

# Hinckley and Bosworth Borough Council

Financial Systems Internal Audit report as at Quarter 2

8 November 2018

**Andrew Smith**

Head of Internal Audit

T: 0161 953 6900

E: [andrew.j.smith@uk.gt.com](mailto:andrew.j.smith@uk.gt.com)

**Zoe Thomas**

Internal Audit Manager

T: 0121 232 5277

E: [zoe.thomas@uk.gt.com](mailto:zoe.thomas@uk.gt.com)

**Dave Rowley**

Internal Auditor

T: 0121 232 5225

E: [david.m.rowley@uk.gt.com](mailto:david.m.rowley@uk.gt.com)



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## Report distribution:

### For action:

- Section 151 Officer
- Finance Staff

### Responsible Executives:

- Director (Corporate Services)

This report is confidential and is intended for use by the management and directors of Hinckley & Bosworth Borough Council. It forms part of our continuing dialogue with you. It should not be made available, in whole or in part, to any third party without our prior written consent. We do not accept responsibility for any reliance that third parties may place upon this report. Any third party relying on this report does so entirely at its own risk. We accept no liability to any third party for any loss or damage suffered or costs incurred, arising out of or in connection with the use of this report, however such loss or damage is caused.

It is the responsibility solely of the Council's management and directors to ensure there are adequate arrangements in place in relation to risk management, governance, control and value for money.

# Executive Summary

## Background

An ongoing audit of key financial systems is being undertaken as part of the approved internal audit plan for 2018/19. The purpose of this report is to set out our findings of audit covering the first half of the financial year.

Ensuring that appropriate internal financial procedures for the recording and reporting of a complete and accurate set of financial data is fundamental to the effective operation of the Council. Management and the Audit Committee also require assurance that effective financial controls are in place and are operating as expected.

To that end, we have designed and implemented a program of work designed to test performance of financial systems against the key risks identified and outlined within this report. Our approach is designed to test performance of financial systems across the full year. Further details of work performed against the risks identified is set out later in this report.

## Objectives

Our work program considers the following key control objectives:

- **Legislation, Policies & Procedures:** staff are compliant with legislative and internal policy requirements. Policies ensure that core finance function is operated in an efficient and effective manner.
- **Financial Transactions & Record Keeping;** financial systems ensure reliability, integrity, confidentiality and security of financial information as follows;
  - **Reconciliations;** key reconciliations are undertaken on a timely and efficient basis, with reconciling items investigated to ensure compliance with internal policies, accounting standards and legislation as required. This ensures the reliability and integrity of financial information.
  - **System Access;** system access is secure, with an adequate procedure in place to ensure that this access is limited to appropriate individuals and regularly reviewed to ensure access is revoked and provided as required;
  - **Management Information:** key financial data is complete, accurate, secure and produced on a timely basis to allow for effective monitoring of the Council's financial position and assist with effective decision making and compliance with legislation and internal policies.

Further details on responsibilities, approach and scope are included the Audit Planning Brief issued in August 2018.

## Limitations in scope

Please note that our conclusion is limited by scope. It is limited to the risks outlined above. Other risks exist in this process which our review and therefore our conclusion has not considered. Where sample testing has been undertaken, our findings and conclusions are limited to the items selected for testing. In addition, our assurance on the completeness of the declarations recorded in the register of interest is limited to the findings from our sample testing.

This report does not constitute an assurance engagement as set out under ISAE 3000.

# Executive Summary

## Conclusion

### Significant assurance with some improvement required

We have reviewed the Council's financial systems and controls. The controls tested are set out in our Audit Planning Brief.

We have concluded that the processes provide **SIGNIFICANT ASSURANCE WITH SOME IMPROVEMENT REQUIRED** to the Committee. One weakness was noted in the controls designed to mitigate management information process risks examined during this audit.

## Good practice

1. Based upon our review of the Council's key reconciliations and related monitoring process, we are of the view that the Council have well designed, robust internal control procedures, which ensure timely production and review of information with a sufficient degree of segregation of duties.
2. Access to financial systems is closely monitored. Our testing indicated that appropriate training is provided to new users.
3. The Council regularly reviews and updates policies & procedures to ensure that they are up-to-date and continue to be fit for purpose.
4. Control account reconciliation tested were generally found to be well designed and achieved their aim of ensuring accurate transfer of information between systems. As at the report date, we have reviewed the Council's Council Tax, Creditors, Housing benefit, NDR, Council Tax refunds, Housing Rents, Payroll and BIDS reconciliations.

