



MALDON DISTRICT COUNCIL

INTERNAL AUDIT REPORT

MAIN FINANCIAL SYSTEMS
JANUARY 2022

LEVEL OF ASSURANCE	
Design	Operational Effectiveness
Substantial	Moderate

IDEAS | PEOPLE | TRUST



EXECUTIVE SUMMARY	55
DETAILED FINDINGS	58
STAFF INTERVIEWED	62
APPENDIX I - DEFINITIONS.....	63
APPENDIX II - TERMS OF REFERENCE	64

DISTRIBUTION

Name	Job Title
Annette Cardy	Resources Specialist Services Manager
Lance Porteous	Lead Finance Specialist - Finance Manager
Chris Leslie	Director of Resources

REPORT STATUS LIST

Auditors:	Ravi Gadhia - Internal Audit Semi Senior
Dates work performed:	20 September 2021 - 25 October 2021
Draft report issued:	3 December 2021
Final report issued:	13 January 2022

EXECUTIVE SUMMARY

LEVEL OF ASSURANCE: (SEE APPENDIX I FOR DEFINITIONS)

Design	Substantial	There is a sound system of internal control designed to achieve system objectives.
Effectiveness	Moderate	Evidence of non-compliance with some controls that may put some of the system objectives at risk.

SUMMARY OF RECOMMENDATIONS: (SEE APPENDIX I)

High	0
Medium	0
Low	4

TOTAL NUMBER OF RECOMMENDATIONS: 4

CRR/BAF REFERENCE:

R15: Failure to plan and deliver balanced budgets over the medium term

BACKGROUND:

The Council is required to have sound controls in place in its financial systems, in order to prevent and detect error and fraud. As part of our cyclical review of main financial systems we looked at General Ledger, Journals, Budgetary Control and Treasury Management.

The Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long term credit rating of A-, UK government, other Local authorities and organisations without credit ratings upon which the Council has received independent investment advice. As per the Council's draft Statement of Accounts 2020-21, they have an investment portfolio of £19,787,000 split between Short Term (£15,012,000) and Long Term (£4,775,000).

GOOD PRACTICE:

System Access

Access to the Sage finance system is controlled by users who have administrative privileges on the system, which consist of both IT and Finance staff. Where an individual joins or leaves the organisation, their line manager is required to complete a ticket on FreshService which is processed by IT. Over the last 12 months, there have been two starters who joined in January and June 2021 and one leaver who left the organisation in April 2021. We were able to confirm that the two joiners had been set up on the system appropriately and the one leaver had their access disabled on the system within the same month. For all cases, evidence of a FreshService ticket from their line manager was also provided.

Budget Setting & Monitoring

The Council's budget is presented to the Strategy & Resources Committee every January for review and scrutiny before being presented to Full Council every February for approval. We were provided with the S&R Committee minutes for January 2021 and Full Council minutes for February 2021 which covered review and approval of the 2021/22 budget.

The Council's budget for the year is loaded into the Pinnacle budget monitoring system and is accessible by finance and individual budget holders and is used on a monthly basis to monitor, discuss and review/amend budgets where necessary.

Monitoring and control of expenditure is completed through the Council's Budgetary Monitoring Report, which has a clear variance analysis, and is presented to the Corporate Leadership Team (CLT) and the Strategy & Resources Committee on a quarterly basis.

Treasury Management

Treasury Management Strategy

In line with the CIPFA Code of Practice for Treasury Management the Council has in place a Treasury Management Strategy for the 2021/22 financial year which was presented to the Strategy and Resources Committee on 28 January 2021.

The Strategy was also reviewed by the Council's Treasury Advisor - Arlingclose Ltd and includes their analysis of socio economic factors as at December 2020. We reviewed the Council's Treasury Management Strategy and noted it outlined several socio economic factors arising from the Covid-19 pandemic and Brexit, in addition to GDP, inflation, interest rates as well as the US presidential election and US economy.

Treasury Management Training

Training is provided to the Finance team in relation to Treasury Management by ArlingClose with the most recent training on 27 September 2021.

