



APPENDIX 2e

South Lakeland District Council

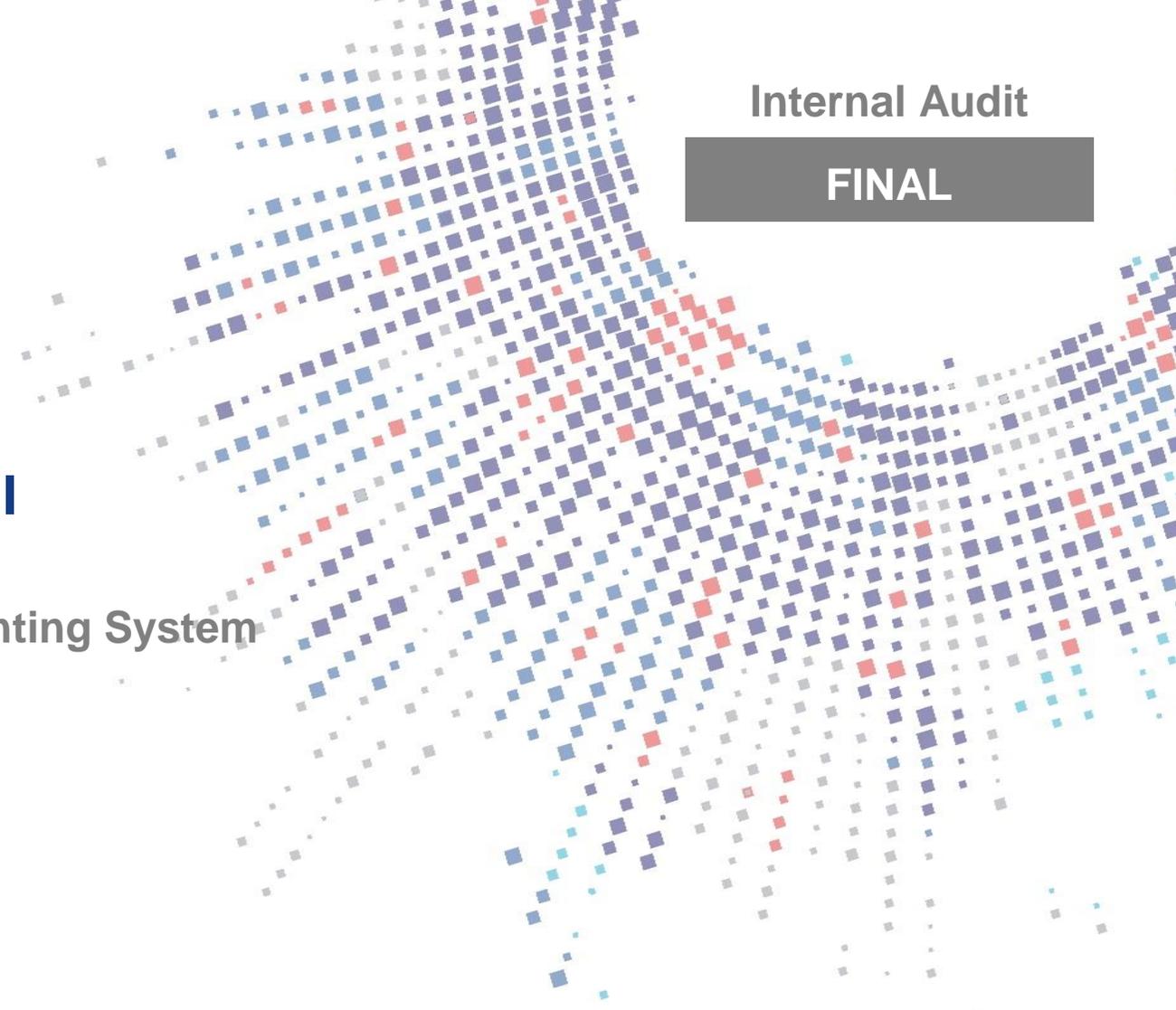
Assurance Review of the Main Accounting System

2019/20

September 2020

Internal Audit

FINAL



Executive Summary

OVERALL ASSURANCE ASSESSMENT



OVERALL CONCLUSION

Testing of the Main Accounting System showed that there are robust processes that are predominantly being adhered to, but which would be with further enhanced by addressing the following observations.

- The 2019/20 monthly bank reconciliations have not been subject to independent review.
- The quarterly payroll reconciliation was last undertaken for the 2018/19 year end.

SCOPE

The review assessed the procedures and controls within the main accounting systems to ensure that:

- Control accounts and bank reconciliations are carried out regularly.
- Transactions are transferred accurately from feeder systems.
- The integrity and security of the main accounting system is maintained.
- Responsibilities and processes for journal entries and year end processing are appropriately defined and allocated.
- Transactions are accurately valued and allocated correctly within the general ledger.

The audit focussed on the arrangements for the overall governance of the system and the controls and risks related to the general ledger.