## Areas for development

1. Protect source ledger data in budget monitoring reports to provide transparency and ensure a narrative explanation is added to all manual adjustments.
2. Review control account reconciliation timetable to ensure timely completion.
3. Review high number of super users in debtors module and consider review of overall privacy group structure.
4. Implement a periodic review of system access rights of finance staff.

## Recommendations

As we have concluded that the processes provide significant assurance with some improvement required, we have raised only low level recommendations or improvement points to address the weaknesses identified..

	High	Med	Low	Imp
Detailed findings	-	-	4	3

## Acknowledgement

We would like to take this opportunity to thank your staff for their co-operation during this internal audit.

# Key Findings & Recommendations

In this section we set out the detailed findings arising from our work. Details of what each of the ratings represents can be found in Appendix 2

Risk Area	Findings and Recommendation	Action Plan
<p><b>Legislation, Policies &amp; Procedures</b></p> <p>Staff are compliant with legislative and internal policy requirements. Policies ensure that core finance function is operated in an efficient and effective manner.</p>	<p><b>Key findings</b></p> <ul style="list-style-type: none"> <li>▪ As at the report date, we have reviewed the Council's Contract Procedure Rules and Financial Procedure Rules.</li> <li>▪ We are satisfied that the policies and procedures reviewed to date are in line with expectations and best practice, and we have no significant findings to note.</li> <li>▪ We will continue our review of the Council's policies and procedures in quarters 3 and 4. During this time we intend to do further work on the Council's overall review structure and timetable with regard to policies &amp; procedures.</li> </ul> <p><b>Recommendations:</b></p> <p>None to date.</p>	<p>N/a</p>

# Key Findings & Recommendations

In this section we set out the detailed findings arising from our work. Details of what each of the ratings represents can be found in Appendix 2

Risk Area	Findings and Recommendation	Action Plan
<p><b>Reconciliations</b></p> <p>Key reconciliations are undertaken on a timely and efficient basis, with reconciling items investigated to ensure compliance with internal policies, accounting standards and legislation as required. This ensures the reliability and integrity of financial information.</p>	<p><b>Key findings</b></p> <ul style="list-style-type: none"> <li>Following initial discussions with the Council's finance team, we identified a total of 12 key reconciliations and implemented a testing program designed to ensure a detailed review of each of the reconciliations was performed, along with monitoring of the timeliness of information and overall review process. At the report date, we have reviewed up to the end of month 4.</li> <li>As at the report date, we have individually reviewed the Council's Council Tax, Creditors, Housing benefit, NDR, Council Tax refunds, Housing Rents, Payroll and BIDS reconciliations.</li> <li>As at the report date, we note no instances where reconciliations have not been performed or where there was no evidence of review and sign off. However, of 48 reconciliations tested, we found 13 instances where the reconciliation had not been completed and reviewed within the agreed timescale.</li> <li>We were able to verify that reconciling items are reviewed and resolved on a timely basis.</li> <li>Of the individual reconciliations reviewed to date, we are satisfied in all cases that the ultimate aim of the reconciliation is achieved. However, we note that the payroll and housing rents reconciliations are highly complex. Based on discussions with finance staff, we understand that the payroll reconciliation has been amended and staff are considering adjusting the housing rents document. We are supportive of these developments.</li> </ul> <p><b>Recommendations</b></p> <p><b>Issue identified:</b> 13 reconciliations were not performed in line with agreed timetable.</p> <p><b>Root cause:</b> Resourcing issues and competing commitments of team members &amp; annual leave.</p> <p><b>Risk:</b> Delays in performance of control account reconciliations may lead to a delay in identifying &amp; resolving potential errors in the Council's general ledger.</p> <p><b>Recommendation:</b> The finance function should review its work timetable to ensure that team members are able to achieve agreed timescales.</p> <p><b>Overall conclusion:</b> As noted above, testing noted no fundamental issues with reconciliations or instances where they were not performed or delayed for an unreasonable length of time. Some delays owing to issues such as leave commitments and competing work pressures are not unusual in this kind of organisation. Therefore we consider this to be a <b>low risk recommendation</b>.</p>	<p>Management Response:</p> <p>The time scale for sign off of reconciliations is being reviewed. The longest delay on review was on 3 of the reconciliations for ten working days during the busy final accounts, the rest were less than 3 working days late.</p> <p>Reconciliations are currently being completed on time.</p> <p>Responsible Officer:</p> <p>Michelle Lockett David Wallbanks</p> <p>Executive Lead: Ilyas Bham Due date: 30 November 2018</p>

# Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
<p><b>System Access</b></p> <p>System access is secure, with an adequate procedure in place to ensure that this access is limited to appropriate individuals and regularly reviewed to ensure access is revoked and provided as required.</p>	<p><b>Key findings</b></p> <ul style="list-style-type: none"> <li>Of 13 user accounts tested across the general ledger, creditors and debtors modules of Civica Financials, we noted no accounts with inappropriate access level. We also performed an overall review of access rights within the purchase order module and are satisfied that access levels are appropriate at the reporting date.</li> <li>Of 4 applications for new user access tested, in all cases we were satisfied that the request had been appropriately authorised, access levels provided were appropriate and that new users signed to confirm that they had attended training.</li> <li>During the course of our testing, we also noted one instance where the range of user sections assigned to a particular user appeared low and risked that individual not being able to see all transactions posted to their assigned range of codes for budget monitoring purposes.</li> <li>We performed a review of accounts with “full access” or “super user” rights and note what appeared to be a high number (13) on the debtors module, including one senior member of staff (activity by this user was reviewed and nothing of concern was noted).</li> <li>There was no formalised system of logging and monitoring new user, user amendment and leaver requests.</li> </ul> <p><b>Recommendations</b></p> <p><b>Issue identified:</b> User did not have access to a full range of user sections in Civica Financials which prevented viewing of some transactions in a particular code.</p> <p><b>Root cause:</b> Set up of privacy group structure means that not all users have access to the full range of user sections.</p> <p><b>Risk:</b> Transactions from a particular user section posted to the user in questions range of codes are not visible to that user. This may prevent effective budget monitoring and challenge.</p> <p><b>Recommendation:</b> The Finance team considers reviewing the privacy group structure to ensure that transactions posted from all user sections are visible during budget monitoring.</p> <p><b>Overall conclusion:</b> Overall value of transactions in each code remains visible, therefore we deem this to be an <b>improvement point</b>.</p>	<p>Management Response:</p> <p>This will be considered as an improvement point as part of the budget setting update for 2018/19..</p> <p>Responsible Officer: Fiona McArthur</p> <p>Executive Lead: Ilyas Bham</p> <p>Due date: 31 March 2019</p>

# Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
<p><b>System Access</b></p> <p>System access is secure, with an adequate procedure in place to ensure that this access is limited to appropriate individuals and regularly reviewed to ensure access is revoked and provided as required.</p>	<p><b>Recommendations (continued)</b></p> <p><b>Issue identified:</b> High number of super user accounts on debtors module.</p> <p><b>Cause:</b> High level of requests to raise invoice from users with no access to particular user sections.</p> <p><b>Risk:</b> Individuals may be able to manipulate or distort budget reporting via unrestricted access to revenue module.</p> <p><b>Recommendations:</b> The Finance team should review the privacy group structure to ensure that individual users are able to raise invoices as required and also considers reducing the number of users with this level of access.</p> <p><b>Overall conclusion:</b> Mitigating controls, such as the overall budget monitoring and credit control processes, remain in place. Therefore, we consider this to be a <b>low recommendation</b>.</p> <p><b>Issue identified:</b> There is no formal, timetabled review process of user access rights.</p> <p><b>Cause;</b> Systems team receive periodic reports from HR around new starters and leavers. Owing to the size of the entity, monitoring of access rights on an ad hoc basis is achievable. Accounts are automatically closed after one month of inactivity.</p> <p><b>Risk:</b> Unauthorised access or adjustments to ledger accounts occur as a result of inappropriate access levels.</p> <p><b>Recommendations:</b> The Council implements a periodic review of open accounts to ensure that access rights across the organisation remain appropriate.</p> <p><b>Overall conclusion:</b> Although mitigating controls (such as the automatic account closure following inactivity) are in place and testing did not note inappropriate activity, we did note at least one account where access rights were too high which presents a risk of unauthorised activity. We therefore deem this a <b>low recommendation</b>.</p> <p><b>Issue identified:</b> System of logging new user or amendment requests often did not include complete dates of request, or resolution.</p> <p><b>Cause:</b> Although request forms are stored centrally, method of updating central log spreadsheet (for example; date format) was not consistent.</p> <p><b>Risk:</b> Lack of effective audit trail may hinder investigation in the event of a future issue.</p> <p><b>Recommendation:</b> The Council considers investigating the possibility of developing exception reports to monitor changes and new accounts.</p> <p><b>Overall conclusion:</b> Although we were not able to identify a full population of requests actioned in year, those which were tested were compliant with policies and procedures and Systems staff were able to provide appropriate documentation. Therefore, we deem this to be an <b>improvement point</b>.</p>	<p>Management Response:</p> <p>Recommendation 1: We will review access rights and restrict as needed if this meets business need</p> <p>Responsible Officer: Fiona McArthur</p> <p>Executive Lead: Ilyas Bham</p> <p>Due date: 31 March 2019</p> <p>Recommendation 2:</p> <p>The mitigating controls reduce this to an acceptable level. However, to comply with good practice a periodic review of “open accounts” will be completed.</p> <p>Responsible Officer: David Wallbanks</p> <p>Executive Lead: Ilyas Bham</p> <p>Due date: 31 March 2019</p> <p>Recommendation 3:</p> <p>Suitable mitigation is provided by segregation of network and Civica set up in terms of new users. Amendment forms are available for other changes. Therefore the cost of implementation is not considered proportional to the benefit gained</p> <p>Responsible Officer: Fiona McArthur</p> <p>Executive Lead: Ilyas Bham</p> <p>Due date: n/a</p>

