

# Hinckley and Bosworth Borough Council

Financial Systems Internal Audit report as at Quarter 3

17 December 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

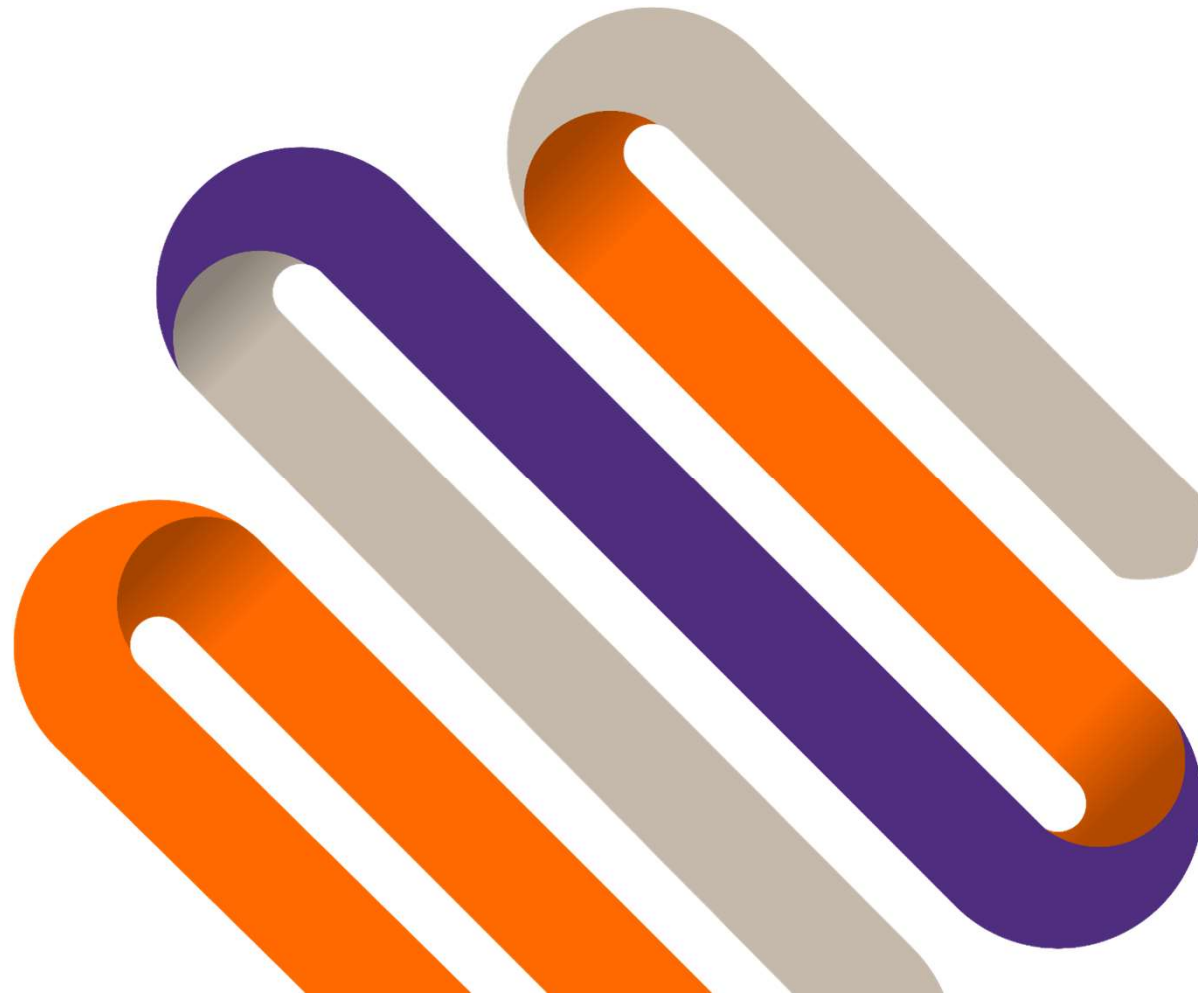
E: [zoe.thomas@uk.gt.com](mailto:zoe.thomas@uk.gt.com)

**Dave Rowley**

Internal Auditor

T: 0121 232 5225

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



# Contents

1 Executive Summary

2 Key Findings & Recommendations

3 Appendices

## 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 third quarter 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. This report will also comment on the direction of travel and any improvements noted since our quarter 2 report. 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 now completed an individual review of all 12 of the Council's identified key reconciliations.

## Areas for development

1. Redesign the format of the Council's financial rules document and include areas on responsibilities of individual committees and finance staff involvement in the disaster recovery plan per our recommendations in order to comply with best practice and increase overall clarity of the documents for users;
2. Implement an automated control to bring timing variances per the detailed level list into the summary level budget monitoring report. This will prevent detail level amendments going through once the initial review has been completed;
3. Review monthly close down point for the budget monitoring sheet and consider a full lock down of the document at a specified point in order to ensure that all adjustments are captured by review.

