



Internal Audit Summary Report 2016-2017

Key Financial Systems

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Contents

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If viewing on-screen, please click on the links below or use the scrolling arrows

1	Introduction.....	3
2	Scope	3
3	Findings.....	3
4	Conclusion.....	5
5	Recommendations.....	6
6	Action Plan – Appendix 1	7

1 Introduction

- 1.1 Every year internal audit reviews all the Key Financial systems as part of the three year cyclical audit plan. As part of this review, a number of key controls are identified and tested to establish compliance. This testing together with the results, are then relied upon by the Council's external auditors Ernst and Young.
- 1.2 This report aims to bring together all the areas tested and any weaknesses identified during the audit for all the key financial systems.

2 Scope

- 2.1 The internal audit team have reviewed the key financial systems as listed below :
- Creditors
 - Debtors
 - Payroll
 - Housing Benefits
 - Council Tax
 - Non Domestic Rates (NDR)
 - Cash and Bank
- 2.2 The audit also included some additional control tests which were identified by internal audit and deemed important to the operation of the system ie. procedure and guidance notes, access rights, parameters updates and data security etc.
- 2.3 This report has been produced to show all the Key Financial Systems and bring together all weaknesses identified during the reviews. We have already discussed any issues with the responsible officers and reported their comments together with any actions already taken as well as the proposed actions and deadlines dates for those still to be implemented.

3 Findings

- 3.1 Generally, internal audit can report an overall improvement within the system of internal control and a reduction in number of the issues raised. In addition,

all previously raised issues were followed up and a majority of these had been resolved.

3.2 There were three main findings to report this year:

- Opening Balances - At the time of audit's visit, (October 2016) a number of the closing balances from 2015-16 had not been carried forward in the general ledger, as a result, the control account reconciliations could not be formally reviewed or signed off by the Group Accountant. However, a subsequent follow up after the year end has confirmed that all reconciliations for 2016-17 are now completed, formally reviewed and signed off as required.
- Credit Notes - As at 18 October 2016 there were over £73k of incomplete credit notes sitting on the creditor's system, some of which dated back to 2013. There should be a control in place to ensure that credit notes are reviewed on a regular basis and appropriate action taken by the relevant Service and/or Finance to match and clear these. However, audit could find no evidence of any recent reviews being undertaken. This was discussed with the exchequer manager who indicated that a review would be carried out as part of the year end process. Audit revisited this and as at 31 May 2017 the balance had reduced to just under £15k, although this still included nearly £3k dating back to 2014/15. These should be matched or claimed back from the supplier as soon as possible.
- Duplicate Payments - Previously, it had been agreed that a report would be run for potential duplicate payments on a weekly basis. Whilst it is appreciated that weekly is probably not practical, this does need to be completed on a more regular basis.

During the initial review audit found no evidence of report being run or reviews being carried out in 2016-17; in fact the last report run was dated December 2015, this was confirmed by the exchequer manager at the time. As part of a recent follow up review, audit were informed that all potential duplicate invoices for the year were being reviewed as part of the year end process and a report dated 23 May was provided, however, this also included those processed between April and May in the current year, 2017-18.

Audit has since been referred to some additional reviews that took place during the period October 2016 to January 2017. From these, a report dated 21 December 2016 was extracted for testing because there was no evidence it had been reviewed by exchequer and/or any actions taken.

A random sample was chosen and tested; this revealed that three duplicate payments had been made (totalling £710). Of these; two refunds had previously been requested and the remaining one was requested as a result of this audit. However, due to there being no clear process in place for exchequer to follow up on or cashiers to report on

refunds received, audit are unable to confirm whether the requested refunds had been subsequently collected.

A fourth duplicate payment related to a housing benefit payment, whereby two cheques were raised for the same period. Although this was identified on the report run by exchequer, audit were informed that it is not their responsibility to review these. Further enquiries found that one of the cheques raised was cancelled prior to being posted and this was written back as a result of audit's review. A review will be undertaken on the manual payment process during the next audit in 2017-18.

All of the above payments related to the previous financial year (2015-16); this was due to an error in the data search criteria by exchequer, whereby the 1 April 2015 start date was requested instead of April 2016. However, as these still appeared as outstanding on the report they should have been reviewed.