A workshop was also delivered by Arlingclose on 9 Sept, 16 Sept and 24 Sept covering the Treasury Management Framework, Treasury Management risks, the investment function and the borrowing function.

Treasury Full Year Report

The Council's full year report for the 2020/21 financial year was presented to the Strategy and Resources Committee in July 2021. The minutes discussed how during 2020/21, the Council had an average of £21.7m invested, whilst also maintaining a debt free position, highlighting that capital expenditure did not include any borrowing during 2020/21.

The report also covered Compliance with the Prudential Indicators and Treasury Management Strategy. The Prudential Indicators for 2020/21 were set on 23 February 2021 as part of the 2020/21 Treasury Management Strategy. The report to the Strategy & Resources Committee highlighted that all treasury management activities undertaken during 2020/21 complied with the Treasury Management Strategy, CIPFA CoP and PI.

KEY FINDINGS:**Testing of Treasury Transactions (Money Market Funds)**

The Council's Treasury Management Policy records a £3m investment limit which is not consistent with the Council's Treasury Management Strategy which sets out a £5m counterparty limit and £12m sector limit. **(Finding 1 - Low)**

Reconciliations between General Ledger and Feeder System(s)

Although there were no unreconciling items, there was no evidence of reconciliations having been reviewed, with the 'Checked by' field left blank in all three samples reviewed. **(Finding 2 - Low)**

Management of the Suspense Account

We tested a sample of 20 suspense account entries where transaction dates were between April and September 2021 and found 11 instances where balances were still in the suspense account. **(Finding 3 - Low)**

Approval of Journals

The name of the officer inputting the journal was not recorded on the journal template in seven out of 15 instances **(Finding 4 - Low)**

CONCLUSION:

Overall, our audit found that whilst the Council has robust controls in place with regards to the use of Sage and Pinnacle, in addition to budget setting and monitoring, further improvements are required in terms of keeping the suspense account cleared regularly, ensuring a complete audit trail of journal entries and making sure feeder system reconciliations are clearly approved regardless of whether they show any un-reconciling balances or not. Additionally, the Council should ensure the limits in the Treasury Management Policy reflect the limits set out within the Treasury Management Strategy. As a result, we are able to provide substantial assurance over the design of controls and moderate assurance of the effectiveness of controls in place.

DETAILED FINDINGS

RISK: THE COUNCIL'S TREASURY MANAGEMENT POLICIES ARE NOT COMPLIED WITH, RESULTING IN INAPPROPRIATE INVESTMENTS AND MISMANAGEMENT OF CASH.

Ref	Significance	Finding
1	Low	<p>Treasury Transactions (Money Market Funds)</p> <p>The Council has a Treasury Management Policy in place which reflects the CIPFA Treasury Management Practices. The Council's policy states that the authorised officer for any borrowing or lending is the Senior Accountant. The policy also states that Authorisation must be provided by the Director of Resources and that the maximum for any one investment deal is £3million. For all transactions, there must be a deal ticket, confirmation from the broker or counter party, CHAPS payment document and contract notes (if dealing with shares).</p> <p>However, the Council's Treasury Management Strategy sets out a £5m counterparty limit and £12m sector limit for Money Market Funds (MMF) which contradicts the limits recorded within the Treasury Management Policy.</p>

RECOMMENDATION:

The Council should ensure that the limits set out in the Treasury Management Policy reflect the limits also set out in the Treasury Management Strategy

MANAGEMENT RESPONSE:

The Treasury Management policy refers to the strategy, however as detailed above the amounts are inconsistent and will be amended to £5m to agree with the strategy, which is prepared in consultation with our treasury management advisors.

Responsible Officer: Resources Specialist Services Manager

Implementation Date: January 2022

DETAILED FINDINGS

RISK: RECONCILIATIONS BETWEEN THE GENERAL LEDGER AND FEEDER SYSTEMS (INCLUDING THE BANK, CASH RECEIPTING SYSTEM, COUNCIL TAX AND BUSINESS RATES, AND LOCAL COUNCIL TAX SUPPORT) ARE NOT PERFORMED, ARE INFREQUENT, OR ARE INCOMPLETE.