## 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	-	-	3	2

## Acknowledgement

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

# Progress against Q2 recommendations

In this table below, we have provided an update on progress made against audit recommendations from our quarter 2 financial systems audit report.

Issue	Recommendation	Progress	Status
13 of 48 reconciliations not performed in line with agreed timetable.	The finance function should review its work timetable to ensure that team members are able to achieve agreed timescales.	As at Q3, all subsequent recommendations were performed in line with the agreed timetable.	<b>Implemented</b> Per management comments at Q2, the issues encountered in the earlier part of the year stem from capacity issues as a result of competing demands of close down and external audit. Direction of travel at Q3 suggests that review of the process outlined by management responses at Q2 report has been successful. We will continue to monitor in subsequent reports.
High number of super user accounts on debtors module.	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.	As at Q3, this remains the case.	<b>Not yet due</b> Management had set a deadline of 31 March 2019 to review this issue. As at Q3, this remains an issue.
There is no formal, timetabled review process of access rights.	The Council implements a periodic review of open accounts to ensure that access rights across the organisation remain appropriate.	As at Q3, no issues were noted with the level of access of user accounts sampled.	<b>Implemented</b> Testing at Q3 did not identify any issues; management have confirmed that a periodic review of "open accounts" will be implemented. Direction of travel appears positive. We will continue to monitor in subsequent reports.
Information drawn from the ledger in central budget monitoring report can be overwritten.	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.	As at Q3 we note that our suggested control (whereby the source data column in the original report is locked) has been implemented.	<b>Implemented</b> Per previous column, we now deem this issue to be resolved.

# 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
<b>Legislation, Policies &amp; Procedures</b>  Staff are compliant with legislative and internal policy requirements. Policies ensure that core finance function is operated in an efficient and effective manner.	<b>Key findings</b> <ul style="list-style-type: none"> <li>During this quarter we performed a review of the Council's financial regulations against best practice guidelines provided by CIPFA. The Council's financial rules are comprehensive and largely in line with the aforementioned recommendations.</li> <li>Financial rules are clearly posted on the Council's intranet and available for all staff to refer to.</li> <li>However, we note that the format of the Council's financial rules is not in line with the recommended headings set out by CIPFA. There were also a small number of omissions from the best practice guidelines.</li> </ul> <b>Recommendations:</b>	
	<b>Issue identified:</b> The format of the Council's accounts differs from the best practice recommendations provided by CIPFA. <b>Cause:</b> The document is an updated version of a pre-existing internal format. <b>Risk:</b> The Council is non-compliant with best practice. Furthermore, non usage of the best practice format increases the risk that areas will be omitted. <b>Recommendations:</b> The Council should reformat its financial rules to be divided into five sub headings as follows: Financial Management & Control, Financial Planning, Risk Management and Control of Resources, Systems and Procedures, External Arrangements. <b>Overall conclusion:</b> As referred to above, the Council's policies are extensive and omissions against the best practice noted by our review were few. However, reorganisation in this manner may make it easier for readers to use and for omissions to be rectified in future. Therefore, this is a <b>best practice recommendation</b> .	Management Response: The Council's financial procedure rules form part of the constitution and the format is based on ease of use for officers. However as part of the next update the procedure will be reviewed against CIPFA's format.  Responsible Officer: Ashley Wilson  Due date: February 2020
	<b>Issue identified:</b> The Council's financial rules do not make reference to a disaster recovery plan for assets and data. <b>Cause:</b> Subject not covered in financial rules. <b>Risk:</b> A lack of clarity on disaster recovery planning from a finance perspective may lead to data or asset loss in the event of a catastrophic event. <b>Recommendation;</b> The Council should clearly set out its disaster recovery arrangements within the financial rules. <b>Overall conclusion:</b> Disaster recovery forms a discrete section of the Council's risk management processes in its own right. However, a reference to these arrangements in its financial rules will provide clarity to finance staff. Therefore we consider this to be a <b>low risk recommendation</b> .	Management Response: This is covered separately. However, a reference will be made as part of the next update.  Responsible Officer: Ashley Wilson  Due date: February 2020

# 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
<b>Legislation, Policies &amp; Procedures</b>  Staff are compliant with legislative and internal policy requirements. Policies ensure that core finance function is operated in an efficient and effective manner.	<b>Recommendations (continued):</b>  <b>Issue identified:</b> The Council's financial management rules do not include a breakdown by committee of their roles and responsibilities within the process. <b>Cause:</b> Not included in existing format. <b>Risk:</b> The current set up may not provide full clarity for users of the financial rules. <b>Recommendations:</b> The Council should consider setting out a break down of roles and responsibilities by committee within its financial management section. <b>Overall conclusion:</b> Although the Council's document does not set out the information in the format suggested by CIPFA, we consider this to be of low risk from the perspective of achievement of the ultimate goal of the document. Therefore, we deem this to be a <b>best practice recommendation</b> .	Management Response: These are covered separately within the Council's constitution.  Responsible Officer: N/a  Due date: N/a

