

Final Internal Audit Report

Joint Review of Bank Reconciliations and General Ledger – 2018/2019

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.

Report prepared by

Audit Manager	L Fuller
Senior Auditor	A Stapleton

Final Report issued by

Head of Internal Audit	S Martin
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29 May 2019

Adequacy of Individual Control Areas

Audit Scope by Control Area	Findings with a Potential Corporate Risk Level of:			Control Adequacy
	High	Medium	Low	
Feeder Systems	0	0	2	Reasonable
Control Account Reconciliations	0	0	0	Effective
Bank Reconciliations	0	0	0	Effective
Journals	-	-	-	Not Assessed ¹
OVERALL				Effective

1. Executive Summary

- 1.1 The general ledger is the Councils' main accounting system and operates via the Navision accounting software. The general ledger is intended to hold a complete record of every financial transaction the Councils undertake, and provides a comprehensive statement of the Councils' financial activity. This data is used to produce the Councils' Annual Statement of Accounts, and an effective control environment is therefore of great importance.
- 1.2 The objective of the audit was to ascertain the extent to which the identified risks had been managed and to evaluate whether effective controls to mitigate the risks had been established, and had been operating effectively throughout the period under review.
- 1.3 The overall assurance of **Effective** has been made on the basis of the control framework in place and supporting risk management. Although one control area shown above has a lower level of assurance, the audit opinion takes into account all findings including those areas of positive assurance, and the overall opinion is the balance of all areas.
- 1.4 Findings that could be assessed as a corporate risk of medium or high should be reported to the Corporate Risk Group to consider for inclusion in the Corporate Risk Register, however no risks of this level were identified during this audit.
- 1.5 As part of the audit, a number of areas were found to be working well. The controls tested and found to be operating as expected are listed in Appendix B.

¹ Following discussion with the Chief Finance Officer during the audit, this was removed from the scope of the review in order to ensure efficient use of organisational resources during year end processes. Ernst & Young, the Council's external auditors, have confirmed their 2018/19 audit will seek to understand what journal controls are in place at a high level.

ACTION PLAN FOR SERVICE AND OPERATIONAL RISKS

All identified control weaknesses have been risk assessed, and no potential High or Medium corporate risks were identified. 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 that the potential corporate risk is Low. The definition of each priority level is given in section 2.3 below.

1. CONTROL AREA – Feeder Systems					
REC No.	FINDING	RISKS AND IMPLICATIONS	AGREED ACTION	PRIORITY	MANAGEMENT ACTION
1.1	<p><u>Housing Repair Costs (HRA Account)</u></p> <p>The Tenancy Services Team provides Finance with monthly housing repairs costs to be journaled to Navision, accompanied by a detail report run from the Orchard system. Audit review of two months found that variances existed that had not been accounted for between the detail Orchard report and the journal request (£176.50 in September 2018, and £176,194.96 in January 2019). These were verbally explained by the Senior Housing Accounts & Systems Administrator, although there is no evidence of queries being raised at the time.</p>	Manual adjustments to Orchard reports without supporting justification may result in errors in the Navision journals used to reflect Housing Repair costs in the HRA.	The Building Maintenance Manager will ensure that, when preparing the monthly housing repairs costs to be journaled by the Finance Team to Navision, any variances shown on the Orchard report are annotated and explained by the officer preparing the journal request.	3	<p>Responsibility:</p> <p>Building Maintenance Manager, Building Maintenance</p> <p>Target Date:</p> <p>30 June 2019</p>
1.2	<p><u>Bank (LLGEN)</u></p> <p>Daily bank files imported into Navision's cash management modules are managed within Accountancy using control sheet spreadsheets. The control sheet for the LLGEN bank account has not been completed consistently during 2018/19. Although the absent control process has reduced the assurance Internal Audit can provide over this period, no adverse consequences were seen by Internal Audit over the course of this review.</p>	Errors or delays in the bank file import process may not be accurately documented or accounted for.	<p>The Senior Sales and Receivables Officer had identified the need to use a control sheet prior to the Internal Audit review and has confirmed that a control sheet for LLGEN will be operating for 2019/20 onwards.</p> <p>Internal Audit has verified that a control sheet is now in place.</p>	3	<p>Responsibility:</p> <p>Purchasing and Payables Manager</p> <p>Target Date:</p> <p>Completed</p>

2. CONTROL AREA – Control Account Reconciliations

REC No.	RISKS AND IMPLICATIONS	FINDING	AGREED ACTION	PRIORITY	MANAGEMENT ACTION
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Testing results were satisfactory, with no service-level reportable findings relevant to this Control Area identified.

