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Dacorum Borough Council
Final Internal Audit Report
Core Financial Systems

April 2016

This report has been prepared on the basis of the limitations set out on page 11.

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Key Dates:

Date of fieldwork:	January/February 2016
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Receipt of responses:	April 2016
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1. Executive Summary

1.1. Background

As part of the Internal Audit Programme for 2015/16, we have undertaken an audit of the Council's systems of internal control in respect of the Core Financial Systems.

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1.2. Audit Objective and Scope

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of current controls over the Core Financial Systems, and provide guidance on how to improve the current controls going forward.

In summary, the scope covered the following areas: Accounts Receivable, Accounts Payable, Main Accounting and Treasury Management.

1.3. Summary Assessment

Our audit of the Council's internal controls operating over the Core Financial Systems found that there is a sound system of internal control designed to achieve the system objectives. There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below:

Evaluation Assessment	Testing Assessment
Full	Substantial

Management should be aware that our internal audit work was performed according to UK Public Sector Internal Audit Standards (PSIAS) which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Similarly, the assurance gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Similarly, the assessment gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board. The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A, whilst further analysis of the control environment over the Core Financial Systems are shown in Section 3.

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1.4. Key Findings

We have raised three Priority 3 recommendations where we believe there is scope for improvement within the control environment. We have also raised one Systems Improvement Opportunity. We also identified that 44 officers had access to amend the supplier master file, this was deemed as unsecure. Access was subsequently addressed during the audit and reduced to seven officers. As this was implemented during the audit a recommendation has not been raised. The recommendations raised have been set out below:
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* There should be a clear audit trail for the goods receipting of payments on Agresso (Priority 3)
* Procedure Documentation should include dated version control Priority 3)
* New user authorisation should be submitted to the Agresso Systems Administrator (Priority 3)
* There should be a process update for the checking and verification process for amendments to supplier data (SIO)

Full details of the audit findings and recommendations are shown in Section 4 of the report.

1.5. Management Response

We received the management responses in a timely manner and these have been included in the main body of the report.

1.6. Acknowledgement

We would like to take this opportunity to thank all staff involved for their time and co-operation during the course of this visit.

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2. Scope of Assignment

2.1. Objective

The overall objective of this audit was to provide assurance that the systems of control in respect of the Core Financial Systems, with regards to the areas set out in section 2.3, are adequate and being consistently applied.

2.2. Approach and Methodology

The following procedures were adopted to identify and assess risks and controls and thus enable us to recommend control improvements:

- Discussions with key members of staff to ascertain the nature of the systems in operation;

- Evaluation of the current systems of internal control through walk-through and other non- statistical sample testing;

- Identification of control weaknesses and potential process improvement opportunities;

- Discussion of our findings with management and further development of our recommendations; and

- Preparation and agreement of a draft report with the process owner.

2.3. Areas Covered

The audit was carried out to evaluate and test controls over the following areas:

Accounts Receivable

Invoice request forms are matched to invoices. BACS payment notification reports regularly checked to the bank statements. Aged debtor reports are reviewed regularly. Refunds and write- offs are approved prior to action being taken. Any enforcement action is monitored appropriately.

Accounts Payable

Formal procedures are in place for making amendments to supplier information. Invoices are matched to purchase orders/requisitions prior to payment. Any duplicate payments are regularly identified and investigated. Exception reports are designed to identify high level purchase orders which potentially should have gone through the Procurement function in line with the Council's Standing Orders. BACS payment runs are appropriately checked and authorised. Regular reconciliations with the main accounting system take place.

Main Accounting

Requests to amend or create new codes are authorised by an appropriate officer. Journals are appropriately authorised and fully supported by documentation. Suspense accounts are checked and cleared regularly. All feeder systems (other than those above) are reconciled regularly and any variances investigated in a timely manner.

Treasury Management

Any transactions/deals are made only with approved institutions, and are signed off appropriately. The cash flow position is monitored on a daily basis. The Treasury Management system is regularly reconciled to the cash book and the main accounting system. Investment performance reports are produced and reviewed regularly. Investment strategy and performance is regularly reported to senior management and members as required.

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3. Assessment of Control Environment

The following table sets out in summary the control objectives we have covered as part of this audit, our assessment of risk based on the adequacy of controls in place, the effectiveness of the controls tested and any resultant recommendations.

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
Accounts Receivable	✓	✓	
Accounts Payable	✓	≈	Recommendation 1 Recommendation 2 Systems Improvement Opportunity
Main Accounting	✓	✓	Recommendation 3
Treasury Management	✓	✓	

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

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4. Observations and Recommendations

Recommendation 1: Goods Receipting of Payments (Priority 3)

Recommendation
All payments processed through the Agresso system should have a clear audit trail to highlight which member of staff has goods receipted the product or service prior to payment being processed.
Observation
A clear audit trail of the workflow within Agresso confirms that goods receipting has taken place for all invoices.
It was identified during testing of 15 Purchase Order Payments that in six cases there was no evidence of a goods receipt note maintained on the Agresso audit trail. In discussion with the Group Manager – Financial Services, it was highlighted that in these cases, the Goods Receipt Note entry was before the invoice registration. This caused the User Identification and date to be lost when matched to the Goods Receipt Note. All invoices had been paid at the time of testing.
It could not be confirmed that goods had been receipted in six of the 15 purchase orders tested.
Where the finance system appears to allow payments without proper authorisation (goods receipting) to be processed, there is a risk that inappropriate / inaccurate payments may be made.
Responsibility
Group Manager – Financial Services
Management response / deadline
During the audit, it was identified that where goods had been receipted before the invoice was registered on the system, and then later matched to the invoice, the goods receipt history was being overwritten.
Reports have now been written that provide a full audit trail of the goods receipting records. This was implemented in February 2016.