# 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> <ol style="list-style-type: none"> <li>1. Our work on this area covers the key reconciliations process for August, September and October 2018. We note that 100% of the key reconciliations identified were completed and reviewed within the Council's internal timeframe.</li> <li>2. We also completed our first detailed review of each of the individual reconciliations. The work program during this period covered; bank reconciliation, debtors, cash day book and NDR refunds. We noted no issues with the set up and performance of these individual reconciliations. Furthermore we were satisfied that there was sufficient evidence that reconciling items were reviewed and resolved in a timely manner.</li> <li>3. The general direction of travel on this section of the review is positive. Our findings here appear to be consistent with management responses to our Q2 report, namely that the finance team experienced delays in the early part of the year as a result of competing pressures relating to accounts close down and external audit, however there was no evidence of slippage in our Q3 review with all reconciliations being complete and reviewed within the stated time frame.</li> </ol> <p><b>Recommendations</b></p> <p>No specific recommendations stem from the results of our Q3 work.</p>	<p>Management Response:</p> <p>N/A</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 9 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>▪ Given the overall low numbers of new applications for systems access or amended user rights we have deferred additional testing of this control until Q4, where we will consider all related activity for the second half of the financial year.</li> <li>▪ We performed a review of accounts with “full access” or “super user” rights. The previous quarter’s findings were that there appeared to be an unusually high number of effective super users within the debtors module; this continued to be the case at Q3, with 8 accounts identified with this access level (besides the two remote access accounts held by software providers for the purposes of updates and maintenance). Whilst we recognise that the Council have set a response date of 31 March 2019 in their responses to the previous report, we feel that reporting this position remains relevant to the committee.</li> </ul> <p><b>Recommendations</b></p> <p>Based on the above, we note no additional recommendations against this area of the report.</p>	<p>Management Response:</p> <p>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 7 (October). In the light of findings reported to the committee following our Q2 report, our work in this quarter had a particular focus on the reconciliation process between the underlying ledger and budget monitoring reports.</li> <li>▪ We note that the Council has implemented our suggested control from the previous quarter by locking the source data columns within the budget monitoring report. We also reviewed the reconciliation between the raw ledger report and the detailed budget report and confirmed that there were no variances.</li> <li>▪ However, we noted a £10k variance between timing variances reported on the central sheet and the detail level analysis which is completed by individual finance staff. This was as a result of a typing error.</li> </ul> <p><b>Recommendations</b></p>	<p>Management Response:</p> <p>Recommendation 1: There was no difference in the report. We believe that the auditors may have been forwarded a working copy before review. Timing differences are checked and the overall position is reconciled.</p> <p>Responsible Officer: N/a</p> <p>Due date: N/a</p>
	<p><b>Issue identified:</b> A £10k variance was noted between the gross value of timing variances as reported to members and the total value per the detailed spreadsheet completed by individual finance team members.</p> <p><b>Cause:</b> Value of timing differences is manually input into the main sheet.</p> <p><b>Risk:</b> A typographical error of the type noted can lead to the under or over reporting of budget positions within management reports.</p> <p><b>Recommendations:</b> The Council should consider including the analysis of timing variances as a separate tab within the monitoring document and automating the update of the summary level timing variances column via an Excel SUMIF formula.</p> <p><b>Overall conclusion:</b> Mitigating controls suggest that the possibility of a higher value variance being unreported are low therefore we deem this to be a <b>low risk recommendation</b>.</p>	<p>Recommendation 2:</p> <p>Changes may be ongoing until senior management review. Once the review is concluded a pdf version is created which is the final version. No changes to this can be made.</p> <p>Responsible Officer: Ilyas Bham.</p> <p>Due date: Already implemented.</p>
	<p><b>Issue identified:</b> A secondary factor in the issue noted above is that the adjustment happened after the overall review and sense check by the reporting accountant prior to senior management review.</p> <p><b>Cause:</b> Report is open access and adjustments can be made throughout process.</p> <p><b>Risk:</b> Typographical or other issues as detailed above could go undetected.</p> <p><b>Recommendations:</b> Finance staff should consider implementing an absolute cut off date for adjustments (potentially via restricting document access) and should ensure that all required adjustments have been actioned prior to finalising the report for senior management review.</p> <p><b>Overall conclusion:</b> As above, the presence of mitigating controls (such as reporting thresholds which pick out larger variances for comment) suggest that the chances of this resulting in a significant misstatement are low, therefore we consider this a <b>low risk recommendation</b>.</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
High	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>
Medium	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>
Low	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>
Improvement	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>