# Key Findings & Recommendations

Issue	Findings and Recommendation	Action Plan
<p><b>Management Information</b></p> <p>Key financial data is complete, accurate, secure and produced on a timely basis to allow for effective monitoring of the Council's financial position and assist with effective decision making and compliance with legislation and internal policies.</p>	<p><b>Key findings</b></p> <ul style="list-style-type: none"> <li>▪ We reviewed the Council's budget monitoring process for month 3. The Council's monthly budget monitoring process is generally well designed and executed, and provides timely, relevant information to members. However, we noted the following:</li> <li>▪ There was no formal sign off process for budget holders to confirm that they have reviewed activity within their area.</li> <li>▪ As part of the budget monitoring process, a report is published which pulls information directly from the ledger, which is then manually adjusted to explain timing differences and any other information which is not reflected in the ledger position but may be relevant to the budget review exercise. We noted that the formula in some cells within this report had been overridden with a hard coded value which was different from the ledger balance, suggesting adjustments had been made to the ledger value with no corresponding narrative within the report.</li> </ul> <p><b>Recommendations</b></p> <p><b>Issue identified:</b> No formal, centrally held record of budget holders confirmation that budgets had been reviewed was held.</p> <p><b>Cause:</b> Confirmation received via conversation or emails to management accounts team.</p> <p><b>Risk:</b> Lack of formalised process and evidence trail means potentially no record to support the basis of adjustments or that it has been agreed and provides potential for there to be a lack of "buy in" to the process, leading to less effective budget monitoring.</p> <p><b>Recommendations:</b> The Council considers setting up a central system of logging affirmations that individual budget reviews have been agreed and carried out on time.</p> <p><b>Overall conclusion:</b> We consider this to be an <b>improvement point</b>.</p> <p><b>Issue identified:</b> Information drawn from the ledger in central budget monitoring report can be overwritten.</p> <p><b>Cause:</b> Report is open access and ledger value column is not protected.</p> <p><b>Risk:</b> Source data could be adjusted with no narrative explanation added leading to inaccurate information being presented to management for budget monitoring purposes.</p> <p><b>Recommendations:</b> Finance staff should lock the source data column within the raw report. This would ensure that all adjustments are made in the adjustments column. This would aid transparency and prompt complete narrative explanations.</p> <p><b>Overall conclusion:</b> This practice may lead to an error not being noted on a timely basis in budget reporting. Therefore, we deem this to be a <b>medium recommendation</b>.</p>	<p>Management Response:</p> <p>Recommendation 1:</p> <p>Agreed, annual email confirmation will be requested from Budget Holders</p> <p>Responsible Officer: Ilyas Bham</p> <p>Executive Lead: Ashley Wilson</p> <p>Due date: 30 April 2019</p> <p>Recommendation 2:</p> <p>No actual errors were noted on review, the formula calculation was sometimes overtyped with an updated value to ensure budget reports were correct, but accept the reasons for this should have been documented. The formula column on the budget spreadsheet will be locked and protected, amendments then documented as needed. There is a mitigating global check that the budget report agrees to the general ledger information which would pick up if there was a difference, which would be investigated.</p> <p>Responsible Officer: David Wallbanks</p> <p>Executive Lead: Ashley Wilson</p> <p>Due date: 30 November 2018</p>