Ref	Significance	Finding
2	Low	<p>Reconciliations between General Ledger and Feeder System(s)</p> <p>There is an automatic interface in place between the Sage finance system and the Academy system which is used to manage Revenues & Benefits, Council Tax and Non-Domestic Rates. Reconciliations are required to be completed on a weekly basis.</p> <p>We were provided with the reconciliations performed between Sage and Academy and confirmed that reconciliations are performed on a weekly basis and that there were no un-reconciling balances for those reviewed. However, we noted from review of the reconciliation file that whilst it was clear who prepared the reconciliation there was no evidence that the reconciliations had been reviewed as the 'Checked by' field was left blank and no review date has been recorded.</p> <p>There is an increased risk of un-reconciling balances not being reviewed, subsequently investigated and rectified by a senior member of the finance team.</p>

RECOMMENDATION:

The Council should ensure that the monthly reconciliations between Sage and Academy are reviewed and approved with the approver signing and dating the reconciliations

MANAGEMENT RESPONSE:

Reconciliation meetings, along with a documented checklist will be put in place monthly where any amendments will be made, and the process signed off by the Senior Finance Specialist.

Responsible Officer: Resources Specialist Services Manager

Implementation Date: January 2022

DETAILED FINDINGS

RISK: THE GENERAL LEDGER SUSPENSE ACCOUNT IS NOT SUBJECT TO REGULAR REVIEW AND CLEARANCE.

Ref	Significance	Finding
3	Low	<p>Management of the Suspense Account</p> <p>The suspense account is monitored by the Finance team and cleared on a weekly basis. We were provided with the latest report of the suspense account at the time of the audit. Our review of the suspense account noted a total of 114 entries, with transaction dates ranging between 1 April 2021 and 17 September 2021. The total debit amount was £1,706,773.34 and the total credit amount was £1,877,753 - resulting in an overall suspense account balance of £170,979.</p> <p>A sample of 20 suspense account entries between April and September 2021 were reviewed and we found 11 instances where balances totalling £46,115.82 were still in the suspense account. We were informed by Finance that the Council are trying to identify where the income belongs.</p> <p>By not clearing the suspense account, income received by the Council is not allocated to the necessary codes, leading to inaccurate reporting of income.</p>

RECOMMENDATION:

The Council should ensure that the suspense account is cleared on a regular basis, maintaining a nil balance. All income received which is still in suspense should be reviewed by management and allocated to the correct code.

MANAGEMENT RESPONSE:

Delay was due to a staff bereavement. A weekly automated system reminder is now in place to ensure weekly clearance. A monthly sign off and check will be completed by the Senior Finance Specialist. The balance is now reduced to £1616.54 with ongoing investigation to identify these items. Customers do not quote valid reference numbers or enough information to allocate their payments despite system prompts to provide the correct information.

Responsible Officer: Resources Specialist Services Manager

Implementation Date: January 2022

DETAILED FINDINGS

RISK: JOURNALS ARE NOT SUBJECT TO SUFFICIENT APPROVAL AND SCRUTINY BY DELEGATED PERSONNEL AND ARE NOT ACCURATELY PROCESSED TO THE GENERAL LEDGER, INCREASING OPPORTUNITIES FOR ERRORS AND FRAUD.

Ref	Significance	Finding
4	Low	<p>Inputting Journals into Sage</p> <p>Where a member of staff wants to raise a journal to be entered onto Sage, they must first raise a ticket using the FreshService ITIL software and attach a completed journal template. The ticket is then approved by a Finance specialist before being entered onto Sage.</p> <p>Our review of 15 journal entries made between April 2021 and September 2021 identified that whilst there was a clear audit trail in terms of who raised the journal and who approved the journal, in addition to supporting evidence and workings, there were seven instances where the individual inputting the journal into Sage was not stated within the journal template.</p> <p>There is an increased risk of journals being input by unauthorised users.</p>

RECOMMENDATION:

Where a journal template has been completed, the Council should ensure that it includes the details of who input the journal onto Sage.

MANAGEMENT RESPONSE:

All team members have been reminded that they must include their name when completing a journal and this requirement has been added to the journal process note. Spot checks will be completed by the Senior Finance Specialist each month.

