



Main Accounting System 2021-22

City of York Council

Internal Audit Report

Business Unit: Customer and Corporate Services Directorate,
Responsible Officer: Chief Finance Officer (S151 Officer)
Service Manager: Systems Accountant
Date Issued: 15th February 2022
Status: Final
Reference: 10120/015

| | P1 | P2 | P3 |
|-----------------------|-----------------------|----|----|
| Actions | 0 | 1 | 2 |
| Overall Audit Opinion | Substantial Assurance | | |

Summary and Overall Conclusions

Introduction

The Financial Management System (The 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 2020/21 of £567m and total expenditure on capital schemes of £92m.

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 is 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, virements and year end processing are appropriately defined and allocated.
- Transactions are accurately valued and allocated correctly within the general ledger.

This audit focused 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

It was found the bank reconciliations were being undertaken as expected during the year, and at the end of the financial year, with no issues being noted. The list of control accounts maintained by the finance team was not complete because most accounts on the list did not give the member of staff who was responsible for monitoring the account nor the frequency with which it should be monitored. Although the working papers for managing suspense and control accounts are not always documented, no significant issues were noted when a sample of control accounts were reviewed.

Feeder files were being accurately and promptly transferred onto the FMS once authorisation had been received from an appropriate person, with access to the import directory also suitably restricted.

There are appropriate controls in place to ensure that the integrity of the FMS is maintained, with user access being limited to tasks that are necessary for their role. It was, however, noted that there are 19 members of staff with 'full access' to the FMS which means that they can perform all actions within the system as part of the systems administrator role. Consideration should be given as to whether this number should be reduced. A list of council officers who can authorise new users is maintained on the Council's intranet. A review of a sample of new user requests confirmed that these had received approval from those authorised individuals. An annual user audit was also carried out in December 2020 and corrective action taken where access was no longer required or needed to be amended. The procedure notes for the FMS available to staff on the intranet were also found to be out of date, relating to the previous version of Civica and not the current, web-hosted version.

Journals and virements were being accurately and promptly processed on the FMS. It was noted that a proportion of both virements and journals were being created and authorised by the same officer but this issue is known to staff in the finance team who are prepared to accept the risks associated with this so that items can be quickly and efficiently processed on the FMS. The Council's Financial Regulations require that requests for virements are made in writing to the Chief Finance Officer or one of their representatives. However, a sample of virements was reviewed with cases being identified where virements had been processed based on discussions with the budget holder; without evidence that the Chief Finance Officer had been notified.

Access to set up new detail codes and analysis codes is restricted to staff with 'full access' to the FMS. A review was undertaken of miscellaneous income codes which confirmed that the balances on them were reasonable. This suggests that these codes are being reviewed with sufficiently regularity and appropriate action taken to recode income to the correct area on the ledger.

Overall Conclusions

A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited. Our overall opinion of the controls within the system at the time of the audit was that they provided Substantial Assurance.

1 Monitoring of control accounts

Issue/Control Weakness

Many control accounts do not have a member of staff who is assigned to monitor them on a regular basis.

Risk

Information on the FMS is incorrect because unreconciled transactions are left in suspense or control accounts rather than being transferred to the correct code on the general ledger.

Findings

A list of control accounts is maintained by the finance team. However, the details relating to the individual who monitors the account and the frequency with which the account should be, and was, reconciled was not given in 81 of the 110 control accounts that were on the list.

A sample of 10 cases was taken where no officer was listed as reconciling the control account and it was found that in four of these accounts there were numerous transactions that related to benefits, VAT monies or Debt Relief orders; these should be monitored regularly by a named job title or service. The other six accounts in the sample of cases were deposits or other balances that had not changed during the year and were rolled forward into the next year and therefore may not need monitoring on a regular basis.

Agreed Action 1.1

All control accounts are reconciled at the year end as a minimum. Accountants are therefore aware of the control accounts in their area and the nature of the transactions and the need to monitor some more frequently. Maintaining a list not directly linked to FMS would not give greater assurance and so a report will be provided, set to run automatically each month, and emailed to the principal accountants showing the control account balances in each area. Such a report will highlight any accounts that give cause for concern.