A further four duplicate payments (totalling £1582) were identified by exchequer services in the year-end review, these related to 2016-17 and 2017-18. Requests for refunds have been made for all of those duplicate payments.

Whilst these amounts are not significant, they do demonstrate that duplicate payments can and are being processed. Further discussions have identified that some of the invoices were entered twice as a result of duplicate purchase orders being raised by the Services, although this has not been verified nor was it a finding from those originally tested by internal audit. This issue needs to be addressed as soon as possible so that only one purchase order is produced, thus reducing the risk of further duplicate payments being made.

- A table showing detailed findings and recommendations can be seen at Appendix 1, together with proposed actions and deadline dates for these to be completed by. This includes all key financial systems whether there are areas of non-compliance/weakness; it also identifies the priority given to those issues which need to be addressed immediately.

4 Conclusion

- 4.1 As reported above, there has been an overall improvement in the number of controls operating satisfactory; however, there are some key controls that need to be re-enforced.
- 4.2 In addition, the Payroll system procedures notes have still not been updated, despite being reported on previously.

5 Recommendations

5.1 An Action Table has been produced, see Appendix 1. In order to prioritise actions required, a traffic light indicator has been used to identify issues raised as follows:

Red ● – Significant issues to be addressed

Amber ● – Important issues to be addressed

Green ● – Minor or no issues to be addressed

6 Action Plan – Appendix 1

Service Area and System	Priority	Control issue raised	Recommendations/Actions Required	Comments/Response	Officer responsible for action	Deadline for Action
Payroll TRENT	 Important	<p>During the year we undertook a review of Payroll Reconciliations carried out by Financial Services to ensure that they were completed and formally reviewed on a timely basis. Two reconciliations were randomly chosen, one for July and other for March 2017 (year-end). The July 2016 one was not signed off as reviewed until November 2016 and the March one was dated 18 May 2017, the day it was given to Audit. A further check on those reconciliations between November and March showed that although they had been completed on a timely basis, none were signed off until 18 May 2017.</p>	<p>The monthly Payroll reconciliation is a key control and should therefore be completed and formally reviewed on a timely basis, so that any differences between the payroll system (Trent) and the general ledger (Civica) can be identified, investigated and rectified as early as possible.</p>	<p>If an issue arises with a monthly reconciliation that is proving difficult to resolve, it is often the practice to complete the following month's reconciliation(s) in order to ascertain if it is an isolated problem. This can therefore delay the review and sign off of previous reconciliations.</p>	Group Accountant (Revenue)	Immediately
	 Important	<p>Payroll Procedures are still out of date and have not been reviewed for a number of years.</p>	<p>It is essential that procedure/guidance notes are reviewed and updates on a regular basis, if not annually.</p>	<p>Personal notes are made by payroll staff but corporate</p>	Payroll Manager	August 2017

Chichester District Council
Internal Audit Report

				procedures are still to be completed.		
Creditors CIVICA	 Important	<p>Audit testing identified a total of over £73K of incomplete credit notes dating back to 2013 sitting on the system. Some of these related to invoices that had already been paid whilst others had not been matched to outstanding invoices. Audit followed this up at the year end and found that action had been taken as part of the year end process. This process reduced the balance considerably to just under £15k, however, nearly £3k of these still related back to the credit notes from 2014 to 2015.</p>	<ol style="list-style-type: none"> 1. Although it is appreciated that many of the credit notes totalling £73k, could have been matched and therefore cleared, these should be reviewed and action taken on a regular basis. 2. The outstanding credit notes relating to 2014-2015 should be matched or claimed back from the supplier as soon as possible. 3. Credit Notes that relate to invoices which have already been paid should be set off against future invoices as soon as they are received. 	<p>Agreed. Added to the weekly/monthly task list and will be reported quarterly. A second review will be performed by the exchequer manager and any action taken.</p>	Exchequer Manager	Commenced April 2017
	 Significant	<p>Because Civica (creditors system) allows for duplicate invoices to be entered, it was previously agreed that a potential duplicate payments report be run and checked by the exchequer team on a regular basis. At the time of audit's review (Oct 2016), the last report to have been run was dated December 2015. However, a subsequent follow up review showed that</p>	<ol style="list-style-type: none"> 1. Regular reviews should be carried out to ensure that invoices have not been entered onto the system twice. These reviews should also be signed and dated by the person carrying out the review. A process for reporting refunds needs to be considered so that exchequer can follow up on any further actions if required. 	<ol style="list-style-type: none"> 1. Added to the weekly/monthly Task List and will be reported quarterly. A second review will be performed by the exchequer manager and the task list dated and initialled. 	Exchequer Manager	Commenced April 2017