Responsible Officer: Resources Specialist Services Manager

Implementation Date: January 2022

STAFF INTERVIEWED

BDO LLP APPRECIATES THE TIME PROVIDED BY ALL THE INDIVIDUALS INVOLVED IN THIS REVIEW AND WOULD LIKE TO THANK THEM FOR THEIR ASSISTANCE AND COOPERATION.

Name	Job Title
Lance Porteous	Lead Finance Specialist - Finance Manager
Annette Cardy	Resources Specialist Services Manager
Shaala Jeya	Senior Finance Specialist
Simon Walker	Senior Finance Specialist

APPENDIX I - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN OF INTERNAL CONTROL FRAMEWORK		OPERATIONAL EFFECTIVENESS OF CONTROLS	
	FINDINGS FROM REVIEW	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

RECOMMENDATION SIGNIFICANCE

High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

APPENDIX II - TERMS OF REFERENCE

PURPOSE OF REVIEW:

The purpose of this review is to provide assurance over the design and effectiveness of the controls in place around the general ledger, budgetary control and treasury management as well as to highlight any areas where the controls could be improved.

KEY RISKS:

Based upon the risk assessment undertaken during the development of the internal audit operational plan, through discussions with management, and our collective audit knowledge and understanding the key risks associated with the area under review are:

General Ledger and Journals

- Access to systems and data is not effectively managed, extending the risk that data may be amended or deleted without appropriate approval.
- Reconciliations between the General Ledger and feeder systems (including the Bank, Cash Receipting system, Council Tax and Business Rates, and Local Council Tax Support) are not performed, are infrequent, or are incomplete.
- The General Ledger suspense account is not subject to regular review and clearance.
- Journals are not subject to sufficient approval and scrutiny by delegated personnel and are not accurately processed to the General Ledger, increasing opportunities for errors and fraud.

Budgetary Control

- Budgets are not set and funds not allocated so as to achieve the Council's strategic and operational objectives
- Budgets are not appropriately approved and communicated and loaded into the financial management system in a timely manner to allow effective monitoring by budget holders
- Responsibility for budgets is not established and delegated to appropriately qualified and trained staff
- The Council fails to monitor the budget, analyse variances or take remedial action where appropriate so as to minimise risk of budget over/underspend
- There is ineffective review, scrutiny and escalation of budget variances within management

Treasury Management

- The Council's treasury management policies are not complied with, resulting in inappropriate investments and mismanagement of cash.

SCOPE OF REVIEW:

The following areas will be covered as part of this review:

General Ledger and Journals

- We will obtain and review reconciliations between the General Ledger and the feeder systems to ensure they are being completed on a timely manner, reviewed and approved appropriately, and any variations are being investigated and appropriate corrective action being recorded.
- We will obtain the current balance of the General Ledger suspense account and ensure there is a regular review being undertaken. We will select a sample of 20 entries to ensure the transaction has been cleared to the appropriate general ledger account
- We will obtain a list of journal for the period 1 April 2021 to date, and for a sample of journals, including reversing journals, we will check that there is sufficient documentation to support the transaction, that it was authorised appropriately and correctly processed.
- For the sample selected above we will establish if the journal voucher was processed on a timely basis and was posted correctly in the General Ledger.

Budgetary Control

- Review of the budget setting process as well as how budgets are monitored and oversight is maintained throughout the year
- We will confirm there has been appropriate escalation and sign off of budget alterations
- We will review the analysis undertaken of budgets and variances

Treasury

- For a sample of investments, confirm that they comply with the Council's treasury management policy and are appropriately approved.

However, Internal Audit will bring to the attention of management any points relating to other areas that come to their attention during the course of the audit. We assume for the purposes of estimating the number of days of audit work that there is one control environment, and that we will be providing assurance over controls in this environment. If this is not the case, our estimate of audit days may not be accurate.

BAF/CRR REFERENCE:

R15: Failure to plan and deliver balanced budgets over the medium term

The scope of the review is limited to the areas documented under the scope and approach. All other areas are considered outside of the scope of this review.



FOR MORE INFORMATION:

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The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

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