint and is covered in the CIPFA training session.</p>	3	<p>Responsibility: Deputy Chief Finance Officer</p> <p>Target Date: 30 September 2022</p>

1. BUDGET MANAGEMENT

REC No.	FINDING	RISKS AND IMPLICATIONS	AGREED ACTION	PRIORITY	MANAGEMENT ACTION
			Quarterly Budget monitoring has also been introduced in 2022/23 with Quarter 1 reported to Cabinet on 5 July 2022.		

2. CONTROL ACCOUNT RECONCILIATIONS

REC No.	FINDING	RISKS AND IMPLICATIONS	AGREED ACTION	PRIORITY	MANAGEMENT ACTION
No service-level reportable findings relevant to this Control Area were identified					

3. BANK RECONCILIATIONS

REC No.	FINDING	RISKS AND IMPLICATIONS	AGREED ACTION	PRIORITY	MANAGEMENT ACTION
No service-level reportable findings relevant to this Control Area were identified					

4. ACCOUNTS RECEIVABLE INVOICE APPROVAL

REC No.	FINDING	RISKS AND IMPLICATIONS	AGREED ACTION	PRIORITY	MANAGEMENT ACTION
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No service-level reportable findings relevant to this Control Area were identified

5. ACCOUNTS PAYABLE INVOICE APPROVAL

REC No.	FINDING	RISKS AND IMPLICATIONS	AGREED ACTION	PRIORITY	MANAGEMENT ACTION
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No service-level reportable findings relevant to this Control Area were identified

6. BACS PROCESSING

REC No.	FINDING	RISKS AND IMPLICATIONS	AGREED ACTION	PRIORITY	MANAGEMENT ACTION
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No service-level reportable findings relevant to this Control Area were identified

7. FEEDER SYSTEMS

REC No.	FINDING	RISKS AND IMPLICATIONS	AGREED ACTION	PRIORITY	MANAGEMENT ACTION
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No service-level reportable findings relevant to this Control Area were identified

2. Supporting Details

2.1 Links to Council Service Delivery

This review considered achievement of the organisation's strategic objectives and risks, specifically this audit contributes towards:

- Business Objective – To support the Council's financial stability and maintain a high standard of financial governance in accordance with the Council's Financial Procedure Rules.
- East Suffolk Business Plan – To remain financially sustainable.
- Corporate Risk Register – Failure to produce and deliver sustainable Medium Term Financial Strategy (MTFS) including delivery of balance Annual Budget, and failure to have the right skills to meet financial challenges and ensure efficient use of Council's finances.

2.2 Scope of Internal Audit Activity

This audit assessed systems and records in place from 1 April 2021 to 28 February 2022, and the following control areas were assessed:

- Feeder systems
- Control account reconciliations
- Bank reconciliations
- Accounts receivable invoice approval
- Accounts payable invoice approval
- BACS processing
- Budget management

Housing Rent setting is currently being reviewed by an external party and therefore has been excluded to avoid duplication.

Internal Audit will seek to enhance and protect organisational value by providing risk based and objective assurance. The work performed by Internal Audit provides an opportunity to make significant improvements to governance arrangements, risk management and control processes.

This audit has been undertaken as part of the Annual Audit Plan 2021/22, approved by the East Suffolk Council Audit and Governance Committee on 15 March 2021. The audit provides high-level assurance on core processes relating to the main accounting systems.

This audit has been conducted in conformance with the International Standards for the Professional Practice of Internal Auditing, and the UK's current Public Sector Internal Audit Standards.

2.3 Definitions of Risk and Control

This audit uses the definition of Risk set out in the Council’s Risk Management Strategy.

The definition of Control is taken from the Chartered Institute of Internal Audit:

“Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.”

In addition to a risk assessment using the corporate risk matrix, each agreed action is allocated a priority level for use within the service area. The allocation of each priority level is based on:

Priority 1	Findings indicate a significant control weakness that could mean objectives fundamental to the operation of the service may not be met. Urgent attention is required from strategic management.
Priority 2	Findings indicate an important control weakness could mean that objectives central to the operation of the service may not be met. Prompt management attention is required.
Priority 3	Findings indicate a control weakness that could mean service objectives may not be met. Management attention is required.
Priority 4	Findings indicate a minor control weakness that, although not essential to an effective control framework, would benefit from low-cost improvements. Any Priority 4 issues identified during the course of this audit have been reported to the relevant Service team prior to the issue of this report, and are available from the Internal Audit team upon request.

2.4 Effectively Functioning Controls

We would like to draw management attention to the controls in operation over processes and procedures that were confirmed via audit testing as operating effectively and efficiently:

- The Navision general ledger matched the feeder system totals for Housing maintenance expenditure and payroll.
- Control account reconciliations of accounts payable, accounts receivable, cash (paye.net) and bank accounts were supported by evidence, had been prepared promptly, and were approved by appropriate officers.
- Accounts receivable and accounts payable invoices were authorised appropriately and were coded appropriately on the general ledger.
- The budget approved by Full Council agreed to the budget uploaded onto Navision.

2.5 Audit Team

The audit team for this review comprised

Audit Manager	L Fuller
Senior Auditor	S Potter
Auditor	J Irvine
Audit Apprentice	L Maton

2.6 Acknowledgements

We would like to thank the management and staff of Financial Services contacted for their co-operation and time during the course of this audit.



This audit has been undertaken in accordance with the Internal Audit Partnership arrangements between East Suffolk Council and Ipswich Borough Council.