Chichester District Council
Internal Audit Report

		<p>a number of reports had been run and checked between October 2016 and January 2017 and although there was a gap between January and March 2017, the May 2017 review did cover this period. As a result 7 duplicate payments (Totalling £2,292) were identified. 4 of the 7 duplicate payments were identified by exchequer and 3 were picked up in sample testing by internal audit.</p> <p>Owing to the way refunds are received and coded, no evidence could be provided by exchequer to confirm that any of the requests for refunds of duplicate payments had been received.</p> <p>Furthermore, audit were informed that more than one purchase order can be raised, thus raising the risk of duplicate payments being made.</p>	<p>2. Services should be reminded that it is important they only raise one purchase order This would reduce the risk of duplicate invoices being entered and subsequently paid.</p> <p>3. In addition, perhaps the software supplier could be contacted to see whether they could build in an alert warning within the system to flag up when duplicate purchase orders/invoices are being input, thus preventing duplication at an early stage.</p>	<p>2. To be considered. A report on Purchase Orders being retrospectively raised is being taken to SLT.</p> <p>3. Civica is looking to update the scanner software, this will hopefully then identify any duplicate invoices being scanned. Also a new module for dealing with electronic invoices, is being considered as the volume is increasing so this should improve data handling</p>	<p>Group Accountant</p> <p>Exchequer Manager/ Systems Admin</p>	<p>To be identified</p> <p>July/August 2017</p>
	<p> Important</p>	<p>During October 2016 audit found that the monthly creditor reconciliations were</p>	<p>It is important that closing balances are carried forward as soon as possible after</p>	<p>The balances were not brought forward</p>	<p>Group Accountant (Revenue)</p>	<p>Immediately</p>

Chichester District Council
Internal Audit Report

		incomplete, i.e. did not contain opening balances brought forward and as such could not be formally reviewed or signed off. However, a follow up has revealed that all Creditor reconciliations were completed, reviewed and signed off as at the year end.	closedown and monthly reconciliations not only completed on a timely basis but are formally reviewed, signed and dated as well.	as quickly as would be normally which meant that the formal review of monthly reconciliations were delayed. However, the group accountant is always made aware that there were no significant issues that needed attention.		
Debtors CIVICA	● Important	During October 2016 audit found that the monthly creditor reconciliations were incomplete, i.e. did not contain opening balances brought forward and as such could not be formally reviewed or signed off. However, a follow up has revealed that all debtor reconciliations were completed, reviewed and signed off as at the year end.	It is important that closing balances are carried forward from the previous year as soon as possible so that monthly reconciliations can be completed, formally reviewed and signed off on a timely basis.	The balances were not brought forward as quickly as would be normally which meant that the formal review of monthly reconciliations were delayed. However, the group accountant is always made aware that there were no	Group Accountant (Revenue)	Immediately

Chichester District Council
Internal Audit Report

				significant issues that needed attention.		
Council Tax Northgate	● No Issues	None	None	None	NA	NA
Housing Benefits Northgate	● Minor	Audit testing revealed that Housing Benefit accuracy checks are now taking place on a regular basis, however, none of the sheets had not been signed or dated.	The check sheets should be signed off and dated by the person checking them as reliance will be placed on this control going forward.	Agreed, but this manual checking and recording process will change shortly with the introduction of new performance monitoring software.	Revenue and Benefits Service Manager	31 Dec 2017
National Domestic Rates Northgate	● No issues	None	None	None	NA	NA
Bank Reconciliation (Cash and Bank) CIVICA/AIM	● No issues	A vast amount of work has been undertaken to streamline the Bank reconciliation process and although it has taken some time to catch up with the backlog, Internal Audit can now report that these were up to date as at the year end.	None	None	NA	NA