

# Hinckley and Bosworth Borough Council

**Financial Systems Internal Audit report**  
**October 2020**

**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)

**Peter Rought**  
Internal Auditor  
T: 0121 232 5141  
E: [peter.re.rought@uk.gt.com](mailto:peter.re.rought@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 2019/20. 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 review will focus on the following potential risks across the key systems below:

- Cash & bank
  - Review of bank and other key reconciliations is not effective

## Objectives (continued)

- Accounts payable
  - Inadequate authorisation procedures & payments not made in line with procedures
  - Changes to supplier details not processed in a controlled environment
- Accounts receivable
  - Ineffective debt collection procedures
  - Ineffective invoice raising procedures
- Payroll Inadequate separation of duties
  - Controls over starters, changes, leavers (permanent & temporary staff) inadequate

Further details on responsibilities, approach and scope are included the Audit Planning Brief.

## 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 improvements 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 IMPROVEMENTS REQUIRED** to the Committee. Two minor 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. The Council reviews and updates policies & procedures to ensure that they are up-to-date and continue to be fit for purpose. Informal reviews should however be documented
3. Changes to creditor details is reviewed twice weekly

## Recommendations

We have concluded that the processes surrounding financial controls provide significant assurance, and as such we have raised two low risk recommendations and noted with three improvement points.

	High	Med	Low	Imp
Detailed findings	-	-	2	2

## Acknowledgement

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

# Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
<b>Cash and bank:</b> Review of bank reconciliations is not effective	<p><b>Key findings</b></p> <ul style="list-style-type: none"> <li>▪ Following discussions with the Council's finance team, we identified a total of 12 key reconciliations. At the report date, we have reviewed the whole 2019/20 financial year.</li> <li>▪ A monitoring report is generated monthly to show the preparation date against targeted timelines, evidence of management sign off and explanation of any missed timelines. We have reviewed the monitoring report for all 12 reconciliations in order to provide broad level assurance over the controls in place.</li> <li>▪ We note no instances where reconciliations have not been performed or where there was no evidence of segregation of duties for review and sign off. There were only 2 months (Feb and March 2020) when the payroll reconciliations were signed by name but not dated for sign off. The name of the reviewer was written so this two were isolated cases as we have not observed this happening in any other reconciliations.</li> <li>▪ Of 144 reconciliations tested, we found 22 (15%) instances where the reconciliation had not been completed and reviewed within the agreed timescale. Explanations were provided for all the missed deadlines and were found to be reasonable.</li> <li>▪ For bank reconciliations we undertook a more detailed review by obtaining and individually reviewing all reconciliation documents for April 2019 - March 2020.</li> <li>▪ We were able to verify that reconciling items are reviewed and resolved on a timely basis and all reconciliations are mathematically accurate.</li> <li>▪ Of the individual reconciliations reviewed to date, we are satisfied in all cases that the ultimate aim of the reconciliation is achieved and understandably presented.</li> </ul>	

# Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
<b>Cash and bank:</b> Review of bank reconciliations is not effective	<b>Recommendations</b>	
	<p><b>Issue identified:</b> 22 (15%) of reconciliations were not performed in line with agreed timetable, however explanations have been provided for all missed deadlines. 2 reconciliations were signed by name but not dated.</p> <p><b>Root cause:</b> Resourcing issues, competing commitments of team members, annual leave and working from home once lockdown was in place towards the end of year.</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 in times of increased workload. The review report should ensure that in all cases, reasonable explanations are provided for any missed deadlines</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>	Management response: Noted-Ilyas Bham (Accountancy Manager)

# Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
<p><b>Accounts payable:</b> Inadequate authorisation procedures &amp; payments not made in line with procedures</p>	<p><b>Key findings</b></p> <ul style="list-style-type: none"> <li>▪ Documentation of procedures: Section 18. "Payment of Accounts" of the Council's Financial Procedure Rules clearly sets out the responsibilities of S151 and department leads as well as authorisation thresholds with regards to settling creditor invoices. There is no formal review timetable for this document, however we understand the Accountancy Manager and S151 Officer review this informally on a regular basis to ensure it remains appropriate and up to date.</li> <li>▪ Detailed notes are kept on the accounts payable process with reference to key stages and controls in place, and in depth training manual on the payables module of the Civica system is also available.</li> <li>▪ Segregation of duties: exist between requisition, authorisation and processing of purchase orders. Invoices are matched to purchase orders by a member of the finance team prior to authorisation. Creditor payments which do not have a purchase order/invoice associated with them must be approved by an authorised signatory, the signature is checked against a sample signature during processing. There is Segregation of duties between invoice processing and authorisation. Systems access controls are built into the Civica finance system.</li> <li>▪ We obtained a transaction listing of all creditor invoices paid April-December 2019 and randomly selected a sample of 25 items. For each item selected we tested whether appropriate authorisation was documented for PO and invoice requisition prior to payment and also agreed PO with invoice and Civica system to gain assurance that a 3-way check had been implemented in line with procedures. We found one instance where the PO was not matched against the invoice.</li> <li>▪ Our testing confirms that the council is complying with expected controls in approving invoices for payment.</li> </ul>	

# Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
<p><b>Accounts payable:</b> Inadequate authorisation procedures &amp; payments not made in line with procedures</p>	<ul style="list-style-type: none"> <li>Performance management: A Monthly report is run to demonstrate actual performance in processing invoices against the targets set in the department's service improvement plan. This then feeds into the Council's performance management system (TENs), and is reported to management.</li> <li>We obtained screenshots from TENs performance management system showing indicators LI008 (businesses) and BV008 (invoices) showing monthly monitoring with comments where underperformance exists.</li> <li>Systems access: Users do not receive access to the system until they have been trained and an authorised new user form has been received. This form states the access level required and makes clear that there is no authorisation access and requisition access for creditors/debtors and shows that relevant training has been completed. The form is signed to demonstrate authorisation. We reviewed a form, observed the relevant user profile on Civica system and concluded that access levels shown on Civica system matches the form.</li> <li>Pay runs: must be reviewed and authorised by the Accountancy Manager before completion. We observed the Accountancy Manager authorising a payment run on 19/12/19 and also reviewed the BACS submission summary from a previous pay-run which had been signed by Senior Accountant.</li> </ul> <p><b>Recommendations</b></p> <p><b>Issue identified:</b> There is no formal review timeline for key policy documents</p> <p><b>Root cause:</b> Accountancy Manager and S151 Officer review informally on a regular basis to ensure appropriateness.</p> <p><b>Risk:</b> If documentation is not up to date then incorrect processes may be followed.</p> <p><b>Recommendation:</b> Consider setting a formal timeline for review of key documents in order to evidence controls over their appropriateness and completeness.</p> <p><b>Overall conclusion:</b> As noted per discussions with Accountancy Manager, policies are reviewed regularly on an informal basis, we have reviewed the documents and are satisfied that they are appropriate and complete. Therefore we deem this to be a best practice, improvement recommendation.</p>	<p>Management Response: we will put in place a timeline to review key documents – Ilyas Bham (Accountancy Manager)</p>



# Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
<p><b>Accounts payable:</b></p> <p>Changes to supplier details not processed in a controlled environment</p>	<p><b>Key findings</b></p> <ul style="list-style-type: none"> <li>▪ Creditors' software system which is used to process and store supplier master data is secured by password access and 'times-out' after two minutes of inactivity. The system has various levels of access: 'Systems Admin' and 'View Only'.</li> <li>▪ Requests for new supplier set up are received via a central departmental inbox. Requests must be authorised by the Director (Corporate Services) before they are set up on the 'Creditors' system. These approvals are stored within the responsible accountant's inbox for future reference.</li> <li>▪ This authorisation is reviewed as part of the twice weekly Auditor and Creditor control report which tracks any changes on the creditor system. This is reviewed by the Creditor and Payments Officer who has View Only access to the Creditors system, providing additional segregation of duties between processing and review.</li> <li>▪ Before a new supplier is set up on the system, direct verbal confirmation of the supplier's details must be obtained. The contact details in the initial request are not used for this, instead a web search is carried out to sense check the business purpose and to obtain official contact details for verbal confirmation.</li> <li>▪ The vetting, set up and review process for changes to existing suppliers are the same as that for new suppliers, although changes are not required to be formally approved by the Director (Corporate Services).</li> <li>▪ We observed a listing of all new suppliers authorised between April and December 2019 and selected a sample of creditors for testing. We subsequently extended this sample for the period January to March. For each sample selected we observed whether verbal verification of details had been obtained directly from the creditor, whether the creator of the new supplier had appropriate access and whether authorisation had taken place prior to set up.</li> </ul>	<p>N/a</p>

# Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
<p><b>Accounts payable:</b></p> <p>Changes to supplier details not processed in a controlled environment</p>	<ul style="list-style-type: none"> <li>▪ We also tested whether the supplier had been appropriately authorised prior to creation as well as whether verbal verification of details had been obtained directly from the creditor, whether the creator of the new supplier had appropriate access and whether authorisation had taken place prior to set up.</li> </ul> <p><b>Findings:</b></p> <ul style="list-style-type: none"> <li>▪ Of the 75 samples selected in total, there were 3 cases where details of verbal verification were not evidenced.</li> <li>▪ In all 75 cases, the supplier had an appropriate creator and authoriser.</li> <li>▪ In 1 case the new supplier had been set up on the Creditors system prior to approval, however the reasoning for this was deemed appropriate and it was possible to evidence that the requestor was not notified of supplier set up until after appropriate authorisation had been obtained.</li> </ul> <p><b>Issue identified:</b> Evidence of authorisation is stored in responsible accountants email inbox.</p> <p><b>Root cause:</b> Staff turnover has led to different procedures being followed.</p> <p><b>Risk:</b> If evidence of new supplier authorisation is lost then it cannot be reviewed effectively which may lead to spurious invoices being paid.</p> <p><b>Recommendation:</b> Previous practice was to attach copies of email authorisation with other backing documentation stored on the council's secure Anite file management software in order to provide a clear audit trail. We would recommend that this practice is reinstated.</p> <p><b>Overall conclusion:</b> Our testing has not identified any cases where appropriate authorisation could not be evidenced, authorisation is also reviewed as part of the twice weekly Auditor and Creditor control report which tracks any changes on the creditor system. Therefore, we deem this to be a best practice, improvement recommendation.</p>	<p>Management Response: a process has been put in place for storage and sample checks will be undertaken periodically – Ilyas Bham (Accountancy Manager)</p>

# Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
<b>Accounts receivable:</b> <ul style="list-style-type: none"> <li>▪ Ineffective debt collection procedures</li> <li>▪ Ineffective invoice raising procedures</li> </ul>	<b>Key findings</b> <ul style="list-style-type: none"> <li>▪ Documentation of procedures: Section 6. "Income" of the Council's Financial Procedure Rules clearly sets out the processes for identifying sources of income, receipt of income and debt recovery. There is no formal review timetable for this document but we understand the Accountancy Manager and S151 Officer review this informally on a regular basis to ensure appropriateness.</li> <li>▪ There is a separate Corporate Sundry Debt Recovery Strategy, which is currently being updated. A draft copy has been obtained and reviewed. The strategy clearly sets out the processes and controls for raising, the payment of, recovery of, write off and monitoring of sundry debt. It sets out a clear timetable for debtor recovery.</li> <li>▪ We confirmed our understanding of the process through undertaking a walk through. Here we noted that no formal approval for raising invoices. Requests to raise invoices are emailed to finance from departments including request form with necessary details. These details are then input into Civica debtors system by member of finance team. Accuracy of details input is not formally reviewed.</li> <li>▪ When setting up a debtor, payment terms are selected and a due date is autogenerated on the invoice.</li> <li>▪ On a monthly basis, a report showing all debts over 120 days is passed to all budget holders. It is the budget holder's responsibility to review this listing and advise finance whether to write off the debt, pursue legal action against the debtor, make arrangements to get the debt cleared or cancel the debt if inaccurate. The Council has a performance indicator for debt over 90 days old as a % of aged debt. This is monitored quarterly as part of the Performance Management Framework.</li> </ul>	N/a

# Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
<b>Accounts receivable:</b> <ul style="list-style-type: none"> <li>▪ Ineffective debt collection procedures</li> <li>▪ Ineffective invoice raising procedures</li> </ul>	<p>A report showing performance against the set indicator and the profile of aged debt month on month is reported to the Finance, Audit and Performance Committee on a quarterly basis.</p> <ul style="list-style-type: none"> <li>▪ Debtor reference numbers autogenerated by Civica so no duplication is possible.</li> <li>▪ On discussion with the Creditors and Payments Officer, There is no formal approval for raising invoices. Requests to raise invoices are emailed to finance from departments including request form with necessary details. These details are then input into Civica debtors system by member of finance team. Accuracy of details input is not formally reviewed.</li> </ul>	N/a
	<p><b>Issue identified:</b> There is no formal approval process for raising invoices and accuracy of details processed is not formally reviewed.</p> <p><b>Root cause:</b> Policies and procedures are not in place.</p> <p><b>Risk:</b> Lack of authorisation and review of new debtors could lead to spurious invoices being raised.</p> <p><b>Recommendation:</b> We recommend that management consider the controls in place around authorisation of debtor invoices prior to processing, observation and documentation of evidence of authorisation on a departmental level by the Creditors and Payments Officer prior to processing invoices would provide additional control against the risk of spurious invoices being raised.</p>	

# Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
<b>Payroll:</b> <ul style="list-style-type: none"> <li>▪ Inadequate separation of duties</li> <li>▪ Controls over starters, changes, leavers (permanent &amp; temporary staff) inadequate</li> </ul>	<b>Key findings</b> <ul style="list-style-type: none"> <li>▪ Documentation of procedures: Section 20. "Salaries, wages and pensions" of the Council's Financial Procedure Rules clearly sets out the key responsibilities, controls and regulations related to the payroll process. There is no formal review timetable for this document. The Accountancy Manager and S151 Officer review this informally on the regular basis to ensure appropriateness.</li> <li>▪ Payroll Changes: Human Resources (HR) fill in changes form and attach relevant correspondence with Department Manager and Finance as well as 'acting up' letter sent to the employee. This paperwork is scanned and stored on the Council's Anite file management system. Held for 7 years in line with statute. The payroll change is then input to the system and verified by another member of the HR team. Both inputter and verifier sign the form to evidence segregation of duties. Viewed acting up for employee 000898 on iTrent system and agreed to paperwork, prepared by Systems admin and authorised by HR assistant advisor, both signed.</li> <li>▪ Payment of payroll: A standard checklist is used to ensure that all necessary payroll information has been processed. Once this has been complete, the total payroll is calculated using a function in iTrent system and a series of reports are run: error and warnings report, Pay method report, YTD rec, Net Pay Rec and BACS file report. Each report is sense checked and the headline amount is agreed to the calculation detailed above. This process is completed by the Payroll systems admin and must be signed off by either the HR Manager or a Council Director before payment made. A bank submission summary is obtained and signed off in the same manner as the reports above. To confirm our understanding of the process we observed the documentation for the December payroll run which was made on 18/12/19 and confirmed that all the necessary reports had been checked by the HR Payroll Systems Admin and are authorised by the HR Manager.</li> </ul>	N/a

# Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
<b>Payroll:</b> <ul style="list-style-type: none"> <li>▪ Inadequate separation of duties</li> <li>▪ Controls over starters, changes, leavers (permanent &amp; temporary staff) inadequate</li> </ul>	<p>We obtained a listing of all new starters between April and December 2019 and judgementally selected 27 for testing. For each sample selected we observed whether information was processed in a timely manner, segregation of duties existed between input and verification of information and all relevant documentation was held by the Council in line with statute. We noted no instances where the controls detailed had not been implemented.</p> <ul style="list-style-type: none"> <li>▪ We obtained a listing of all leavers and judgementally selected 27 for testing. For each item selected we observed whether information was processed in a timely manner, segregation of duties existed between input and verification of information and all relevant documentation was held by the council in line with statute. We noted 1/25 instance where the leaver documentation could not be located - this was for Bank Staff employee at the end of temporary contract. In this instance, the relevant documentation was evidenced therefore we are satisfied that the failed sample was an isolated incident.</li> </ul> <p><b>Recommendations:</b></p> <p>None</p>	N/a

# 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;
- Denise Stone – Finance Officer
- Jo Daniels – Creditors and Payments Officer ;
- Fiona McArthur – Systems Accountant;
- Sheryl Wood – Income Officer;
- Beverley Parker - Payroll Officer/Systems Administrator.

## Documents reviewed

- Financial Procedure Rules
- Contract Procedure Rules
- Various reconciliations as required
- Sundry Debt Recovery Policy (December 2019 Draft)
- Risk Management Performance Indicators
- Civica Systems Access reports
- Civica training manuals (debtors, creditors and GL modules)



# Appendix 2 - Our assurance levels

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)

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>



[grantthornton.co.uk](https://www.grantthornton.co.uk)

© 2020 Grant Thornton UK LLP.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