ACTION POINTS

| Urgent | Important | Routine | Operational |
|--------|-----------|---------|-------------|
| 0 | 2 | 1 | 0 |

Management Action Plan - Priority 1, 2 and 3 Recommendations

| Rec. | Risk Area | Finding | Recommendation | Priority | Management Comments | Implementation Timetable (dd/mm/yy) | Responsible Officer (Job Title) |
|------|------------|--|--|----------|---|-------------------------------------|---------------------------------|
| 2 | Compliance | The 2019/20 monthly bank reconciliations were reviewed during the audit and found to have been appropriately completed with cover sheet and support documentation. However, the reconciliations have not been subject to independent review. The Lead Specialist and s151 Officer acknowledged the need to undertake an independent review of the bank reconciliations and advised that the responsibility is to be assigned post restructure. | The monthly bank reconciliation be subject to independent and timely review by a senior member of the Finance Department. | 2 | <i>Accepted: the backlog was sorted at year-end and new arrangements commenced for the current financial year.</i> | <i>Implemented March 2020</i> | <i>Finance Lead Specialist</i> |
| 3 | Compliance | The payroll reconciliation covering all of the payroll element key headings and summary Year to Date totals from the ITrent payroll system is reconciled to the payroll figures on the Integra ledger system by the Specialist Finance Officer (formerly known as the Chief Accountant). The last time that the reconciliation has been performed was for 2018/19 year- end (Q4) and the process needs to be re-established. | The quarterly payroll reconciliation be undertaken in a timely manner by a Specialist Finance Officer and subject to independent review. | 2 | <i>Accepted: full reconciliation was completed as part of the 2019/20 year-end and new arrangements have been agreed for the new financial year but have been delayed by the additional duties arising from Covid-19. The Q1 and Q2 2020/21 reconciliations will be finalised by the end of October 2020.</i> | <i>31/10/20</i> | <i>Finance Lead Specialist</i> |

PRIORITY GRADINGS

1 URGENT Fundamental control issue on which action should be taken immediately.

2 IMPORTANT Control issue on which action should be taken at the earliest opportunity.

3 ROUTINE Control issue on which action should be taken.

| Rec. | Risk Area | Finding | Recommendation | Priority | Management Comments | Implementation Timetable (dd/mm/yy) | Responsible Officer (Job Title) |
|------|------------|--|--|----------|---|-------------------------------------|---------------------------------|
| 1 | Compliance | <p>In the past mini-questionnaires have been sent to Senior Managers to obtain feedback regarding the budget management support provided by Finance. Given the 2019/20 restructure and rationalisation, the focus has been providing support, including Integra training, to staff who now have budget management responsibility</p> <p>There are meetings, including the Leadership Team, Finance Staff and Finance Department meetings that provide the opportunity to obtain/discuss informal feedback on budget management support.</p> <p>Once staff have become more familiar with their new budget management responsibilities, feedback of the budget control support provided should formally captured.</p> | A mechanism be developed and implemented that routinely captures budget holder feedback of the support provided by Finance staff in order to maintain and further improve the process. | 3 | <p><i>The implementation of a new budget monitoring approach moving towards a business partnering approach was introduced from Q1 2020/21.</i></p> <p><i>Feedback will be gathered from Q2 2020/21 onwards both from budget holders and the finance team. Budget monitoring process will evolve during the remainder of the financial year.</i></p> | 30/09/20 | Finance Lead Specialist |

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Operational Effectiveness Matters

| Ref | Risk Area | Item | Management Comments |
|-----|-----------|------|---------------------|
|-----|-----------|------|---------------------|

No Operational Effectiveness Matters were identified.

Detailed Findings

Introduction

1. This review was carried out in January 2020 as part of the planned internal audit work for 2019/20. Based on the work carried out an overall assessment of the overall adequacy of the arrangements to mitigate the key control risk areas is provided in the Executive Summary.

Background

2. The previous Management Accounting System review was carried out in January 2017 and resulted in a reasonable assurance rating with one important recommendation that related to removing Integra access when staff left the Council. The Council has undergone a two stage restructuring and rationalisation process in May 2019 and January 2020. The impact of the restructure on the Finance Department was a reduction of two members of staff, however this has not impacted on the Main Accounting System arrangements.

Materiality

3. A web based integrated financial systems application (Integra) for the general ledger, accounts payable, accounts receivable and cash management has been used by the Council for a number of years. There are interfaces with other key financial systems, such as the ITrent payroll system

Key Findings & Action Points

4. The key control and operational practice findings that need to be addressed in order to strengthen the control environment are set out in the Management and Operational Effectiveness Action Plans. Recommendations for improvements should be assessed for their full impact before they are implemented.

Scope and Limitations of the Review

5. The review assessed the procedures and controls within the main accounting systems to ensure that:Control accounts and bank reconciliations are carried out regularly.
 - Transactions are transferred accurately from feeder systems.
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 - Responsibilities and processes for journal entries and year end processing are appropriately defined and allocated.
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The audit focussed on the arrangements for the overall governance of the system and the controls and risks related to the general ledger.

6. The definition of the type of review, the limitations and the responsibilities of management in regard to this review are set out in the Annual Plan.

Disclaimer

7. The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

Risk Area Assurance Assessments

8. The definitions of the assurance assessments are:

| | |
|------------------------------|--|
| Substantial Assurance | There is a robust system of internal controls operating effectively to ensure that risks are managed and process objectives achieved. |
| Reasonable Assurance | The system of internal controls is generally adequate and operating effectively but some improvements are required to ensure that risks are managed and process objectives achieved. |
| Limited Assurance | The system of internal controls is generally inadequate or not operating effectively and significant improvements are required to ensure that risks are managed and process objectives achieved. |
| No Assurance | There is a fundamental breakdown or absence of core internal controls requiring immediate action. |

Audit Contacts

9. For any queries or to discuss the content of this report, please contact either of the following:

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|--------------------------------|--|
| Lead Auditor: | Tim Norris tim.norris@ttaa.co.uk 07580 700436 |
| Head of Internal Audit: | Peter Harrison peter.harrison@ttaa.co.uk 07970 376542 |

Audit Report Distribution

10. We would like to thank staff for their co-operation and assistance during the course of our work.

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| For Action: | Helen Smith, Finance Lead Specialist and Section 151 Officer |
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Release of Report

11. The table below sets out the history of this report.

| | |
|--|--------------------------------|
| Date draft report issued: | 10 th March 2020 |
| Date management responses received: | 2 nd September 2020 |
| Date final report issued: | 2 nd September 2020 |