Priority

3

Responsible Officer

Systems Accountant

Timescale

31st March 2022

2 The number of users with Systems Administrator access to the FMS

| Issue/Control Weakness | Risk |
|--|---|
| <p>There are 19 members of staff who have 'full access' to the FMS. No review has taken place to confirm that this number of system administrator users is appropriate.</p> | <p>Inappropriate changes are made to the FMS.</p> |
| Findings | |
| <p>There are currently 19 members of staff who have 'full access' to the FMS so that they can perform systems administrator roles within the system such as setting up new users, changing the coding structure and downloading transactions onto the FMS.</p> <p>The 19 members of staff comprises 3 members of staff in the System Accountant's team and 16 members of staff in the ICT team. Although staff in both teams need to have 'full access' to the FMS to be able to perform administrator tasks within the system, a review of the number of users should be undertaken to confirm whether as many as 19 members of staff should have 'full access' to the FMS.</p> | |
| Management Response | |
| <p>A review has been undertaken by the ICT team manager and it has concluded that all users should continue to have full access to the FMS.</p> | |

3 Guidance notes for the FMS system

Issue/Control Weakness

The guidance documents on the intranet to help budget managers use the FMS are out of date.

Risk

Budgets holders are unable manage their budgets effectively because they cannot find pertinent information on the FMS.

Findings

There is a guidance document on the intranet that tells users how to find detail codes, cost centres and ledger codes. This document is designed to help staff use the FMS system in their role as a budget holder.

The guidance document is now out of date because the FMS system has recently been updated to become a web-based system. The document tells users how to find codes in the old system but because the new system operates differently the notes are no longer usable.

The notes should be updated so that they can be used for the current web-based FMS system with the existing notes being removed from the intranet.

Agreed Action 3.1

The web-based version of Civica works in much the same way as the previous system, so much of the guidance document content remains relevant. However, a review of all intranet pages containing information and attached guidance on the FMS will be undertaken to ensure that these can continue to be used by officers.

Priority

3

Responsible Officer

Systems Accountant

Timescale

31st March 2022

4 Written evidence to support virements

| Issue/Control Weakness | Risk |
|---|---|
| Written evidence is not always being kept to authorise virements. | Service priorities are changed because the budget has been adjusted without the necessary approval. |

Findings

The Council's Financial Regulations state that 'All virements be notified in writing to the Chief Finance Officer or his/her nominated representative.'

A review of a sample 10 virements identified three cases where virements, relating to three different directorates and amounting to just under £38,000, had been processed based on discussions between the budget holder and the relevant member of staff in the finance team, with no written record kept of this. It was therefore not possible to confirm that the Chief Finance Officer or their nominated representative had been notified, as per the requirement of the Council's Financial Regulations. It was also noted that only two of the ten virements in the sample were recorded in the virement log which is maintained by the Finance teams and is meant to record all virements that are processed. Neither of these two virements had the documentary evidence or a link to the evidence recorded in the virement log to confirm they had been approved by the budget holder or service manager.

| Agreed Action 4.1 | | |
|---|---------------------|-----------------------------|
| The process of making virements including the need to provide evidence that the virement has been seen and is approved by the budget holder at the relevant level for the value of the virement will be re-sent to all members of the Finance team. The possibility that the virement logs can be kept within the FMS system and the evidence attached will also be investigated. | Priority | 2 |
| | Responsible Officer | Systems Accountant |
| | Timescale | 31 st March 2022 |

Audit Opinions and Priorities for Actions

Audit Opinions

Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of the audit.

Our overall audit opinion is based on 4 grades of opinion, as set out below.

| Opinion | Assessment of internal control |
|-----------------------|--|
| Substantial Assurance | A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited. |
| Reasonable Assurance | There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited. |
| Limited Assurance | Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited. |
| No Assurance | Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited. |

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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