# Appendices

# Appendix 1 – Staff involved and documents reviewed

## Staff involved

- Ashley Wilson – Section 151 officer;
- Ilyas Bham – Deputy Section 151 officer;
- Michelle Lockett – Controls Accountant, Exchequer Team Leader;
- David Wallbanks – Accountant;
- Fiona McArthur – Systems Accountant
- Olga Ismay – Finance Officer

## Documents reviewed

- Financial Procedure Rules
- Contract Procedure Rules
- Various reconciliations as required
- Monthly budget monitoring reports
- Civica Systems Access reports

# Appendix 2 - Our assurance levels

The table below shows the levels of assurance we provide and guidelines for how these are arrived at. We always exercise professional judgement in determining assignment assurance levels, reflective of the circumstances of each individual assignment.

Rating	Description
<b>Significant assurance</b>	<p>Overall, we have concluded that, in the areas examined, the risk management activities and controls are suitably designed to achieve the risk management objectives required by management.</p> <p>These activities and controls were operating with sufficient effectiveness to provide significant assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by no weaknesses in design or operation of controls and only IMPROVEMENT recommendations.</p>
<b>Significant assurance with some improvement required</b>	<p>Overall, we have concluded that in the areas examined, there are only minor weaknesses in the risk management activities and controls designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were operating with sufficient effectiveness to provide reasonable assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by minor weaknesses in design or operation of controls and only LOW rated recommendations.</p>
<b>Partial assurance with improvement required</b>	<p>Overall, we have concluded that, in the areas examined, there are some moderate weaknesses in the risk management activities and controls designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were operating with sufficient effectiveness to provide partial assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by moderate weaknesses in design or operation of controls and one or more MEDIUM or HIGH rated recommendations.</p>
<b>No assurance</b>	<p>Overall, we have concluded that, in the areas examined, the risk management activities and controls are not suitably designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were not operating with sufficient effectiveness to provide reasonable assurance that the related risk management objectives were achieved during the period under review</p> <p>Might be indicated by significant weaknesses in design or operation of controls and several HIGH rated recommendations.</p>

# Appendix 2 - Our assurance levels (cont'd)

The table below describes how we grade our audit recommendations.

Rating	Description	Possible features
<b>High</b>	Findings that are fundamental to the management of risk in the business area, representing a weakness in the design or application of activities or control that requires the immediate attention of management	<ul style="list-style-type: none"> <li>▪ Key activity or control not designed or operating effectively</li> <li>▪ Potential for fraud identified</li> <li>▪ Non-compliance with key procedures / standards</li> <li>▪ Non-compliance with regulation</li> </ul>
<b>Medium</b>	Findings that are important to the management of risk in the business area, representing a moderate weakness in the design or application of activities or control that requires the immediate attention of management	<ul style="list-style-type: none"> <li>▪ Important activity or control not designed or operating effectively</li> <li>▪ Impact is contained within the department and compensating controls would detect errors</li> <li>▪ Possibility for fraud exists</li> <li>▪ Control failures identified but not in key controls</li> <li>▪ Non-compliance with procedures / standards (but not resulting in key control failure)</li> </ul>
<b>Low</b>	Findings that identify non-compliance with established procedures, or which identify changes that could improve the efficiency and/or effectiveness of the activity or control but which are not vital to the management of risk in the business area.	<ul style="list-style-type: none"> <li>▪ Minor control design or operational weakness</li> <li>▪ Minor non-compliance with procedures / standards</li> </ul>
<b>Improvement</b>	Items requiring no action but which may be of interest to management or which represent best practice advice	<ul style="list-style-type: none"> <li>▪ Information for management</li> <li>▪ Control operating but not necessarily in accordance with best practice</li> </ul>