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Recommendation 2: Dated Version Control on Procedure Documentation (Priority 3).

Recommendation
All Procedure notes held within the Finance Department should include a dated version control.

Observation
This will help to confirm when the document was introduced, reviewed and amended and support the assurance of up to date and accurate working practices. On inspection of the recently implemented Supplier Amendment Procedure Notes, it was identified there was no form of version control, including the date it was created, amended, or due for review. Where documents are not reviewed or revised, there is a risk of out dated, ineffective and/or inefficient working practices.

Responsibility
Financial Services Team Leader

Management response / deadline
All procedure notes are reviewed within Financial Services at least once a year. A central control document is maintained and reviewed monthly to ensure the procedures are reviewed. As each procedure note is updated during 2016/17 version control will be added.

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Recommendation 3: New User authorisation submitted to Agresso Systems Administrator (Priority 3).

Recommendation
Where requests are submitted to the Systems Administrator on Agresso to add a new user, the "Approved Form" should be attached for evidence and proof of prior authorisation from the relevant officers. This will confirm authorisation has been given, and the user can be set up with the level of access required.

Observation
The new user authorisation form provides evidence that approval has been granted for the new user to be set up on the system.
Where new users require access levels relating to a Team Leader position or above, an "Approval Form" is required to be completed and authorised by a Corporate Director and the Section 151 Officer. On inspection of the latest Group Manager to be added to the system, authorisation had been obtained by a member of the finance team, however this was not passed onto the Systems Administrator who would set up user access based on an e-mail from a member of the finance team.
Where user access is granted without confirmation of senior authorisation, there is a risk that officers gain inappropriate access to sensitive areas within the Agresso System, therefore risking the integrity of data.

Responsibility
Group Manager – Financial Services

Management response / deadline
The Systems Developer only acts on the instruction of members of the Finance Team for providing financial authority to approve spend. This control will be strengthened by also providing the Developer with a copy of the approved form when the instruction is sent. This will be implemented immediately.

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System Improvement Opportunity: Checking and Verification of Amendments to Supplier Data

System Improvement Opportunity
Management should consider a System Improvement Opportunity with regards to the process of checking amendments and creations of supplier details. Consideration should be taken to simplify the process, removing unnecessary duplication, and freeing resources to add value in other areas of the finance department.

Observation
The current process for Supplier Amendments is set out as follows; - Supplier Creation/Amendment with Supporting Documentation. - Check 1: Officer completes a check based on the supporting documentation received, initials and signs documentation to confirm that the information is accurate. - Check 2: A Creation and Amendment to Supplier Details Report is produced. An officer checks the amendments on the report against information on Agresso, ensuring supporting documentation is attached. - Check 3: A Team Leader will confirm Check 2 has happened by repeating Check 2 on the completed reports delivered by the given officer. There is no clear process in place to identify that the amendments from the individual test samples had been checked by a secondary officer, as per the process above. The Amendments and Creations Report consists of all cases where the supplier file has been saved. Where no amendment has been made, but the officer completing Check 1 saves the file, it will produce a duplicate item on the report. It was confirmed that one supplier was shown on the Amendment and Creations Report three times. Management should strongly consider updating the process to efficiently mitigate the risk of invalid/inaccurate supplier details being added to the system and consider the level of additional control each stage adds to mitigating the given risk. Consideration should also be taken to determine the effectiveness of the report produced in its current form. There appears to be duplication within the process in its current form. It is understood that a new officer has been introduced into the finance department to streamline processes and increase process efficiency. Where the process is already efficient, there is an added risk of misuse of resources. Resource allocation should be appropriate to mitigate the risk to a desired level. Where resources are ineffectively used in one area, the build-up of demands for resources grows in other areas. This will stretch resources and increases the risk of error.

Responsibility
Group Manager – Financial Services

Management response / deadline
A weakness in the process of adding and amending suppliers was identified by the team in 2015. Following the identification of this weakness, measures were put into place immediately to add additional controls and reduce risk of fraud and error. These measures were not working as smoothly as anticipated as it became clear that it was difficult for the responsible employee to be able to easily identify where additional checks needed to take place. These processes were under review at the time of the audit to streamline them and ensure strong controls were held over supplier records. A revised process was devised with Procurement, which now includes the provision of a Supplier Welcome Pack. This pack includes all of the forms a supplier must complete before being added to the system. All changes to suppliers are verified by phone and reviewed by a second member of the team. These changes were implemented in February 2016.

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Appendix A - Reporting Definitions

Audit assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

Level	Symbol	Evaluation Assessment	Testing Assessment
Full		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
Substantial		Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited		Weaknesses in the system of internal control design are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
Nil		Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objectives.

Grading of recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
Priority 1	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
Priority 2	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
Priority 3	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
System Improvement Opportunity	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

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Appendix B - Staff Interviewed

The following personnel were consulted:

- Richard Baker   Group Manager (Financial Services)

- Clare Dempsey   Sundry Debtors Lead Officer

- Sally Nunn   Financial Services Team Leader

- Katherine Thomas   Finance Assistant

- Tracy Claridge   Assistant Accountant

- Robbie File   Business Systems Developer

- Yamini Krishnan   Assistant Accountant

- Elaine Bowman   Finance Assistant

We would like to thank the staff involved for their co-operation during the audit.

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Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited

London

April 2016

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