3. CONTROL AREA – Bank Reconciliations

REC No.	RISKS AND IMPLICATIONS	FINDING	AGREED ACTION	PRIORITY	MANAGEMENT ACTION
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Monthly bank reconciliation was found to be satisfactory, with no service-level reportable findings relevant to this Control Area identified.

4. CONTROL AREA - Journals

REC No.	RISKS AND IMPLICATIONS	FINDING	AGREED ACTION	PRIORITY	MANAGEMENT ACTION
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In order to ensure efficient use of organisational resources during year end processes, this Control Area was removed from scope.

2. Audit Framework

2.1 Links to Council Service Delivery

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

- East Suffolk Business Plan – Financial self-sufficiency
- Corporate Risk Register – Failure to produce and deliver sustainable Medium Term Financial Strategy including delivery of balanced Annual Budget

2.2 Scope of Internal Audit Activity

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 for making significant improvements to governance arrangements, risk management and control processes.

Internal Audit Services acts in accordance with the Accounts and Audit Regulations (2015) and aims to follow the Public Sector Internal Audit Standards (2016) and Local Government Application Note (2019). This report has been prepared in accordance with our Audit Charter.

This report is being issued by East Suffolk Council, however, it relates to the activities of Suffolk Coastal District Council (SCDC) and Waveney District Council (WDC) in 2018/2019. This audit has been undertaken as part of the Annual Audit Plan 2018/19, approved by the Audit and Governance Committees of Suffolk Coastal District Council (7th March 2018) and Waveney District Council (15th March 2018).

The scope of the audit was to examine the key controls in place from April 2018 to February 2019 over:

- Bank Reconciliations (including daily reconciliations)
- Feeder System/Control Account Reconciliations (for those not already reviewed within other audits)
- Journals.

Due to the timing of this audit and the need for Finance staff to focus on year end processes and preparing a Statement of Accounts, this audit provides a high-level assessment of the key financial controls within scope. Following discussion with the Chief Finance Officer over availability of Finance staff, testing on Journals was removed from the scope of this audit.

Assurance for 2018/19 Control Account Reconciliations not tested here is available in the following audit reports:

- Joint Review of Accounts Payable 2018/19
- Joint Review of Accounts Receivable 2018/19

- Council Tax and Overpayments 2018/19
- Housing Benefits and Council Tax Support 2018/19
- National Non-Domestic Rates 2018/19

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 or high level of risk that 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 with a medium or high level of risk that service objectives may not be met. Prompt management attention is required.
Priority 3	Findings indicate a control weakness with a low or medium level of risk that service objectives may not be met. Management attention is required.
Priority 4	Findings indicate a minor control weakness with a low level of risk that, although not essential to an effective control framework, would benefit from low-cost improvements. Any low priority 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 Acknowledgements

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

APPENDIX A: Report Distribution

Draft & Final Report

Chief Finance Officer and Section 151 Officer	S Taylor
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Final Report

Leader of the Council and Cabinet Member for Resources	Cllr S Gallant
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Audit and Governance Committee

Strategic Management Team

Ernst & Young	T Poynton
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APPENDIX B: 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:

Daily Bank Import

- All daily bank imports tested were found to have been completed accurately, completely and in a timely manner.

Feeder Systems

- Income: Data in Navision (CARDCAPITA and CARDCIVICA accounts) agreed to the supporting documentation from the income systems and the control spreadsheet for the samples reviewed. Differences identified had a satisfactory explanation.
- Housing Repairs journals were completed and reviewed by appropriate officers.

Control Account Reconciliations

- Housing Rents: The two 2018/2019 monthly reconciliations reviewed agreed to Navision and Orchard, were completed and reviewed by appropriate officers.

Bank Reconciliations

- Monthly bank reconciliations tested were completed and reviewed by appropriate staff, and agreed to the supporting documentation.