

# **Main Accounting System**

## **City of York Council**

### **Internal Audit Report 2017/18**

Business Unit: Customer and Corporate Services Directorate,  
Responsible Officer: Deputy Chief Executive & Director of Customer &  
Corporate Services  
Service Manager: Corporate Finance & Commercial Procurement Manager  
Date Issued: 5 September 2017  
Status: Final  
Reference: 10120/008.bf

	P1	P2	P3
<b>Actions</b>	<b>0</b>	<b>0</b>	<b>3</b>
<b>Overall Audit Opinion</b>	High Assurance		

# Summary and Overall Conclusions

## Introduction

The Financial Management System (FMS) is the fundamental financial accounting system used by the council. The system records all financial activity undertaken by the council. This includes gross expenditure on services, in 15/16, of £392m and total expenditure on capital schemes of £41.5m.

The FMS also records all financial decisions made by the council in the form of a budget. The FMS is used to prepare the council's annual accounts, financial returns and for budgetary control. The FMS is made up of Civica Financials, which includes integrated modules for general ledger, debtors and creditors, and is integrated to the purchasing system Civica Purchasing.

## Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls within the system will ensure that:

- Control accounts and bank reconciliations are carried out regularly.
- Transactions are transferred accurately from feeder systems into Civica Financials.
- The integrity and security of the main accounting system is maintained.
- Responsibilities and processes for journal entries and year end processing are appropriately defined and allocated.
- Transactions are accurately valued and allocated correctly within the general ledger.

This audit focussed on the arrangements for the overall governance of the system and the controls and risks related to the general ledger. The debtors and creditors (including purchasing) systems are audited as separate entities.

## Key Findings

We found that transactions posted to suspense accounts are investigated and cleared-out promptly. Control accounts have been reconciled for each month and there has been a lot of progress made at the year end in clearing out and writing off old balances which have been carried forward for several years. Some of the transactions held in the Unidentified Receipts account have been carried forward since 2005/06. Accountancy are going to look into these during 2017/18.

Feeders are entered promptly onto the FMS and feeder systems are regularly reconciled to the FMS to confirm that the feeders have correctly interfaced. Responsibilities for closedown are clearly defined and well documented.

Access to the FMS is well controlled and there is a limited list of officers who are able to approve access. As highlighted in last year's audit there is still a high use of the miscellaneous income code. Last year's audit also highlighted the fact that accountants and finance managers still enter and approve their own journals. This was still found to be the case during this year's audit and remains an area where there is still some debate.

A virement log is now maintained, although when this is completed the virement is not being linked to the authorising evidence as was originally intended.

Overall, the majority of controls within the main accounting system were found to be operating effectively. Testing identified 3 small issues which have been mentioned above. Whilst these are not fundamental to the functioning of the main accounting system, the issues merit the attention of management and an action has been raised for each.

## **Overall Conclusions**

It was found that the arrangements for managing risk were very good. An effective control environment appears to be in operation. Our overall opinion of the controls within the system at the time of the audit was that they provided High Assurance.

## 1 Unidentified Receipts

### Issue/Control Weakness

Discrepancies are not resolved as promptly as they might be.

### Risk

Unidentified receipts are carried forward in the ledger for many years.

### Findings

There was an opening balance in 2016 on the Unidentified Receipts account of £32,929.78 plus £4829.69 in year difference during 2016-17 to leave a balance of £37,759.47 at the 2016-17 year end. The individual errors which make up the total have all been identified and listed, of which £4270.93 of the total relates back to 2005/06. After 6 years the funds are statute-barred (ie they cannot be reclaimed by the originator).

### Agreed Action 1.1

The unidentified receipts will be reviewed annually and if necessary transferred to revenue (misc income). The amounts on this account at the year end will be less than 12 months old or still being investigated.

**Priority**

3

**Responsible Officer**

Systems Accountant

**Timescale**

31 January 2018

## 2 Evidence of virement approval is not being retained in accordance with policy

Issue/Control Weakness	Risk
Evidence of virement authorisation is not readily available.	Virements are completed inappropriately.

### Findings

The Virement Policy (updated Jan 2016) states:

"each finance team is asked to keep a log on a simple excel spreadsheet saved to the central directory...listing the virements posted, the approval level required and the approver, whether they are part of a bulk upload or an online virement. A link/attachment can then be added to provide evidence where applicable. A folder will be created to save the upload files and emails/screen prints etc and a hyperlink added to the spreadsheet to link to these documents."

The majority of the virements listed on the virement logs were either for less than £100,000 or where the virement was for more than £100,000, were for things that do not require authorisation. e.g. pay award and NI allocation, ward budgets transferred from reserves, reallocation of budgets within the same service area. These are accounting adjustment items rather than virements.

Where virements had been entered which needed authorisation, reference was sometimes made on the virement log to the CMT paper or the authorising officer for some of the virements. For the majority of virements however the staff completing the virement logs were not saving approval evidence for the virement in the folders that have been set up.

### Agreed Action 2.1

The teams will be reminded to save the virement authorisation with the virement log.

Priority	3
Responsible Officer	Systems Accountant
Timescale	30 September 2017

### 3 Value of income posted to miscellaneous income codes

Issue/Control Weakness	Risk
Generic ledger codes are used inappropriately where a more appropriate existing code could be used.	Inaccurate recording of income leading to inaccurate budget monitoring.

#### Findings

The use of the miscellaneous income code has been highlighted in the previous two audits. Little progress has been made in limiting the usage of the code. During 2016-17 £555k of income has been coded here. In 2014-15 this figure was £750k and in 2015-16 it was £579k. It had been the intention of the corporate finance team to focus on the usage of these miscellaneous codes and keep the use of them under review.

#### Agreed Action 3.1

Usage of the miscellaneous income code will be monitored on a quarterly basis and alternative codes suggested. New descriptive codes will be created where necessary.

Priority	3
Responsible Officer	Systems Accountant
Timescale	30 September 2017

# Audit Opinions and Priorities for Actions

## Audit Opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

## Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

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